We are very pleased to have been invited to the Wachovia Consumer Growth Conference during this milestone year for Universal. We were founded in 1918 and listed in 1927, so we will be celebrating our 80th anniversary on the New York Stock Exchange next month.

We may be making some forward looking statements today. As such they are based on estimates and certain assumptions about future events. We urge you to read our 10-K for the year ended March 31, 2007, for more information about the many factors that can affect those estimates and assumptions.

I would like to introduce to you a man who came to Universal ten years ago as general counsel and since then has proved that both his council and his leadership are invaluable to the organization – our President and CEO elect, George Freeman.

Thank you. I am going to talk about four things today. Who we are, what we do, how well we have done it, and how we plan to conduct our business going forward.

Universal is a leaf tobacco merchant – a pure play. We don’t produce any consumer products, which makes us a bit of an intriguing anomaly at this conference. Oversimplifying our business, we supply leaf tobacco to the manufacturers of cigarettes, cigars, and other tobacco products. We buy four main types of cured tobacco from farmers. Flue-cured, burley, and oriental tobaccos are used in manufacturing cigarettes, and dark tobaccos are primarily used in making cigars and smokeless products. The bulk of our business is in flue-cured and burley tobaccos, which we thresh to remove the heavy stem from the leaf and pack for shipment to our customers. Leaf tobacco is semi-perishable until it has been threshed and redried. After processing, however, it can be stored for many years. Given the perishable nature of leaf tobacco, our processing facilities are located in the major tobacco producing areas.

Leaf tobacco is not your typical agricultural product. Particularly, it is crucial to understand that unlike most high volume agri-products, leaf tobacco is not a commodity. There are no commodity markets for it, and it is not homogeneous. There are distinct regional variations among tobacco of the same type. For example, Tanzanian flue-cured tobacco has different characteristics from U.S. flue-cured tobacco and is employed in cigarette blends differently. So we can’t hedge our risk through commodity markets. Consequently, quality becomes a key differentiator, and I believe this plays to our strengths.

Export tobacco is sold in U.S. dollars, which reduces currency risk after we have purchased the tobacco. Since leaf tobacco is purchased from farmers in local currency, we still have some local currency risk.

Another key factor in our business is that our major customers commit to buy leaf in advance. Those commitments take many forms from written contracts to handshakes.
Our customers, however, have historically honored their commitment regardless of the form. In general, our leaf inventory is over 80% committed for sale to customers, and our customers pay interest and carrying charges on their leaf from the day we buy it for their order. So leaf tobacco is not your typical agri-product.

We serve five multinational customers who represent as much as 80% of our business. They are Philip Morris, Japan Tobacco, Imperial Tobacco, BAT, and House of Prince. Although BAT is still partially vertically integrated, manufacturers prefer not dealing with large numbers of farmers all over the world. We also manage social responsibility programs and good agronomic practices at the farm level, which are not our customers’ core competencies. So, they rely on us, the leaf dealers to provide them with the quantities and quality of leaf that they need for their products with the assurances that the product was produced in a sustainable way and under conditions that are acceptable to the world community.

As you can see here, China has a major share of the world market. It is primarily a domestic market. It produces more flue-cured tobacco than the rest of the world combined and uses most of it internally. As their population has become more affluent, however, they are looking for better quality tobacco. So we trade with China, although it is not a significant component of our volume, and we see it as a potential area for opportunistic growth.

Tobacco is a global product, and we have a strong position in the major leaf markets -- South America, Southern Africa, and North America. There is only one other global leaf tobacco merchant, but we encounter competition in some markets from regional dealers. But without question, our global footprint is a distinct competitive advantage.

We believe that there are several keys to our success in this business:

• We foster strong, long-term relationships with our major customers. As I mentioned earlier, this is not a commodity business, and customer relationships are key. They let us know in advance how much tobacco they will need from a country so that we can contract for the right size crop. The relationships are symbiotic and more like alliances than normal customer relationships. We truly need each other.

• We have strong local management in the major leaf markets. We don’t think that we can manage far flung operations effectively from Richmond, Virginia.

• We focus on providing our customers high quality products and services while continually managing our costs. Because we provide quality assurances to our customers, we are not the lowest cost producer of leaf. We believe, however, that we offer the highest value for the money.

• We are financially strong. The basic concept of our business has not changed in the past 100 years, but we have seen increasingly rigorous customer requirements as well as changes in sources of supply. Our strong financial position has enabled us to respond.
We have had many challenges during the last three fiscal years. We experienced the perfect storm of weather and economic and political events. Let me give you a little background first. There has been a sizeable reduction in Zimbabwean flue-cured crops due to political turmoil in that country. So, we did two things. First, we, and the rest of the industry, ramped up production in Brazil, and second, to give our customers the security of diversified supply, we started flue-cured growing projects in Zambia and Malawi.

By fiscal year 2006, as a result of a drought, we received the worst crop in 20 years in Brazil. Not only was it a poor quality crop, it was huge, and as the U.S. dollar had begun its decline, it was relatively more expensive as well. Brazil laid the base for a global oversupply of flue-cured tobacco, which affected demand for the tobacco that we produced in our new African growing projects. In those projects, the quality was good, but low yields made unit costs very high. In response to the oversupply of flue-cured tobacco, we decided to reduce our Brazilian volume. Marginal farmers were weeded out, and some farmers did not have the funds to fully repay us. The continuing economic and political problems in Zimbabwe caused currency-related volatility in our earnings as well. By March 2007, we made the decision to exit our direct involvement in the African flue-cured growing projects.

As you would expect, the confluence of all of these events and our responses had a pronounced impact on our results. The effect was concentrated on the operating income of the “Other Regions” segment of our flue-cured and burley operations, which fell by $60 million between 2005 and 2006.

The largest unusual items that have affected our segment earnings are listed on this table. We recorded a total of $60 million in bad debt provisions on farmer receivables during this period. In addition, we recorded a total of $23 million in lower cost of market adjustments on our African flue-cured growing projects over the period. We had incremental African currency re-measurement losses of $17 million and Mozambique factory start-up costs of $4 million in fiscal year 2006. We also had total charges of $15 million related to a value-added tax on the transfer of goods and services between states in Brazil. Granted we also had offsetting factors as well, like the resolution of a Brazilian revenue tax case, which added $8.5 million to earnings last year.

In addition to items that affected segment operating income, we also recognized restructuring, impairment, and other charges over the last three fiscal years. In fiscal year 2005, we recorded a $15 million European Commission fine. Due to the government restrictions and foreign exchange controls in Zimbabwe, we deconsolidated our operations there in fiscal year 2006 resulting in a $29 million impairment charge. Strong performance by our North Carolina facility coupled with a reduced U.S. crop led to the cost-saving closure of our Virginia plant in fiscal year 2006 and an additional restructuring charge of $28 million. And in fiscal year 2007, our decision to exit our direct involvement in flue-cured tobacco growing projects in Zambia and Malawi led to another $31 million charge. Over the three-year period, these charges have in total exceeded $100 million.
A lot of hard decisions were made during this period, and obviously many were expensive. But, I have no doubt we took all of the right steps to move our company forward.

Not surprisingly, the impact of these events has been evident in our results from continuing operations, which declined significantly in fiscal year 2006. By 2007, both income from continuing operations and operating income exceeded 2005 levels. Diluted earnings per share from continuing operations also recovered in 2007, but was still below the amount we earned in 2005, primarily because we issued preferred stock in fiscal year 2006.

The first quarter of fiscal year 2008 was a good one. Income from our continuing operations was $18.2 million, or $0.52 per diluted share. This is a significant improvement over our performance last year when we posted a loss of $13.7 million, or $0.67 per diluted share.

This year’s first quarter earnings included over $3 million in restructuring charges related to personnel reductions. Last year’s first quarter included charges totaling about $17 million related to our Zambian operations.

While the lower restructuring and impairment charges clearly improved our results for the quarter, we also saw benefits from timing differences related to both currency effects and shipments and operational improvements. These benefits were partially offset by lower trading profits in North America and additional provisions related to our African flue-cured projects. Non-operating factors included lower net interest expense, a lower effective tax rate, and increased stock-based compensation.

Our recovery has been tied to our renewed focus on our core business. We intend to remain the low-cost processor and supplier of high quality leaf tobacco that can be sold at reasonable margins. In September 2006, we sold our non-tobacco businesses, and we received $551 million in total proceeds, which improved our capital structure. We have also been improving or eliminating unprofitable operations, like the African flue-cured projects. While we believe that we are now right-sized, cost control is essential to maintaining our position.

The operating cash needs of our continuing operations were significant early in this three-year period as we funded the increased working capital requirements for larger crops in Brazil and the growing projects in Africa as well as capital spending for a new factory in Mozambique. In fiscal year 2007, we reduced our capital spending to levels below our depreciation expense. Throughout the period we continued to return funds to shareholders through dividends.

During our more challenging times, operating cash flows were not sufficient to fund our requirements, so we issued about $190 million in new debt during fiscal year 2005. As debt balances grew, we issued $220 million in preferred stock to manage our capital structure. Ultimately, the proceeds of the sale of our non-tobacco business and working capital reductions brought our debt balances back down.

We emerged from our perfect storm with a stronger balance sheet. We have reduced our net debt to capitalization ratio from 56% as of June 30, 2006, to 32% as of June 30, 2007. Our target ratio is between 35% and 45%. We plan to use our cash
balances as they are reflected here - to reduce maturing debt in February 2008 and provide for seasonal operating needs.

We have also improved our free cash flow, primarily by reducing capital spending and working capital investment. It has increased from negative $120 million in fiscal year 2005 to positive $220 million in fiscal year 2007. Our policy for using free cash flow is long-standing. After considering our balance sheet structural requirements, we use our free cash flow to invest in our business to create shareholder value through capital investments or acquisitions. If an investment opportunity with proper returns is not available, we return the funds to shareholders through dividends and share repurchases.

We have a long history of returning funds to our shareholders. We have increased our dividend on common stock each year for the past thirty-six years and from 1998 through fiscal year 2004, we returned over $350 million to shareholders through share repurchases.

Of course, we have our challenges. We believe that with the increased sophistication of manufacturing techniques, demand for leaf tobacco has peaked, and we have been operating for several years in a climate of unhealthy oversupply. Presently, it appears that the gap between supply and demand is closing in flue-cured leaf, especially as the current U.S. crop has been reduced by drought. However, in burley, we now see an undersupply situation, primarily due to weather related short crops in Malawi and Mozambique, causing supply issues and increasing our costs. As I have said, the bulk of our business is with five major customers. They are relying on us to help them navigate through this tight supply situation and take care of them. This speaks to our strong, symbiotic relationships. We should return to equilibrium in two or three years. It will be our job to help keep that equilibrium in our part of the business.

Recently we have also been working to control local costs in the face of a weakening U.S. dollar. As you all know, the U.S. dollar continues to decline against many currencies, and although we work with our customers to mitigate the effects, it remains a source of higher U.S. dollar costs in many areas.

In closing, we are confident in the strength of our organization. We are focused on our core leaf tobacco business. We like this business very much and continue to be excited about it. Although ours is not a growth industry, we believe there are opportunities to grow with our major customers as they continue to gain market share, to increase trade with China, and to provide our services to manufacturers who may move away from vertical integration.

We have worked hard to obtain our leading position in our global industry. Today both our balance sheet and cash flows are strong, our earnings have improved, and we intend to continue our history of returning value to our shareholders.