Good afternoon, I’d like to give a brief overview of our company for those who are new to us. I will also talk about how we operate in our key regions and discuss some changes occurring in our industry.

Universal Corporation is the world’s leading leaf tobacco merchant. Our company was founded over 90 years ago, and we operate in more than 30 countries. As a leaf tobacco merchant, we serve as an intermediary between the farmer and the manufacturer. We buy four main types of tobacco from farmers. Flue-cured, burley, and oriental tobaccos are used in cigarettes, and dark tobaccos are primarily used in cigars and smokeless products. We buy tobacco primarily through direct contracts with farmers. We process the leaf, meaning we remove the stem from the leaf and dry the tobacco. It sounds simple, but it is actually fairly complicated. Flue-cured and burley tobaccos – which are the major components of cigarettes – represent the majority of our business. We do not manufacture cigarettes or any other consumer product.

Leaf tobacco is perishable until it has been processed. So, our factories are located where tobacco is grown. After tobacco has been processed, it can be stored
for many years. Our customers typically hold tobacco inventory more than a year to stabilize their blends against variations in crop qualities and for aging. We, however, seek to limit our tobacco inventory, as it does not make financial sense for us to buy tobacco to hold for speculation.

When we contract with farmers, we agree to buy their entire crop. Tobacco leaves on a single stalk of the plant have different characteristics and are often harvested at different times. Our customers typically do not buy the “run of the crop”; they buy very specific grades within a crop. The greatest value a leaf merchant adds to the equation is the ability to market the entire crop to a broad base of customers.

Unlike corn or soybeans, leaf tobacco is not a commodity product. Not only is there variation in the plant, but there are distinct regional variations, similar to wine. For example, U.S. flue-cured tobacco has different taste and smoking characteristics than Tanzanian flue-cured tobacco.

Another key factor in our business is that over 80% of the tobacco inventory on our balance sheet is committed for sale to customers. Our major customers commit to buy leaf in advance and pay interest and carrying charges from the day we buy it for their order.

Our customer base is largely the major multinational manufacturers of tobacco products – Philip Morris International; Japan Tobacco International;
Imperial Tobacco, and British American Tobacco. They represent about 75% of our business. We also do business with China.

Although the Chinese monopoly is the largest producer of cigarettes in the world, its market is primarily domestic. It also grows more flue-cured tobacco than the rest of the world combined and uses well over 90% of it internally. So we trade with China, both exports and imports, and this business has become more significant in recent years, particularly in Brazil and Zimbabwe.

To give you a greater understanding of how our business works, the challenges we face, and the opportunities we see, I am going to talk about how we operate in three key regions for our company—North America, South America, and Africa. Each of these regions has historically represented about 25 to 30% of the flue-cured and burley volumes we handle.

Today our flue-cured and burley operation in the United States is primarily a toll processing business. In the United States, flue-cured tobacco is grown mostly by large-scale commercial farmers. These farmers secure their own crop inputs, such as seed and fertilizer, and their own financing. The major U.S. manufacturers contract directly with farmers, but we also have our own farmer contracts, primarily for export sales.

In Brazil, we buy tobacco through direct contracts from farmers. Farmers in Brazil generally have smaller farms than those in the United States. We have
working capital investments in Brazil as we advance the seed and fertilizer to our farmers against future deliveries of tobacco. Today, we deal with over 30,000 farmers in Brazil and have agronomists and technicians on the ground to assist them in proper growing techniques. Some challenges we face in Brazil include the recent stronger currency, which increases dollar costs, and pinhooking, which is what we call it when others buy tobacco that we have contracted and financed.

In Africa, we have operations in several countries, and we work with an even greater number of farmers as African farmers tend to work very small plots of land. In Mozambique, alone we deal with over 100,000 farmers. We also work in several diverse and complex political and economic environments. For example in Mozambique, we provide farmers with seed and fertilizer; we have agronomists and technicians on motorbikes to reach farmers in very remote areas; and we have set up buying stations using portable computers with satellite link ups.

Mozambique is a great example of the complex set of skills we bring to the table. As Mozambique emerged from a disastrous civil war in the 1990’s, we sent technicians into the country to teach people how to grow tobacco. We sponsored the fledgling tobacco industry, and ultimately when the crop grew up, we built a factory there. Today Mozambique grows an excellent crop of filler burley that is in high demand. Mozambique is rewarding to everyone in our company who has been involved there because as tobacco is currently the only practical cash crop
being grown there, it is the catalyst for rural economic development, which I can see growing every time I visit.

No matter where the tobacco is grown, some challenges are universal. No pun intended. Supply and demand for leaf tobacco have the greatest impact on our results. Our ideal market situation is a slight oversupply where there is enough tobacco to satisfy all of our customers. In a more severe oversupply, the market is disrupted, pressure on margins increases, and farmers are unhappy because crop prices come down. When there is an undersupply, we cannot fully supply our customers, and the decreased volume hurts efficiencies. Generally, it takes two crop cycles to correct either an oversupply or undersupply.

Shipment timing is another factor that can have a great impact on our results. Since our main customers are so large, any change in their shipping schedules can have a significant effect on quarterly results. Consequently, we recommend that investors evaluate our performance over a full fiscal year. You can see the variability in our quarters on this table. Note that the first quarter of fiscal year 2009 represented 15% of our annual results, while the first quarter was 26% of the annual results last year because of earlier customer-mandated shipments.

We achieved record results last year as each of our operations around the world performed well. Given the vagaries of nature, particularly weather, this is unusual.
It might, however, be instructive to look at a longer period. These graphs show our tobacco segment revenues and operating income since 2000. At the beginning of the period, we purchased significant volumes of U.S. tobacco for sale. Then, the major domestic manufacturers decided to begin purchasing tobacco directly from farmers rather than through dealers, and the decline in revenues you see upfront is due to that change. Dealers continued to process U.S. tobacco, which maintained some profitability.

Beginning in 2003, you see the effect of the deterioration of Zimbabwe, which been producing a 200 million kilo crop of good quality leaf. We provided alternate sources for our customers, but the industry overdid it. The resulting overproduction ultimately reduced results in both Africa and Brazil. By 2008, a severe shortage of burley tobacco in Africa, coupled with the higher cost of fertilizer and a weaker U.S. dollar, drove up the cost of leaf and thereby increased revenues. Our tobacco segment operating income during the period averages just over $200 million with the low points related to the charges taken in 2003 and 2006 related to the deterioration of Zimbabwe and the oversupply that resulted from the shift in sourcing out of Zimbabwe. In addition 2003 reflected charges from shutting down older U.S. facilities as the North Carolina factory came on line.
I hesitate to discuss our first quarter after my earlier comments on the relevance of quarterly comparisons. Net income for our first quarter of fiscal year 2011 was $25.3 million, or $0.87 per diluted share. Although this reflects a decline of 42% compared to the same quarter last year, it is in line with our first quarter two years ago. Last year’s first quarter results were exceptionally strong due to unusually early shipments of Brazilian and European tobacco.

We faced difficult comparisons with our exceptionally strong first quarter last year. I should note that, although we expect the shipment timing differences to correct during the balance of the year, today we face some new and some familiar challenges in our business.

We are closely monitoring tobacco supply. Although inventory held by dealers is historically low, we do not know the inventory held by manufacturers. Manufacturers have publicly stated that their sales are down and have talked about reducing inventory durations. At the same time, we are seeing evidence of increased unsponsored tobacco production in several African countries. If these trends continue, we could face oversupply, particularly in flue-cured tobacco.

We are facing some challenges in our North American region. As we disclosed earlier this year, we have processing contracts in the United States that expire in May 2011. We do not believe that these contracts will be renewed at the same levels or volumes and that could impact our results in our next fiscal year, by
up to $30 million, excluding any benefits from our efforts to mitigate the reduction. We are working on increasing our sales of U.S. leaf and making sure that operations reflect our future business expectations.

We are also seeing change in the industry on two fronts – regulatory and structural. On the regulatory front, we are closely monitoring FDA developments and addressing issues specific to our leaf business. Although the legislation providing regulatory authority produced some immediate changes, it is still difficult to predict the ultimate outcome of the regulatory process. On one hand, it is possible that what the FDA does may influence other jurisdictions, such as the EU. On the other, the FDA efforts may be influenced by the World Health Organization’s efforts to ban flavorings in tobacco products. A total ban of flavorings would have a serious impact on American blend cigarettes as they rely on subtle flavoring to soften the bitter taste of the burley tobacco used as a component of that cigarette. Consequently, such a ban would greatly decrease the demand for burley tobacco while increasing demand for flue-cured leaf as English blend cigarettes, which are made totally with flue-cured tobacco and often use no flavoring.

The industry’s structural changes began several years ago with the consolidation of manufacturers, producing companies with huge needs for leaf tobacco at about the same time consolidation in the leaf merchant industry left only
two global dealers. Concerns about security of leaf supply were further exacerbated by historically low inventory levels, an acute shortage of burley in 2008, and rising green tobacco costs during the commodities boom. In the last 15 months, we have seen Japan Tobacco and Philip Morris International announce direct sourcing initiatives for some of their leaf requirements. BAT, China, and Philip Morris International have all had internal leaf operations, to varying degrees, and only Japan Tobacco did not have such significant sourcing operations prior to its announcement last summer. We are used to working with manufacturers who source some of their leaf directly, and we believe our customers will continue to need quality, compliant tobacco from the stable and sustainable supply that we provide.

We see opportunities in our business. We are actively pursuing additional sales. We are looking at all of our operations to make sure that our cost structures are correct. As we continue to develop younger markets, opportunities arise to increase efficiencies all the way through the system.

Moving forward, we intend to continue to meet our customers’ needs and deliver adequate returns to our shareholders. We believe that we will continue to be successful for several key reasons:

- We are an independent, leaf merchant serving a broad customer base. Our customers do not purchase “run of crop.” We allow them to pick the
grades of tobacco that they want, and then we sell what is left to others. This model has and will continue to reduce customers’ costs and risk.

- We are experts in sourcing tobacco all over the world and are committed to good agricultural practices, which will be vital in a regulated world.
- Through our professional dealings with farmers and our global reach, we provide stability of supply to our customers. We also work closely with farmers to ensure the stable and sustainable production levels they require and we invest in the communities in which we operate.
- We are experts in processing tobacco. Our processing facilities are excellent, and our customers know their tobacco is processed to the highest standards. I believe that this will also be important in a regulated environment.
- We recognize that, to be successful, we must always improve and adapt. We must constantly search for efficiencies and ways to provide our customers with additional services.
- We are financially sound, our balance sheet is strong, and our liquidity is good. We are in a great position to face today’s challenges.

Success ultimately is measured in the value that we return to our shareholders. We choose to share our successes through dividends and share
repurchase. In November 2009, we raised our annual dividend to $1.88 per share, giving us a current dividend yield of about 5%. This was our 39th consecutive annual dividend increase. During the last three fiscal years, we have also repurchased common shares worth over $160 million. We look forward to continuing sharing our successes.