



# **FORM 10-K**

**UNIVERSAL CORP /VA/ – UVV**

**Filed: September 16, 2003 (period: June 30, 2003)**

Annual report which provides a comprehensive overview of the company for the past year

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**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 30, 2003

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-652

**UNIVERSAL CORPORATION**

(Exact name of registrant as specified in its charter)

Virginia  
(State or other jurisdiction of  
incorporation or organization)

1501 North Hamilton Street,  
Richmond, Virginia 23230  
(Address of principal executive offices)

54-0414210  
(I.R.S. Employer  
Identification Number)

804-359-9311  
(Registrant's telephone number)

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, no par value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by "X" mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by "X" mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by "X" mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

The aggregate market value of the registrant's voting common stock held by non-affiliates was approximately \$806 million at December 31, 2002. As of September 8, 2003, the total number shares of common stock outstanding was 24,980,847.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information contained in the September 23, 2003 Proxy Statement for the Annual Meeting of Shareholders of registrant is incorporated by reference into Part III hereof.

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## PART I

### Item 1. Business

#### A. The Company

Universal Corporation (which together with its subsidiaries is referred to herein as “Universal” or the “Company”) is the world’s largest independent leaf tobacco merchant and has operations in agri-products and the distribution of lumber and building products. The Company’s consolidated revenues and total segment operating income were approximately \$2.6 billion and \$275 million, respectively, in fiscal year 2003. Universal’s tobacco operations have been the principal focus of the Company since its founding in 1918, and for the fiscal year ended June 30, 2003, tobacco operations accounted for 60% of revenues and 85% of segment operating income. In fiscal year 2003, Universal’s agri-products operations accounted for 17% of revenues and 4% of segment operating income. Lumber and building products accounted for 23% of revenues and 11% of segment operating income in the same period. Universal conducts its operations in numerous foreign countries. In fiscal year 2003, approximately 33% and 28% of the Company’s revenue was recognized in the United States and the Netherlands, respectively. At June 30, 2003, approximately 44% of Universal’s long-lived assets were in the United States, approximately 21% were in the Netherlands, and approximately 13% were in Brazil. See Note 10 of “Notes to Consolidated Financial Statements” for additional business segment and geographical information.

Universal Corporation is a holding company that operates through numerous directly and indirectly owned subsidiaries. The Company’s two primary subsidiaries are Universal Leaf Tobacco Company, Incorporated (“Universal Leaf”) and Deli Universal, Inc. (“Deli”). The Company’s tobacco business is generally conducted through Universal Leaf, and the Company’s non-tobacco business is generally conducted through Deli, although Deli also owns some minor tobacco business interests and approximately 10% of Universal Leaf’s major tobacco operations in Brazil. See Exhibit 21 of “Subsidiaries of the Registrant” for additional subsidiary information.

The Company’s business strategy is to enhance shareholder value by achieving several key objectives:

- Management believes that it is essential that the Company operate as one entity worldwide with strong local management in major leaf tobacco source markets.
- In order to achieve growth in the current market for leaf tobacco, the Company will continue to foster strategic alliances with its customers to the benefit of all parties. These alliances with major manufacturers are, in management’s opinion, especially appropriate to the leaf tobacco industry where volume is a key factor in long-term profitability. Alliances also permit the optimization of the Company’s inventory levels to reduce risk of loss during market downturns by enabling the Company to buy only the tobacco that a customer has indicated it wants.
- Management will focus on increasing market share in traditional tobacco growing areas while continuing to find additional sources of export quality tobacco.
- The Company will strive to maintain diversified sources of leaf tobacco supply to minimize reliance on any one area. Historically, North America, South America, and Africa each have provided between 20% and 30% of the aggregate volume of flue-cured and burley tobacco that Universal handles. However, because of the decline in Zimbabwe crops, South

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America provided about 40% of the aggregate volume that Universal handled in fiscal year 2003. The Company is working to increase supply from other sources.

- The Company will strive to maintain a large presence in the major exporting markets for flue-cured and burley tobaccos in order to properly supply its customers, many of whom are large manufacturers of tobacco products. Universal has usually purchased between 25% and 30% of such Brazilian tobaccos and between 35% and 45% of such African tobacco. These percentages can change from one year to another with the size, price, and quality of the crops. The Company also has major processing facilities in the United States, which normally process between 35% and 45% of U.S. flue-cured and burley tobacco production.
- Management will strive to maintain the Company's financial strength including its current "investment grade" rating by Moody's Investor Service (Baa1) and Standard & Poor's (A-).
- The Company will develop its non-tobacco businesses in niche markets where it can add value and be a market leader.

For a discussion of the impact of current trends on the Company, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Other Information Regarding Trends and Management's Actions."

The Company's website address is [www.universalscorp.com](http://www.universalscorp.com). On its website, the Company posts the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission: annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and Section 16 reports on Forms 3, 4 and 5, and any amendments to those reports filed with or furnished to the Securities and Exchange Commission. All such filings on the Company's website are available free of charge. Information on the Company's website is not deemed to be incorporated by reference into this Form 10-K.

## **B. Description of Tobacco Business**

### *General*

Universal's tobacco business includes selecting, buying, shipping, processing, packing, storing, and financing of leaf tobacco in tobacco growing countries for sale to, or for the account of, manufacturers of tobacco products throughout the world. Universal does not manufacture cigarettes or other consumer tobacco products. Most of the Company's tobacco revenues are derived from sales of processed tobacco and from fees and commissions for specific services.

The Company's tobacco sales consist primarily of flue-cured and burley tobaccos, which, along with oriental tobaccos, are the major ingredients in American-blend cigarettes. The Company participates in the sale of oriental tobacco through ownership of a 49% equity interest in what management believes to be the largest oriental tobacco leaf merchant in the world, Socotab, L.L.C. According to industry sources, worldwide cigarette consumption increased, on average, about 0.7% per year during the ten years that ended in 2002. During the same ten-year period, American-blend cigarette consumption increased about 1.2% per year, a faster growth rate than total world consumption, as the popularity of this style of cigarettes increased. Management believes that American-blend consumption will continue to increase as a percent of the world total, which will increase demand for flavorful flue-cured and burley leaf from areas where the Company sources tobacco. In addition, the growth of

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American-blend cigarette consumption will increase demand for oriental leaf tobacco, which is sold by Socotab L.L.C. For a discussion of the impact of current trends on the Company, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Other Information Regarding Trends and Management’s Actions.”

Processing of leaf tobacco is an essential service to the Company’s customers because tobacco is a perishable material. The Company’s processing of leaf tobacco includes grading in the factories, blending, quality picking, separation of leaf lamina from the stems, drying, and packing to precise moisture targets for proper aging. Accomplishing these tasks generally requires investment in plants and machinery in areas where the tobacco is grown.

Universal believes it has a leading presence as a purchaser and processor in the major exporting regions for flue-cured and burley tobacco. The Company also has a major presence in the United States in processing flue-cured and burley tobacco. In addition, Universal maintains a presence, and in certain cases, a leading presence, in virtually all other tobacco growing regions in the world. Management believes that its leading position in the leaf tobacco industry is based on its operations in all of the major source areas, its development of processing equipment and technologies, its financial position, its ability to meet customer demand, and its long-standing relationships with customers. Universal also has a leading position in worldwide dark tobacco markets. Its dark tobacco operations are located in most of the major producing countries (i.e., the United States, the Dominican Republic, Indonesia, and Brazil) and other markets. Dark tobaccos are typically used in the manufacture of cigars, pipe tobacco, and smokeless tobacco products.

Sales are made by Universal’s sales force and, to a lesser degree, through the use of commissioned agents. Most customers are long-established tobacco product manufacturers.

Universal purchases tobaccos in the United States directly from farmers under contract and is represented by its buyers on selected U.S. auction markets for flue-cured, light air-cured (burley and Maryland), air-cured, dark fired, and dark air-cured tobaccos. The Company sells processed U.S. tobacco to several foreign cigarette manufacturers. The Company also processes U.S. flue-cured and burley tobacco for Philip Morris USA Inc. pursuant to a non-exclusive ten-year contract executed in May 2001.

In the United States, flue-cured and burley tobacco crops were traditionally sold at public auction, but these markets have undergone a fundamental change in recent years. The U.S. Department of Agriculture has reported that, during the Company’s fiscal year 2003, nearly 80% of U.S. flue-cured tobacco and nearly 75% of the U.S. burley tobacco crops were sold pursuant to contracts with farmers. Management expects that comparable portions of those crops will be sold under contract for the foreseeable future. Under the current U.S. contract system, purchasers generally buy a farmer’s entire tobacco crop. The shift to contract purchasing in the United States has changed the risk characteristics of the U.S. flue-cured and burley tobacco markets for tobacco purchasers by increasing the possibility of accumulation of inventories of grades of tobacco that customers do not desire. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Other Information Regarding Trends and Management’s Actions.”

The export market for U.S. tobacco continues to decline. The price of U.S. flue-cured and burley tobacco is supported under an industry-funded federal government program that also restricts tobacco production through a quota system. The price support system has caused U.S. grown tobacco to be much more expensive than most non-U.S. tobacco, resulting in a declining trend in exports. Other factors affecting the competitive position of U.S. tobacco in the world market include the efficiency of the

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marketing system, relative costs of production, and relative leaf quality. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Other Information Regarding Trends and Management’s Actions.”

Universal conducts its tobacco business in varying degrees in a number of foreign countries, including Argentina, Belgium, Brazil, Canada, Colombia, the Dominican Republic, France, Germany, Guatemala, Hungary, India, Indonesia, Italy, Malawi, Mexico, Mozambique, the Netherlands, Paraguay, the People’s Republic of China, the Philippines, Poland, Portugal, Russia, Singapore, South Africa, Spain, Switzerland, Tanzania, Uganda, the United Kingdom, Zambia, and Zimbabwe. In addition, Socotab, L.L.C. has oriental tobacco operations in Bulgaria, Greece, Macedonia, and Turkey.

In the majority of countries where Universal operates, including Argentina, Brazil, Guatemala, Hungary, Italy, Mozambique, Mexico, Tanzania, the United States, and Zambia, the Company contracts directly with tobacco farmers, in most cases before harvest, and thereby takes the risk that the delivered quality and quantity will not meet market requirements. Universal also provides agronomy services and crop advances of or for seed, fertilizer, and other supplies. Tobacco in Zimbabwe, Malawi, Canada, and to a certain extent, India and the United States, is purchased under an auction system. The Company has substantial capital investments in South America, particularly Brazil, and sub-Saharan Africa, and the performance of its operations in these regions can materially affect the Company’s earnings from tobacco operations. For example, the Company has significant operations in Zimbabwe, which continues to experience political and economic unrest. If the political situation in Zimbabwe were to deteriorate significantly, the Company’s ability to recover its assets there could be impaired. The Company’s equity in its net assets of subsidiaries in Zimbabwe was \$61 million at June 30, 2003. To the extent that the Company could not replace lost volumes of tobacco with tobacco from other sources, its results of operations would suffer. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors that May Affect Future Results.”

Universal’s foreign operations are subject to international business risks, including unsettled political conditions, expropriation, import and export restrictions, exchange controls, and currency fluctuations. During the tobacco season in many of the countries listed above, Universal has advanced substantial sums, has guaranteed local loans, or has guaranteed lines of credit in substantial amounts for the purchase of tobacco. Most tobacco sales are denominated in U.S. dollars, thereby reducing the Company’s foreign currency exchange risk. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors that May Affect Future Results.”

#### *Recent Developments and Trends; Factors that May Affect Future Results*

For a discussion of recent developments and trends in, and factors that may affect, the Company’s tobacco business, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

#### *Seasonality*

Universal’s tobacco operations are seasonal in nature. Farmers begin to sell U.S. flue-cured tobacco in the third week of July and the marketing season lasts for approximately four months. U.S. burley tobacco farmers deliver their crop from late November through mid-February. Tobacco in Brazil is usually purchased from January through May. The markets in Zimbabwe and Malawi generally open around April and continue into the fall. These different marketing periods reduce the overall seasonality of the Company’s tobacco business.



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Universal normally operates its processing plants for approximately seven to nine months of the year. During this period, inventories of green tobacco, inventories of redried tobacco, and trade accounts receivable normally reach peak levels in succession. Current liabilities, particularly short-term notes payable to banks, commercial paper, and customer advances, are means of financing this expansion of current assets and normally reach their peak in this period. The Company's balance sheet at its fiscal year end, June 30, normally reflects seasonal expansions in working capital in South America, Central America, and Western Europe.

#### *Customers*

A material part of the Company's tobacco business is dependent upon a few customers. For the year ended June 30, 2003, each of Altria Group, Inc. and Japan Tobacco Inc., including its respective affiliates, accounted for more than 10% of the Company's revenues. The loss of, or substantial reduction in business from, either of these customers would have a material adverse effect on the Company. The Company has long-standing relationships with these two customers.

Universal had orders from customers of nearly \$469 million for its tobacco inventories at June 30, 2003. Based upon historical experience, it is expected that at least 90% of such orders will be delivered during the following twelve months. Typically, delays in the delivery of orders result from changing customer requirements.

The Company recognizes sales and revenue from tobacco operations at the time that title to the tobacco and risk of loss passes to the customer. Individual shipments may be large, and since the customer typically specifies shipping dates, the Company's comparative financial results may vary significantly between reporting periods.

#### *Competition*

The leaf tobacco industry is highly competitive. Competition among leaf tobacco merchants is based on the firm's ability to satisfy customer specifications in the buying, processing, and financing of tobacco as well as the price charged for products and services. Competition varies depending on the market or country involved. The number of competitors in foreign markets varies from country to country, but there is competition in most areas to buy the available tobacco. The Company's principal competitors are DIMON Incorporated and Standard Commercial Corporation. In addition, British American Tobacco p.l.c., a multinational tobacco product manufacturer, has subsidiaries that compete with the Company in some markets. Of the independent leaf tobacco industry competitors, Universal believes that it holds the largest worldwide market share.

#### **C. Description of Agri-Products Business**

The Company's agri-products business involves selecting, buying, processing, storing, shipping, financing, distributing as well as importing and exporting of a number of products, including tea, rubber, sunflower seeds, nuts, dried fruit, and canned and frozen foods.

The emphasis of the Company's agri-products business is on value-adding activities and trading of physical products in markets where a service can be performed in the supply system from the countries of origin to the consuming industries. In a number of countries, long-standing sourcing arrangements for

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certain products or value-adding activities through modern processing facilities for tea, sunflower seeds, and nuts contribute to the stability and profitability of the business. Seasonal effects on trading are limited.

The Company provides various products to numerous large and small customers in the retail food and food packaging industry and in the rubber and tire manufacturing industry. Generally, there are no formal, continuing contracts with these customers, although business relationships may be long standing. No single customer accounted for 10% or more of the Company's consolidated revenues.

Competition among suppliers in the agricultural products in which Universal deals is based on price as well as the ability to meet customer requirements in product quality, buying, processing, financing, and delivery. The number of competitors in each market varies from country to country, but there is competition for all products and markets in which the Company operates. Some of the main competitors are: Agway, Akbar Brothers, American Eagle, Centrotrade, Dahlgren, Ennar, James Finlay, Global, Kaytee, LAB, Lipton, Pennington, Metallgesellschaft/SAFIC Alcan, Stassens, STT/Wurfbain, Sunshine, and Universal Tea.

For a discussion of recent developments and trends in, and factors that may affect, the Company's agri-products business, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### **D. Description of Lumber and Building Products Business**

The Company is engaged in the lumber and building products distribution and processing business in the Netherlands, Belgium, and other countries in Europe. The majority of lumber products are purchased outside the Netherlands, principally in the Far East, North America, Russia, and Scandinavia.

The Company's lumber and building products business is seasonal to the extent that winter weather may temporarily interrupt the operations of its customers in the building industry. In addition, some lumber and building products, such as garden timber, are seasonal in nature. The business is also subject to exchange risks and other normal market and operational risks associated with lumber operations centered in Europe, including general economic conditions in the countries where the Company is located and related trends in the building and construction industries. Labor costs are a significant portion of the total costs for this segment, and most of the employees in the segment are subject to industry-wide collective labor agreements that determine wage increases for the entire industry.

The Company's activities in this segment are conducted through three business units: regional sales, wholesale sales, and industrial sales. The regional sales unit distributes and sells lumber and related building products through a network of regional outlets, mainly to the building and construction market. The wholesale business unit supplies lumber merchants, ceiling and wall contractors, and do-it-yourself and garden centers with a wide range of lumber-related products, including panel products, ceiling tiles, and doors and a number of outdoor living products, including garden timber and garden houses manufactured by the Company. During fiscal year 2003, the Company acquired Willemstein's Industriële Ondernemingen B.V. ("JéWé"), a leading manufacturer and distributor of moldings and other related products to do-it-yourself chains. The acquisition was not material to the Company's results of operations or financial condition. The industrial sales unit primarily distributes value-added softwood products and window frames to the prefabrication and construction industries.

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The Company carries inventories to meet customer demands for prompt delivery. The level of inventories is based on a balance between providing service and continuity of supply to customers and achieving the highest possible inventory turns. It is traditional business practice in this industry in the Netherlands to insure most accounts and notes receivable against uncollectibility for the majority of the amount owed. The Company generally does not provide extended payment terms to its customers. No single customer accounted for 10% or more of the Company's consolidated revenues.

The Company's lumber and building products sales in fiscal year 2003 accounted for about 15% of the market volume for similar products in the Netherlands. The Company's share in the building and construction market is about 12%, which is similar to the market share of its largest competitor in this sector, PontMeyer N.V. Five additional competitors in this sector accounted for approximately 30% of the market in this period, and the balance was held by approximately 200 smaller competitors. However, traditional market boundaries are fading, and the Company increasingly competes in the wider building and construction supplies market, which is approximately four times larger than the market for lumber and building products. The primary factors of competition are quality, price, customer relationship, product range, and speed and reliability of logistics systems. The Company believes that its full geographical market coverage, its automated inventory control and billing system, and its efficient logistics give it a competitive advantage in the Netherlands. The Company's share of the highly fragmented Belgian lumber and building products market was approximately 2% in fiscal year 2003. For a discussion of recent developments and trends in, and factors that may affect, the Company's lumber and building products business, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### **E. Employees**

The Company employed over 28,000 employees throughout the world during the fiscal year ended June 30, 2003. This figure is estimated because the majority of the Company's personnel are seasonal employees.

#### **F. Research and Development**

No material amounts were expended for research and development during the fiscal years ended June 30, 2003, 2002, and 2001.

#### **G. Patents, etc.**

The Company holds no material patents, licenses, franchises, or concessions.

#### **H. Government Regulation, Environmental Matters and Other Matters**

The Company's business is subject to governmental regulation in the United States and in foreign jurisdictions where the Company conducts business. Such regulation includes, but is not limited to, matters relating to environmental protection. To date, governmental provisions regulating the discharge of material into the environment have not had a material effect upon the capital expenditures, earnings, or competitive position of the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors that May Affect Future Results" for a discussion of government regulation and other factors that may affect the Company's business.

## Item 2. Properties

The following table lists the Company's significant properties (greater than 500,000 square feet), all of which are owned by the Company:

<u>Location</u>	<u>Principal Use</u>	<u>Area</u>
		(Square Feet)
<b>Tobacco segment:</b>		
<b>Brazil</b>		
Venancio Aires	Factory and storages	661,000
Santa Cruz	Factory and storages	2,200,000
<b>Canada</b>		
Simcoe	Factory and storages	569,000
<b>Malawi</b>		
Lilongwe	Factory and storages	673,000
<b>Tanzania</b>		
Morogoro	Factory and storages	779,000
<b>United States</b>		
Danville, Virginia <sup>1</sup>	Factory and storages	895,000
Nash County, North Carolina <sup>1</sup>	Factory and storages	1,244,000
Lancaster, Pennsylvania	Factory and storages	636,000
<b>Zimbabwe</b>		
Harare	Factory and storages	1,065,000

<sup>1</sup> Subject to encumbrances described under "Properties – Tobacco segment."

Universal owns the land and building located at 1501 North Hamilton Street in Richmond, Virginia, where it is headquartered. The building contains approximately 83,000 square feet of floor space, which is more than adequate for the Company's needs.

### *Tobacco segment*

Universal's tobacco business involves storing green tobacco, processing the green tobacco, and storing processed tobacco. Thus, the Company operates processing facilities in major tobacco growing areas. In addition, Universal requires tobacco storage facilities that are in close proximity to the processing facilities. Most of the storage facilities are owned by the Company, but it leases additional tobacco storage facilities, as the need arises, and expenses related to such leases are not material. The Company believes that the properties currently utilized in its tobacco operations are maintained in good operating condition and are suitable and adequate for their purposes at the Company's current volumes. In its domestic tobacco processing operations, Universal currently owns and operates two large, high-volume plants that have the capacity to thresh, separate, grade, and redry tobacco. These plants are located in Nash County, North Carolina, and Danville, Virginia. In the summer of 2002, the Company completed the modernization of the Danville, Virginia, processing facility, and it recently completed the new processing facility in Nash County, North Carolina. In the opinion of management, these plants employ the latest processing technology. During fiscal year 2003, the Company closed a plant in Wilson, North Carolina.

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Management believes that the improvements to the Danville facility and the construction of the Nash County facility were required to meet customer specifications. The Danville and Nash County facilities will provide efficiencies that were not attainable in the Company's older domestic facilities. The decision to proceed with these projects was made in conjunction with the Company's execution of a ten-year processing agreement with Philip Morris USA Inc. in May 2001. The projects are expected to cost over \$130 million, and they are being funded by internal cash flow and by a loan secured by the machinery in the Danville facility and the real estate and machinery in the Nash County facility. The secured financing associated with these facilities was \$72 million at June 30, 2003. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

Universal owns other processing facilities in the following countries: Brazil, Hungary, Italy, the Netherlands, Poland, and the United States. In addition, the Company has ownership interests in processing plants in Guatemala and Mexico and has access to smaller processing facilities in other areas, such as Argentina, India, the Philippines, the People's Republic of China, South Africa, Uganda, and Zambia. Socotab L.L.C., a joint venture in which Universal owns a minority interest, owns two oriental tobacco-processing plants in both Turkey and Macedonia, one in Greece, and a storage complex in the United States. Socotab L.L.C. is currently building a new factory in Bulgaria. The first stage of the Bulgarian factory was completed in fiscal year 2003, and the second stage will be completed in fiscal year 2004.

The facilities described above are engaged primarily in processing tobacco used by manufacturers in the production of cigarettes. In addition, Universal operates plants in Pennsylvania, Virginia, the Dominican Republic, Germany, Indonesia, and Brazil that process tobacco used in making cigar, pipe, and smokeless products.

#### *Agri-products segment*

The Company's agri-products business involves processing and storing a number of products, including tea, sunflower seeds, and nuts. The Company owns processing facilities for sunflower seeds, nuts, and beans in the United States as well as a tea blending facility in the Netherlands. None of these processing facilities are leased. The Company leases agri-products trading facilities around the world, including locations in the United States, the United Kingdom, Egypt, Indonesia, Kenya, Canada, Poland, Russia, and Malawi. The lease expense on these facilities is not material to the Company. Universal's sunflower seed processing plant in Colby, Kansas, was financed in part through a government industrial development authority bond. The outstanding principal balance on the bond was approximately \$355 thousand at June 30, 2003. None of the Company's agri-products facilities exceeds 500 thousand square feet in floor space.

#### *Lumber and building products segment*

The lumber and building products business owns or leases 44 sales outlets and distribution facilities in the Netherlands and five facilities in Belgium. Most of these locations are owned. In the Netherlands, the Company also owns a facility for large-scale sawing, planing, and finger jointing of softwood products, and a manufacturing facility for building components. The Company also leases facilities for the processing of garden timber and production of garden houses in the Netherlands, Hungary, and Poland. For these products, the Company owns and leases sales offices in France, Germany, Spain, and Austria. During fiscal year 2003, through its acquisition of JéWé, the Company

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acquired additional production facilities in the Netherlands, which added production capabilities for a wide range of wood products for the do-it-yourself market. These items include moldings, paneling, and made-to-measure sliding doors and cupboard interiors. The lumber and building products business has production plants, warehouses, and distribution centers covering over 6 million square feet, with no one facility in excess of 500 thousand square feet.

### Item 3. Legal Proceedings

On February 26, 2001, Universal Leaf Tobacco Company, Incorporated, J.P. Taylor Company, Incorporated, and Southwestern Tobacco Company, Incorporated, which are subsidiaries of Universal Corporation (the "Company Subsidiaries"), were served with the Third Amended Complaint, naming them and other leaf tobacco merchants as defendants in DeLoach, et al. v. Philip Morris Inc., et al., a suit originally filed against U.S. cigarette manufacturers in the United States District Court for the District of Columbia and now pending in the United States District Court for the Middle District of North Carolina, Greensboro Division (Case No. 00-CV-1235) (the "DeLoach Suit"). The DeLoach Suit is a class action brought on behalf of U.S. tobacco growers and quota holders that alleges that defendants violated antitrust laws by bid-rigging at tobacco auctions and by conspiring to undermine the tobacco quota and price support program administered by the federal government. In May 2003, the Company Subsidiaries, along with several other domestic cigarette manufacturers and tobacco leaf dealers entered into a settlement agreement with the plaintiffs.

Under the settlement agreement, the Company Subsidiaries will collectively pay \$12 million for distribution to members of the class. The total amount to be paid by all the settling defendants, of which there are five in addition to the Company Subsidiaries, to the class is approximately \$212 million, plus commitments by the three settling cigarette manufacturers (i) to purchase certain volumes of domestic flue-cured and burley tobacco for at least ten years and (ii) to pay the fees of plaintiffs' counsel when approved by the court. The settlement agreement is contingent on final approval by the court.

The Company maintains that none of its three subsidiaries party to this lawsuit or their employees have violated any antitrust laws. The Company decided to enter into the settlement in order to avoid further expense, inconvenience, and burden of this litigation; to prevent the distraction and diversion of its employees; and to put to rest this controversy with valued U.S. tobacco growers. The parties have agreed that the settlement agreement does not constitute an admission of the truth of any of the claims or allegations in the lawsuit. Because management believes it is probable that the court will ultimately approve the settlement agreement, the Company recorded a loss contingency of \$12 million before taxes, or about \$7.7 million after taxes, in the fourth quarter of fiscal year 2003.

The Competition Directorate-General of the European Commission ("DG Comp") is investigating the buying practices of Spanish tobacco processors with the stated aim of determining to what extent the tobacco processing companies have jointly agreed on raw tobacco qualities and prices offered to Spanish tobacco growers. After conducting an investigation, the Company believes that Spanish tobacco processors, including the Company's Spanish subsidiary, Tabacos Espanoles, S.A. ("TAES"), have jointly agreed to the terms of sale of green tobacco and quantities to be purchased from associations of farmers and have jointly negotiated with those associations. TAES is cooperating fully with the DG Comp in its investigation and believes that there are unusual, mitigating circumstances peculiar to the highly structured market for green tobacco in Spain. At this time, no estimate can be made of the amount or timing of the fine, if any, that the DG Comp may assess on TAES.

#### Item 4. Submission of Matters to a Vote of Security Holders

During the quarter ended June 30, 2003, no matters were submitted to a vote of security holders.

### PART II

#### Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

##### *Common Equity*

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "UVV." The following table sets forth the high and low sales prices per share of the common stock on the NYSE Composite Tape, based upon published financial sources, and the dividends declared on each share of common stock for the quarter indicated.

	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
	<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>
<b>2003</b>				
Cash dividends declared	\$ 0.34	\$ 0.36	\$ 0.36	\$ 0.36
Market price range	High 39.23	37.52	39.28	43.01
	Low 31.81	32.85	35.40	37.69
<b>2002</b>				
Cash dividends declared	\$ 0.32	\$ 0.34	\$ 0.34	\$ 0.34
Market price range	High 43.05	37.54	39.45	43.00
	Low 33.37	31.74	34.90	36.01
<b>2001</b>				
Cash dividends declared	\$ 0.31	\$ 0.32	\$ 0.32	\$ 0.32
Market price range	High 29.88	35.88	39.43	41.30
	Low 20.63	27.00	31.19	36.99

The Company's current dividend policy anticipates the payment of quarterly dividends in the future. The declaration and payment of dividends to holders of common stock will be at the discretion of the Board of Directors and will be dependent upon the future earnings, financial condition, and capital requirements of the Company. Under certain of its credit facilities, the Company must meet financial covenants relating to minimum tangible net worth, minimum working capital, and maximum levels of long-term debt. If the Company were not in compliance with these covenants, they would restrict the Company's ability to pay dividends or repurchase shares of common stock under the Company's repurchase plan. The Company was in compliance with all such covenants at June 30, 2003. At September 8, 2003, there were 2,347 holders of record of the Company's common stock.

*Common Equity Compensation Plans*

Shares of the Company's common stock are authorized for issuance with respect to the Company's compensation plans. The following table sets forth information as of June 30, 2003, with respect to compensation plans under which shares of the Company's common stock are authorized for issuance.

Plan Category	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans <sup>1</sup>
Equity compensation plans approved by shareholders			
1989 Executive Stock Plan	464,937	\$ 39.09	
1997 Executive Stock Plan	974,973	\$ 37.07	
1994 Amended and Restated Stock Option Plan for Non-Employee Directors	62,000	\$ 30.22	26,000
2002 Executive Stock Plan <sup>3</sup>	1,240,386	\$ 37.53	966,624 <sup>2</sup>
Equity compensation plans not approved by shareholders			
Total	2,742,296	\$ 37.46	992,624

<sup>1</sup> Amounts exclude any securities to be issued upon exercise of outstanding options, warrants, and rights.

<sup>2</sup> The 2002 Executive Stock Plan permits grants of stock options and awards of common stock and restricted stock. Of the 966,624 shares of common stock remaining available for future issuance under the 2002 Executive Stock Plan, 497,200 shares are available for awards of common stock or restricted stock.

<sup>3</sup> The Company does not have any equity compensation plans that have not been approved by shareholders.



**Item 6. Selected Financial Data**

	For the Years Ended June 30,				
	2003	2002	2001	2000	1999
(in thousands except per share data, ratios and number of shareholders)					
<b>Summary of Operations</b>					
Sales and other operating revenues	\$ 2,636,776	\$ 2,500,078	\$ 3,017,579	\$ 3,405,987	\$ 4,004,903
Net income	\$ 110,594	\$ 106,662	\$ 112,669	\$ 113,805	\$ 127,276
Return on beginning common shareholders' equity	18.8%	19.3%	22.6%	21.1%	23.2%
Net income per common share: Basic	\$ 4.35	\$ 4.01	\$ 4.09	\$ 3.77	\$ 3.81
Diluted	\$ 4.34	\$ 4.00	\$ 4.08	\$ 3.77	\$ 3.80
<b>Financial Position at Year End</b>					
Current ratio	1.67	1.64	1.95	1.23	1.30
Total assets	\$ 2,243,074	\$ 1,844,415	\$ 1,782,373	\$ 1,748,104	\$ 1,824,361
Long-term obligations	\$ 614,994	\$ 435,592	\$ 515,349	\$ 223,262	\$ 221,545
Working capital	\$ 550,716	\$ 431,606	\$ 550,881	\$ 204,916	\$ 271,825
Shareholders' equity	\$ 620,278	\$ 587,995	\$ 552,129	\$ 497,779	\$ 539,036
<b>General</b>					
Ratio of earnings to fixed charges	4.43	3.99	3.75	4.13	4.44
Number of common shareholders	2,267	2,381	2,528	2,749	2,951
Weighted average common shares outstanding:					
Basic	25,420	26,579	27,534	30,199	33,437
Diluted	25,499	26,680	27,645	30,205	33,477
Dividends per common share	\$ 1.42	\$ 1.34	\$ 1.27	\$ 1.23	\$ 1.18
Book value per common share	\$ 24.89	\$ 22.42	\$ 20.31	\$ 16.48	\$ 16.12

The following table illustrates the impact of the adoption of the non-amortization provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." The Company adopted those provisions effective at the beginning of fiscal year 2002.

	For the Years Ended June 30,				
	2003	2002	2001	2000	1999
(in thousands except per share data)					
Reported net income	\$ 110,594	\$ 106,662	\$ 112,669	\$ 113,805	\$ 127,276
Goodwill amortization			4,200	4,100	4,400
Tax effect of goodwill amortization			(1,470)	(1,435)	(1,540)
Net income, as adjusted	\$ 110,594	\$ 106,662	\$ 115,399	\$ 116,470	\$ 130,136
Net income, as adjusted, per common share:					
Basic	\$ 4.35	\$ 4.01	\$ 4.19	\$ 3.86	\$ 3.89
Diluted	\$ 4.34	\$ 4.00	\$ 4.17	\$ 3.86	\$ 3.89

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## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### LIQUIDITY AND CAPITAL RESOURCES

During fiscal year 2003, Universal made substantial investments in its operations, investing about \$75 million in leaf processing facilities in the United States and about \$72 million in acquiring operations for its non-tobacco segments. The replacement of tobacco volumes lost because of the Zimbabwe crop decline required additional investment in working capital in Africa. The Company secured additional sources of liquidity to fund these needs, and it maintains a relatively large portion of total debt as long-term to reduce liquidity risk.

Working capital increased by over \$119 million to \$551 million, and the current ratio increased from 1.64 to 1.67. Tobacco inventories increased about \$76 million to \$530 million as of June 30, 2003, but the Company's uncommitted inventories remained relatively flat at approximately \$61 million compared to \$63 million at the end of fiscal year 2002. Lumber and building products inventories and accounts receivable increased by \$60 million and \$35 million, respectively, due to the strong euro and the January 2003 acquisition of JéWé. Customer advances and deposits fell by approximately 50%, to \$42 million, in part because relative interest rates made funding by Universal more attractive than it had been last year. Advances to suppliers increased by about \$62 million, and approximately \$33 million of that increase occurred in Africa where the Company has been making investments in several African countries to replace volume declines in Zimbabwe.

The Company's capital expenditures are generally limited to those that add value to the customer, replace equipment, increase efficiency, or position the Company for future growth. Universal's capital expenditures were approximately \$115 million in fiscal year 2003 and \$111 million in fiscal year 2002. Approximately \$75 million of the capital expenditures in fiscal 2003 were part of a major investment in leaf processing in the United States that was announced in fiscal year 2001. The Company completed an upgrade of its facility in Danville, Virginia, in the summer of 2002, and has recently built a new facility in Nash County, North Carolina, which is currently in start-up mode. The cost of the two projects is estimated to be over \$130 million. The Company elected to partially fund the projects using a secured, multi-draw \$75 million term loan facility, which a wholly owned subsidiary obtained on December 28, 2001. The facility is guaranteed by the Company and is secured by certain assets of the projects. The loan matures on December 28, 2007, and under certain conditions, the subsidiary can exercise an extension option for an additional four years. As of June 30, 2003, approximately \$72 million had been drawn under the facility.

Universal's total debt increased by about \$294 million during the year, and its total debt as a percentage of total capitalization (including deferred taxes and minority interest) increased to about 60% from approximately 52% in fiscal year 2002. The increase in debt reflected the Company's increased working capital requirement, the JéWé acquisition, and increased capital spending. Total long-term obligations, including current maturities, increased by \$155 million to \$715 million while notes payable increased by \$139 million to \$266 million. The increase in long-term obligations was primarily due to the Company's new bank facilities entered into on April 7, 2003. Those facilities included a \$125 million term loan that will mature on April 7, 2006. Earlier in fiscal year 2003, the Company issued \$99.5 million in medium-term notes, thereby completing the sale of all securities registered pursuant to a \$400 million shelf registration filed in 2000. In 2003, the Company filed a new \$400 million shelf registration for debt securities, and in August, the Securities and Exchange Commission declared it effective. The Company expects to use the proceeds of sales of these securities for general corporate purposes, which may include the repayment of indebtedness, capital expenditures, acquisitions, and

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working capital. The Company also continued to draw on its secured multi-draw facility used to fund the U.S. processing expenditures.

As of June 30, 2003, the Company had interest rate swaps that effectively converted \$123.5 million of fixed rate debt to variable rate debt. The purpose of these interest rate swaps is to better match its effective interest rate to the market rates of interest that customers pay the Company for inventory purchased for their accounts. These swaps were accounted for as fair value hedges. The estimated fair value of the swap agreements was approximately \$6 million at June 30, 2003.

As of June 30, 2003, Universal had approximately \$936 million in uncommitted lines of credit, of which approximately \$670 million was unused and available to support seasonal working capital needs. Effective April 7, 2003, the Company replaced its \$295 million revolving credit facilities with new agreements totaling \$375 million. These agreements include a \$250 million revolving credit facility and a \$125 million term loan, each of which will mature on April 7, 2006. As of June 30, 2003, the Company had no amounts outstanding under the revolving credit facility. Universal's commercial paper program, which provides flexibility in the Company's short-term borrowings, is supported by the new revolving credit facility. Under the terms of its bank agreements, the Company must maintain certain levels of tangible net worth and working capital and observe restrictions on debt levels. The Company was in compliance with all such covenants at June 30, 2003.

Management believes that the Company has adequate resources available to meet its needs, which have been predominantly short term in nature and primarily relate to working capital required for tobacco crop purchases. Working capital needs are seasonal within each geographical region. The geographical dispersion and the timing of working capital needs permit Universal to predict its general level of cash requirements. The marketing of the crop in each geographic area is heavily influenced by weather conditions and follows the cycle of buying, processing, and shipping of the tobacco crop. The timing of individual customer shipping requirements may change the level or the duration of crop financing. The working capital needs of agri-products operations fluctuate during the year, depending on the product, the country of origin, and the Company's inventory position; however, the total working capital requirements of agri-products remain relatively stable due to offsetting seasonal patterns. Working capital needs of lumber and building products operations in Europe follow a pattern similar to that of the construction industry, where the third quarter of the fiscal year is typically sluggish due to winter weather and the holiday season. The Company finances its seasonal working capital needs with short-term lines of credit, customer advances, and trade payables. The Company estimates that its inventories of flue-cured and burley tobaccos that were not committed to customers as of June 30, 2003, were approximately \$61 million. As a percentage of inventory, uncommitted inventories decreased from 13.9% of total tobacco inventory at June 30, 2002, to 11.5% of total tobacco inventory at June 30, 2003. Management does not consider these levels to be excessive. During the next 12 to 24 months, management expects to continue to invest additional amounts in working capital and operating facilities to increase African tobacco sources. For example, the Company has decided to invest about \$45 million in a new processing facility in Mozambique. The project will include infrastructure, such as school facilities and a clinic.

In May 1998, Universal's Board of Directors approved a share purchase program that has since been expanded to permit the purchase of up to \$450 million of the common stock of the Company. The purchases are carried out from time to time on the open market or in privately negotiated transactions at prices not exceeding prevailing market prices. Over time, the purchases have been, and are expected to be, funded primarily from operating cash flow of the Company. At June 30, 2003, Universal had approximately 24.9 million common shares outstanding and had purchased approximately 12.1 million common shares for about \$353 million pursuant to the program.

Funds supporting the Company's ERISA-regulated defined benefit pension plans were reduced to \$104 million by negative market activity during fiscal year 2003 through the quarter ended March 31, 2003, the remeasurement date for the plan. Subsequent to that time markets have improved, and the market value of the fund has increased. As of July 31, 2003, the market value of the fund was about \$117 million, compared to the accumulated benefit obligation of \$129 million and the projected benefit obligation of \$149 million based on certain assumptions. See Note 6 of "Notes to Consolidated Financial Statements." The Company plans to contribute approximately \$4.5 million to the pension fund during the next year, which is more than the contribution required by ERISA. It is the Company's policy to monitor the market performance of the funds and to review the adequacy of its funding and its contributions to those funds. The fund is managed for long-term returns, and the Company has not changed its investment allocation in response to recent market returns.

Management believes that its financial resources are adequate to support its capital needs. Those resources include cash from operations, cash balances, the potential to issue debt to the public under its new shelf registration statement, the amounts remaining on its multi-draw secured facility, and committed and uncommitted bank lines. Any excess cash flow from operations after dividends and capital expenditures will be available to fund expansion, purchase the Company's stock, or otherwise enhance shareholder value.

The Company's contractual obligations as of June 30, 2003, are as follows:

(\$ in 000's)	Total	Payments Due			
		2004	2005-2006	2007-2008	Thereafter
Notes payable and current portion of long-term debt	\$ 366,129	\$ 366,129			
Long-term debt	614,994		\$ 221,946	\$ 241,766	\$ 151,282
<b>Total</b>	<b>\$ 981,123</b>	<b>\$ 366,129</b>	<b>\$ 221,946</b>	<b>\$ 241,766</b>	<b>\$ 151,282</b>

## RESULTS OF OPERATIONS

### Fiscal Year 2003 Compared to 2002

"Sales and other operating revenues" were approximately \$2.6 billion for the fiscal year 2003 compared to about \$2.5 billion last year. The fiscal year benefited from the impact of the stronger euro on translation of revenues from the Company's Dutch lumber and building products operations into U.S. dollars and the fourth quarter addition of the revenues of JéWé. Most of the tobacco segment revenue increase for the fiscal year came from the larger volumes shipped from South America. Agri-products segment revenue was up modestly due to good results in the Company's dried fruit and nuts business.

During fiscal year 2003, Universal recognized approximately \$33 million in restructuring charges, of which \$12.5 million resulted from the reduction of operations in Zimbabwe due to the decline in crops there. The remaining \$20.5 million represented costs of rationalizing U.S. operations. See Note 2 of "Notes to Consolidated Financial Statements." In May 2003, the Company entered an agreement to settle the DeLoach lawsuit, which involved alleged industry violation of antitrust laws, and accordingly recorded a charge of \$12 million in fiscal year 2003. The agreement is subject to the final approval of the court. In addition, during the fourth quarter, the Company recognized a \$9.0 million gain on the sale of assets in Africa and the Netherlands as well as a \$20.2 million gain on remeasurement of local currency liabilities after export rates were adjusted in Africa. The remeasurement gain was not taxable.

in the country of origin, and consistent with Universal's policy regarding permanently reinvested earnings, no provision for U.S. income taxes was made on the gain. The aggregate of the charges and gains for the year was a charge of \$15.8 million. In fiscal year 2002, the Company recorded charges of \$7.5 million related to the consolidation of U.S. operations and \$10.3 million related to Argentine currency devaluation.

Summary of Charges and Gains (In millions except per share amounts)	Fiscal Year 2003	Fiscal Year 2002	Change
Restructuring charges	\$ (33.0)		\$ (33.0)
<b>Tobacco segment</b>			
Settlement of lawsuit	(12.0)		
African currency remeasurement gain	20.2		
Fiscal year 2003 gain on asset sales	6.3		
Argentine currency devaluation		\$ (10.3)	
Consolidation costs		(7.5)	
Net gain (charge)	14.5	(17.8)	32.3
<b>Lumber &amp; building products segment</b>			
Fiscal year 2003 gain on asset sales	2.7		2.7
<b>Increase (decrease) in operating income</b>	<b>\$ (15.8)</b>	<b>\$ (17.8)</b>	<b>\$ 2.0</b>
<b>Increase (decrease) in net income</b>	<b>\$ (10.4)</b>	<b>\$ (11.6)</b>	<b>\$ 1.2</b>
<b>Increase (decrease) in earnings per share</b>	<b>\$ (0.41)</b>	<b>\$ (0.43)</b>	<b>\$ 0.02</b>

Fiscal year 2003 segment operating income as described in Note 10 of "Notes to Consolidated Financial Statements" was \$275 million, up \$35 million from that of fiscal year 2002. As listed above, that increase included a \$32.3 million net gain in the tobacco segment and a \$2.7 million gain in lumber and building products segment.

Tobacco segment earnings benefited from larger crops in Brazil, Argentina, and several African countries, and those increases more than offset the decline in Zimbabwe crops. Shipments of Brazilian and Argentine tobaccos increased substantially, as customers shifted purchase requirements from Zimbabwe to Brazil and purchased more Argentine tobacco following the currency devaluation there in 2002. Dark tobacco volumes were down for the fiscal year due to lower sales of old crop tobacco this year and smaller crops in several origins. The oriental tobacco joint venture's results also declined primarily due to customers' delay of shipments until fiscal year 2004, expenses related to the new plants in Greece and Bulgaria, and smaller shipments of old crop tobacco this year. Excluding the \$32.3 million net effect of the charges and gains listed in the table above, tobacco segment earnings decreased by \$5.2 million for the fiscal year.

Buoyed by the strong euro, which gained more than 14% on average during fiscal year 2003 against the U.S. dollar, results from the lumber and building products segment improved by \$5.1 million, or 20.4% for the year, excluding the \$2.7 million gain on sale of assets. Throughout the year, volume suffered from the effects of an economic slowdown in the Netherlands and other European countries. However, the results benefited from the Company's acquisition of JéWé. Earnings from the agri-products segment were flat for the year as stronger results in the Company's dried fruit and nut business offset the impact of difficult market conditions in the remainder of the segment.

"Selling, general and administrative expenses" for fiscal year 2003 increased by \$4 million or 1.3% due to the \$12 million charge for the settlement of the DeLoach lawsuit, the impact of the strong euro on euro-based expenses, the addition of JéWé, and higher legal expenses as well as insurance costs. These amounts were partially offset by a net remeasurement gain of \$12.6 million.

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“Interest expense” decreased by \$3 million to \$45 million due to lower interest rates in fiscal year 2003 compared to 2002. The Company capitalized approximately \$2 million in interest related to the construction of the Nash facility in fiscal year 2003 and approximately \$600 thousand last year.

Universal’s consolidated income tax rate for the current year is 30.7% compared to 35% in the prior year. The major factor that generated the decrease in the tax rate for the Company was the impact of lower taxes in subsidiaries in which it is the Company’s policy to permanently reinvest earnings. The Company currently does not record U.S. tax expense on earnings not distributed from most countries in Africa. The Company generated over \$15 million in remeasurement gains that were not subject to local tax expense in these countries. See Note 3 of “Notes to Consolidated Financial Statements.”

#### **Fiscal Year 2002 Compared to 2001**

“Sales and other operating revenues” for fiscal year 2002 decreased \$518 million or 17% to \$2.5 billion compared to fiscal year 2001. The majority of the decline in fiscal year 2002 was in the tobacco segment, where revenue fell by \$502 million. Although smaller crops in a number of key exporting areas reduced volumes, the primary factor in the revenue reduction for fiscal year 2002 was the change in manufacturers’ purchasing methods in the United States. In fiscal year 2002, a number of U.S. manufacturers bought tobacco directly from farmers through contracts and paid leaf merchants to process it. Prior to fiscal year 2002, leaf dealers purchased tobacco for most U.S. manufacturers. For the years ended June 30, 2002 and 2001, revenue from subsidiaries and affiliates of Altria Group, Inc. (formerly Philip Morris Companies Inc.), was \$400 million and \$900 million, respectively. Beginning with the U.S. burley crop in fiscal year 2001, followed by both the U.S. flue-cured and burley crops in fiscal year 2002, Philip Morris USA Inc. began to purchase directly from growers under contract arrangements. Although this change was the primary cause of the decline in revenue in fiscal year 2002, it did not have a commensurate effect on segment operating income in fiscal year 2002 because the Company continued to process its normal share of the crops. See Note 10 of “Notes to Consolidated Financial Statements.” Revenues of the agri-products segment were down by \$31 million in fiscal year 2002 due to lower tea prices and sharply lower synthetic rubber sales in Europe. Lumber and building products revenue increased by \$15 million in fiscal year 2002 due to higher sales of garden timbers and garden houses by an acquired company.

Segment operating income as disclosed in Note 10 of “Notes to Consolidated Financial Statements” was \$240 million in 2002 compared to \$279 million in 2001, a decrease of \$39 million. Tobacco operating profits in fiscal year 2002 were \$203 million, a decline of \$37 million compared to fiscal year 2001. Tobacco operating profits declined in fiscal year 2002 due to smaller crops in several origins, including Zimbabwe, Malawi, and Poland. U.S. operations experienced higher costs in fiscal year 2002 from staffing both contract receiving stations and the auction system, as well as a decline in green market service income compared to fiscal year 2001. The Company no longer received purchasing fees on U.S. volumes for which it only provided processing services. In addition, overall margins on sales of Brazilian tobacco in fiscal year 2002 were lower due to the mix of business there. During fiscal year 2002, the Company recognized \$10.3 million in expenses related to the Argentine currency devaluation and the Company accelerated the planned closure of its Henderson, North Carolina, facility in fiscal year 2002. As a result of the closure and after U.S. consolidation measures, the Company recognized \$7.5 million in costs in fiscal year 2002. Increased earnings from higher volumes shipped from Argentina, Asia, Western Europe, and the Company’s oriental tobacco joint venture were not sufficient to overcome these factors for fiscal year 2002. Results for the Company’s lumber and building operations were down for fiscal year 2002, reflecting, in part, the impact of the strong U.S. dollar during

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that year. Agri-products earnings declined for fiscal year 2002, as stronger results in the Company's dried fruit and nut business were not sufficient to overcome the impact of difficult market conditions in rubber, sunflower seeds, and tea.

"Selling, general and administrative expenses" for fiscal year 2002 increased \$9 million due to higher lumber and building product selling costs and higher pension expense.

"Interest expense" for fiscal year 2002 decreased by \$14 million to \$47.8 million due to lower interest rates in fiscal year 2002 compared to 2001.

The Company's consolidated income tax rate for fiscal year 2002 declined from 35.4% for fiscal year 2001 to approximately 35.0% due to the mix of foreign and domestic earnings. See Note 3 of "Notes to Consolidated Financial Statements."

#### **Accounting Pronouncements**

In the third quarter of fiscal year 2003, the Company adopted Financial Accounting Standards Board Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("Interpretation No. 45"). The interpretation addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. In addition, it clarifies the requirements related to the recognition of a liability by a guarantor at the inception of a guarantee for the obligations the guarantor has undertaken in issuing that guarantee. The adoption of Interpretation No. 45 did not have a material impact on the Company's financial statements. The disclosure requirements of Interpretation No. 45 are presented in Note 9 of "Notes to Consolidated Financial Statements."

In the third quarter of fiscal year 2003, the Company also adopted Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("Statement No. 148"). This statement amended Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("Statement No. 123"). As permitted under Statement No. 123, the Company continues to apply the Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under Statement No. 148, the Company is required to report pro forma net income and basic and diluted earnings per share each quarter as if the fair value-based method had been applied to all awards. See Notes 1 and 8 of "Notes to Consolidated Financial Statements."

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("Interpretation No. 46"). The interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Interpretation No. 46 requires that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities, and results of the activities of the variable interest entity should be included in the consolidated financial statements of the business enterprise. The provisions of Interpretation No. 46 were effective beginning in the Company's third quarter of fiscal year 2003. The adoption of Interpretation No. 46 did not have a material impact on the Company's financial statements.

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## CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing the financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"), management is required to make estimates and assumptions that have an impact on the assets, liabilities, revenue, and expense amounts reported. These estimates can also affect supplemental information disclosures of the Company, including information about contingencies, risk, and financial condition. The Company believes, given current facts and circumstances, its estimates and assumptions are reasonable, adhere to GAAP, and are consistently applied. However, changes in the assumptions used could result in a material adjustment to the financial statements. The Company's most critical accounting estimates and assumptions are in the following areas:

### **Inventories**

Inventories of tobacco and agri-products are valued at the lower of cost or market with cost determined under the specific cost method. In the tobacco and agri-product businesses, raw materials are clearly identified at the time of purchase. The Company tracks the costs associated with raw materials in the final product lots, and maintains this identification through the time of sale. The Company also capitalizes direct and indirect costs related to processing raw materials. This method of cost accounting is referred to as the specific cost or specific identification method. Lumber and building products inventory is valued at the lower of cost or market, with cost determined under the first-in, first-out method. The Company writes down inventory for changes in market value based upon assumptions related to future demand and market conditions. Future demand assumptions can be impacted by changes in customer sales, changes in customers' inventory positions and policies, competitors' pricing policies and inventory positions, changing customer needs, and varying crop sizes and qualities. Market conditions that differ significantly from those assumed by management could result in additional write downs. The Company experiences inventory write downs routinely. Inventory write downs in 2003, 2002, and 2001 were \$3.3 million, \$8.5 million, and \$7.8 million, respectively.

### **Intangible Assets**

The Company reviews the carrying value of goodwill as necessary, and at least annually, utilizing a discounted cash flow model. The preparation of discounted future operating cash flow analyses requires significant management judgment with respect to operating earnings growth rates and the selection of an appropriate discount rate. The majority of the Company's goodwill is from acquisitions in the tobacco segment. Neither a one-percentage-point increase in the discount rate assumption nor a one-percentage-point decline in the cash flow growth rate assumption would result in an impairment charge. However, significant changes in estimates of future cash flows, such as those caused by unforeseen events or changes in market conditions, could result in an impairment charge.

### **Income Taxes**

The Company's effective tax rate is based on its expected income, statutory tax rates, and tax planning opportunities in the various jurisdictions in which the Company operates. Significant judgment is required in determining the effective tax rate and evaluating the tax position of the Company. The effective tax rate is applied to quarterly operating results. The Company, through its subsidiaries, is subject to the tax laws of many jurisdictions, and could be subject to a tax audit in each of these jurisdictions, which could result in changes to estimated taxes. In the event that there is a significant, unusual, or one-time item recognized in the Company's results, the tax attributed to that item would be



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recorded at the same time as the item. For example, in the current year, the remeasurement gains generated in Africa did not result in local taxation, and consistent with Company policy regarding permanently reinvested earnings, no provision for U.S. income taxes was recorded on the gains, which reduced the consolidated tax rate.

Tax regulations require items to be included in the tax return at different times than the items are reflected in the financial statements. As a result, the Company's effective tax rate reflected in the financial statements is different than that reported in its tax returns. Some of these differences are permanent, such as expenses that are not tax deductible, while others are related to timing issues, such as differences in depreciation methods. Timing differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future tax returns for which the Company has already recorded the tax benefit in its financial statements. The Company has recorded valuation allowances for deferred tax assets when the amount of estimated future taxable income was not likely to support the use of the deduction or credit. As of June 30, 2003, the Company had approximately \$31 million in foreign tax credit carryforwards. If not utilized earlier, credits of \$7 million will expire at the end of fiscal year 2004, and \$24 million will expire at the end of fiscal year 2008. Any significant reduction in future taxable income and changes in its sources or changes in U.S. or foreign tax laws could result in the expiration of foreign tax credit carryforwards. Deferred tax liabilities generally represent tax expense recognized in the Company's financial statements for which payment has been deferred or an expense that has not yet been recognized in the financial statements and has been deducted in the Company's tax return. For example, the Company has recognized \$20.1 million in U.S. income tax expense associated with foreign earnings, which the Company intends to distribute to the United States in the future.

For additional disclosures on income taxes see Notes 1 and 3 of "Notes to Consolidated Financial Statements."

#### **Pension Plans and Postretirement Benefits**

The measurement of the Company's pension and postretirement obligations and costs are dependent on a variety of assumptions used by the Company's actuaries. These assumptions include estimating the present value of projected future pension payments to all plan participants, taking into consideration the likelihood of potential future events such as salary increases and demographic experience. The assumptions made by the Company may have an effect on the amount and timing of future contributions. The plan trustee conducts an independent valuation of the fair value of pension plan assets. The significant assumptions used in the calculation of pension and postretirement obligations are:

Discount rate – The discount rate is based on investment yields available at the measurement date on corporate long-term bonds rated AA.

Salary growth – The salary growth assumption is a factor of the Company's long-term actual experience, the near-term outlook, and assumed inflation.

Expected return on plan assets – The expected return reflects asset allocations and investment strategy.

Retirement and mortality rates – Retirement rates are based on actual plan experience along with the Company's near-term outlook. Early retirement assumptions are based on actual Company experience. Mortality rates are based on standard group annuity (GA-83) mortality tables.

Health care cost trends – For postretirement medical plan obligations and costs, the Company makes assumptions on future increases in medical costs. These assumptions are based on the actual experience of the Company along with third-party forecasts of long-term medical cost trends.

The effect of actual results differing from the Company's assumptions are accumulated and amortized over future periods and, therefore, generally affect its recognized expense in such future periods.

Sensitivity Analysis. The effect of the indicated decrease or increase in the selected assumptions is shown below, assuming no change in benefit levels:

	Effect on 2003 Projected Benefit Obligation Increase (Decrease) (in 000's)	Effect on Annual Expense Increase (Decrease) (in 000's)
<b><u>Change in Assumption (Pension Plans)</u></b>		
1% increase in discount rate	\$ (30,230)	\$ (3,932)
1% decrease in discount rate	\$ 36,928	\$ 6,972
1% increase in salary scale	\$ 7,430	\$ 2,981
1% decrease in salary scale	\$ (7,577)	\$ (2,700)
1% increase in rate of return on assets		\$ (3,092)
1% decrease in rate of return on assets		\$ 3,092
<b><u>Change in Assumption (Other Postretirement Benefits)</u></b>		
1% increase in discount rate	\$ (5,300)	\$ (425)
1% decrease in discount rate	\$ 5,300	\$ 425
1% increase in medical inflation	\$ 2,349	\$ 148
1% decrease in medical inflation	\$ (2,011)	\$ (127)

See Note 6 of "Notes to the Consolidated Financial Statements" for additional information on pension and postretirement benefit plans.

#### OTHER INFORMATION REGARDING TRENDS AND MANAGEMENT'S ACTIONS

World markets for flue-cured and burley tobaccos are currently approximately in balance and are expected to remain so through crop year 2004 as overall availability should meet demand; however, worldwide inventories of oriental tobaccos remain high and no reduction is expected through next year. Management expects world flue-cured production to decline in crop year 2003 as smaller crops are forecast in both Brazil and Zimbabwe. In crop year 2004, management believes flue-cured production should increase again in all exporting regions, except Asia and North America. Burley production is also expected to decrease in crop year 2003 primarily because of smaller crops in Brazil and Africa. Burley crops in 2004 are also expected to trend upward again in nearly all regions. Generally, production changes in 2003 and 2004 will affect the Company's fiscal years 2004 and 2005, respectively, as crops produced in crop year 2003 are normally sold in fiscal year 2004.

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After increasing at a compound annual growth rate in excess of 1% over the previous two years, cigarette production flattened in 2002. The earlier increases were due in part to improving economic conditions in Asia and the former Soviet Union, and the stronger demand for leaf helped to reduce leaf inventories. The Company expects that demand for leaf will be flat or declining slightly for the near term primarily due to the flattening trend in world cigarette consumption and to improved leaf utilization by cigarette manufacturers. On a year-to-year basis, the Company is susceptible to fluctuations in leaf supply due to crop size and leaf demand as manufacturers adjust inventories or respond to changes in the cigarette market.

Uncommitted worldwide industry flue-cured and burley inventories totaled 133 million kilos, excluding inventories of Asian government-owned monopolies. Uncommitted inventories, which had been trending upward since mid-1997, have declined in each of the last three years. At June 30, 2003, the U.S. stabilization cooperatives held about 45 million kilos.

Although cigar consumption continues to grow at a modest pace in the United States, consumption within the main European Union markets has declined slightly. Supplies of filler and binder tobaccos remain in relative surplus due to overproduction in certain countries coupled with manufacturers' downward adjustment of inventory levels to match expected sales. Supply and demand of cigar wrapper continues to be firm. Within the smokeless segment of the dark tobacco business, consumption of loose-leaf chewing tobacco continues to decline by about four percent annually, while the consumption of snuff products has been growing between three and four percent per year. Management believes that there is an adequate supply of suitable dark tobacco in the world market to meet the demand of the manufacturers of smokeless tobacco products.

The high price of U.S. leaf relative to the world market led to reduced exports, which, combined with declining purchases by U.S. manufacturers, have reduced the amount of U.S. tobacco that can be produced and sold in the United States. The Company has responded to the decrease in demand for, and production of, U.S. tobacco and the change in the U.S. marketing system by closing certain plants, restructuring operations, and reducing personnel. Since fiscal year 1999, the Company has closed four large, high-volume, older tobacco processing plants and replaced them with a new state-of-the-art processing facility in Nash County, North Carolina, and with an upgraded facility in Danville, Virginia. The Company has recorded over \$42.5 million in charges associated with the reduction in U.S. tobacco production and consolidation of U.S. operations since fiscal year 1999. Domestic leaf purchases are unlikely to increase because of the continued decline of cigarette consumption in the United States. Exports of U.S. leaf are likely to continue to decline unless the U.S. tobacco program is significantly modified or eliminated and the competitive position of U.S. leaf improves dramatically. Several proposals to change that program are currently being discussed in the U.S. Congress. These proposals generally call for quota buy-out and some modifications in the existing tobacco program. Management believes that a quota buy-out will not provide sufficient improvement unless the entire system of government supports is dismantled. Without substantial improvement in the market attractiveness of U.S. leaf, foreign manufacturers are likely to continue to shift their purchases to other tobacco producing areas, such as Brazil and Africa where the Company has significant operations.

The Company expects market conditions to remain challenging in the year ahead. Management continues to closely monitor the situation in Zimbabwe where the political and economic environment remains extremely difficult. The size of the flue-cured crop now being marketed is expected to be about 50% below that of last year. The volume decline is expected to be partially offset by production increases in Brazil and in other African origins. Early indications are that the Zimbabwe crop to be marketed in fiscal year 2005 could be substantially smaller than the crop currently being marketed. That crop has not yet been planted. Because the Company expects that most of the shortfall in Zimbabwe

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tobacco will be replaced with crops from areas where the Company contracts with and provides financing to farmers, the Company could face increased financing and inventory risk since Zimbabwe tobacco is purchased at auction. The Company has been working to expand sources of African tobacco, and those efforts require investments in working capital and operating facilities.

An important trend in the tobacco industry has been consolidation among manufacturers of tobacco products. This trend is expected to continue, particularly as further privatization of state monopolies occurs, providing opportunities for acquisitions by international manufacturers. This concentration could provide additional opportunities for international leaf merchants, including Universal. A key success factor for leaf dealers in the future will be the ability to provide customers with the quality of leaf and the level of service they desire at the lowest cost possible. In addition, the leaf dealers have larger historical market shares with some customers than with others. Consequently, the Company's potential growth will be affected by the growth of its major customers, and consolidation of customers may have at least a short-term favorable or unfavorable impact on the Company's business.

Reports and speculation with respect to the alleged harmful physical effects of smoking have been publicized for many years and, together with decreased social acceptance of smoking and increased pressure from anti-smoking groups, have had an ongoing adverse effect on sales of tobacco products, particularly in the United States. In addition, the major U.S. tobacco product manufacturers entered into agreements with states and various U.S. jurisdictions settling asserted and unasserted healthcare cost recovery and other claims. The settlements provide for billions of dollars in annual payments from those manufacturers and place numerous restrictions on their conduct of business, including restrictions on the advertising and marketing of cigarettes, which have reduced tobacco consumption and, therefore, demand for the Company's products and services in the United States. Significant decreases in consumption of tobacco products could have a material adverse effect on the Company's operating results. The European Union and other countries have also imposed limitations on the advertising of cigarettes. A significant decrease in global sales of tobacco products brought about by health concerns, decreased social acceptance, advertisement limitations, or other factors would reduce demand for the Company's products and services.

In fiscal year 2003, the weakness in the U.S. dollar in relation to the euro has benefited the lumber and building products sector, which uses the euro as its functional currency. Further changes in exchange rates will affect the translation of the euro earnings of the Company into U.S. dollars. In addition, a continued decline in construction activity in the Netherlands could negatively affect sales volumes and margins. Conversely, an increase of such activity could provide an opportunity for volume and margin expansion.

The Company, through its subsidiaries, is subject to the tax laws of many jurisdictions, and from time to time contests assessments of taxes due. Changes in tax laws or the interpretation of tax laws can affect the Company's earnings as can the resolution of various pending and contested tax issues. The consolidated income tax rate is affected by a number of factors, including but not limited to the mix of domestic and foreign earnings and investments, local tax rates of subsidiaries, repatriation of foreign earnings, and the Company's ability to utilize foreign tax credits.

In recent years, the Company's domestic income has been declining while foreign income has been increasing. If this trend continues and tax rates remain constant worldwide, the Company could be less able to utilize its foreign tax credits and the Company's consolidated income tax rate would increase.

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## FACTORS THAT MAY AFFECT FUTURE RESULTS

The foregoing discussion contains certain forward-looking statements, which may be identified by phrases such as “the Company expects” or “Management believes” or words of similar effect. In addition, the Company may publish, from time to time, forward-looking statements relating to such matters as anticipated financial performance, business prospects and similar matters. The following important factors, among other things, in some cases have affected, and in the future could affect, the Company’s actual results and could cause the Company’s actual results for a fiscal year and any interim period to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company. The Company assumes no duty to update any of the statements in this report.

### Operating Factors

*The leaf tobacco industry is highly competitive and Universal is heavily reliant on a few large customers.*

The Company is one of three major independent global competitors in the highly competitive leaf tobacco industry, all of whom are reliant upon a few large customers. The loss of one of those large customers or a significant decrease in their respective demand for the Company’s products or services could further increase competition and significantly decrease the Company’s sales of products or services, which would have a material adverse effect on Universal’s results of operations. The competition among leaf tobacco merchants is based on the ability to meet customer specifications in the buying, processing, and financing of tobacco, as well as the price charged for products and services. However, because Universal, like its competitors, relies upon a few significant customers, the consolidation or failure of any of these large or significant customers could contribute to a significant decrease in its sales of products and services.

*The Company’s financial results can be significantly affected by the changes in the balance of supply and demand for leaf tobacco or other agricultural products.*

Because Universal is a tobacco leaf merchant, its financial results can be significantly affected by changes in the overall balance of worldwide supply and demand for leaf tobacco. The demand for tobacco, which is based upon customers’ expectations of their future tobacco requirements, can change from time to time depending upon internal and external factors affecting the demand for their products. The Company’s customers’ expectations, and thus their demand for leaf tobacco, is influenced by a number of factors, including:

- trends in the global consumption of cigarettes, such as the growth or decline in popularity of American-blend cigarettes, and health concerns;
- trends in sales of cigars and other tobacco products; and
- levels of competition.

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The total supply of tobacco at any given time is a function of current tobacco production and the volumes of uncommitted stocks of processed tobacco from prior years' production. Production of tobacco in a given year may be significantly affected by such factors as:

- the amount of tobacco planted by farmers throughout the world,
- weather fluctuations, and
- crop disease.

Any significant change in these factors could cause a material imbalance in the supply and demand for tobacco, which would affect the Company's results of operations. Similar factors can affect results for its agri-products businesses.

*In areas where Universal purchases its leaf tobacco directly from farmers, the Company bears the risk that the tobacco it receives will not meet quality and quantity requirements.*

In a number of countries where Universal contracts directly with tobacco farmers, including Argentina, Brazil, Guatemala, Hungary, Italy, Mozambique, Mexico, Tanzania, the United States, and Zambia, the Company bears the risk that the tobacco delivered will not meet quality and quantity requirements. If the tobacco does not meet such market requirements, the Company may not be able to meet all of its customers' orders, which would have an adverse effect on its profitability and its results of operations. In U.S. markets, the high price of U.S. tobacco magnifies the risk of purchasing tobacco that does not meet those requirements. In addition, in many foreign countries, when Universal purchases tobacco directly from farmers, it provides them with financing. Unless the Company receives marketable tobacco that meets the quality and quantity specifications of its customers, it bears the risk that it will not be able to fully recover its crop advances or recover them in a reasonable period of time. The Company also has dark leaf tobacco growing operations in Indonesia and Brazil, where it has similar financing risks. Although the Company purchases a portion of its leaf tobacco through public auction, as well as privately-negotiated contract purchases, several countries where auction markets are used today may be moving toward direct purchasing, thus increasing the areas subject to this risk.

*Weather and other conditions can affect the marketability of the Company's products.*

Tobacco and many other agricultural crops that the Company buys, such as sunflower seeds and tea, are subject to vagaries of the weather and the environment that can, in some cases, change the quality or size of the crops. If a weather event is particularly severe, such as a major drought or hurricane, the affected crop could be destroyed or damaged to an extent that it would be less desirable to manufacturers, which would result in a reduction in revenues. If such an event is also widespread, it could affect the Company's ability to acquire the quantity of products required by its customers. In addition, other items can affect the marketability of tobacco and other agricultural products, including, among other things:

- the presence of foreign matter,
- genetically modified organisms, and
- excess residues of pesticides, fungicides, and herbicides.

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A significant event impacting the condition or quality of a large amount of any of the crops that Universal buys could make it difficult for the Company to sell these products or to fill customers' orders.

*Because the Company is heavily reliant on the home improvement and construction markets in the Netherlands to sell lumber and building products, a significant slowdown in those markets could have an adverse effect on its results of operations.*

The majority of the customers who purchase lumber and building products from Universal are located in the Netherlands. Therefore, a significant slowdown in the home improvement or construction market in the Netherlands could reduce demand for these products, which would have an adverse effect on the Company's results of operations.

#### **Regulatory and Governmental Factors**

*Government efforts to reduce tobacco consumption could have a significant impact on the businesses of Universal's customers, which would, in turn, affect the Company's results of operations.*

The U.S. federal government and certain state and local governments have taken or proposed actions that may have the effect of reducing U.S. consumption of tobacco products and indirectly reducing demand for the Company's products and services. These activities have included:

- the U.S. Environmental Protection Agency's decision to classify environmental tobacco smoke as a "Group A" (known human) carcinogen,
- restrictions on the use of tobacco products in public places and places of employment,
- proposals to have the U.S. Food and Drug Administration, or FDA, regulate nicotine as a drug and sharply restrict cigarette advertising and promotion,
- proposals to increase the federal and state excise taxes on cigarettes, and
- the policy of the U.S. government to link certain federal grants to the enforcement of state laws restricting the sale of tobacco products.

Numerous other legislative and regulatory anti-smoking measures have been proposed at the federal, state, and local levels. Excluding the effect of tobacco contained in cigarettes imported into the United States, the Company estimates that between 12% and 15% of the flue-cured and burley tobaccos that it handles worldwide is ultimately consumed in the United States. Universal's tobacco sales consist primarily of the flue-cured and burley tobaccos, which, along with oriental tobaccos, are the major ingredients in American-blend cigarettes. In addition, a number of foreign governments have also taken or proposed steps to restrict or prohibit cigarette advertising and promotion, to increase taxes on cigarettes, and to discourage cigarette consumption. A number of such measures are included in the recently adopted Framework Treaty on Tobacco Control, which was negotiated under the auspices of the World Health Organization. In some cases, such restrictions are more onerous than those proposed or in effect in the United States. The Company cannot predict the extent to which government efforts to reduce tobacco consumption might affect the business of its primary customers. However, a significant decrease in worldwide tobacco consumption brought about by existing or future governmental laws and

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regulations would reduce demand for the Company's products and services and could have a material adverse effect on its results of operations.

*Because Universal conducts a significant portion of its operations internationally, political uncertainties in certain countries could have an adverse effect on its performance and results of operations.*

The Company's international operations are subject to uncertainties and risks relating to the political stability of certain foreign governments, principally in developing countries and emerging markets, and to the effects of changes in the trade policies and economic regulations of foreign governments. These uncertainties and risks, which include, among other factors, undeveloped or antiquated commercial law and the expropriation or nationalization of assets, may adversely impact the Company's ability to effectively manage its operations in those countries. For example, in the past, Universal has experienced significant year-to-year fluctuations in earnings due to changes in the Brazilian government's economic policies, and government actions in Zimbabwe have reduced the tobacco crop there, causing the Company to shift sourcing of tobacco to other countries. Universal has substantial capital investments in South America and Africa, and the performance of its operations in these regions can materially affect its earnings from tobacco operations. If the political situation in any of the countries where the Company conducts business were to deteriorate significantly, the Company's ability to recover assets located there could be impaired. To the extent that Universal could not replace any lost volumes of tobacco with tobacco from other sources, or that the Company incurs increased costs related to such replacement, its results of operations would suffer.

#### **Financial Factors**

*Failure of Universal's customers or farmers to repay extensions of credit could materially impact the Company's results of operations.*

Universal extends credit to both farmers and its customers. A significant delay in payment or a significant bad debt provision related to amounts due to the Company could adversely affect its results of operations. In addition, crop advances to farmers are generally secured by the farmers' agreement to deliver green tobacco. In the event of crop failure, recovery of advances could be delayed until future crops are delivered.

*Failure of foreign banks in which Universal's subsidiaries deposit funds or the failure to transfer funds or honor withdrawals may affect its results of operations.*

Funds held by the Company's foreign subsidiaries are often deposited in their local banks. In certain circumstances, the Company's ability to gain access to these funds could be impaired, which could have a material adverse effect on Universal's results of operations. Banks in certain foreign jurisdictions may be subject to a higher rate of failure or may not honor withdrawals of deposited funds. In addition, the countries in which these local banks operate may lack sufficient regulatory oversight or suffer from structural weaknesses in the local banking system. Due to uncertainties and risks relating to the political stability of certain foreign governments, these local banks also may be subject to exchange controls and therefore unable to perform transfers of certain currencies.

*Fluctuations in foreign currency exchange rates and interest rates may affect Universal's results of operations.*

Although the international tobacco trade generally is conducted in U.S. dollars, thereby limiting foreign exchange risk to that which is related to production costs and overhead in the source country, the



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Company's purchases of tobacco are often made in local currency. As a result, changes in local currency can make a particular crop more or less attractive in the world market thereby affecting the profitability of such crop and Universal's results of operations. Because there is no forward foreign exchange market in many of the major countries where the Company sources tobacco, Universal manages its foreign exchange risk by matching funding for inventory purchases with the currency of sale and by minimizing its net investment in these countries. To the extent that the Company is not able to continue match funding, or otherwise hedge its exposure, the Company could have a disproportionate exposure to local currency in which the tobacco was purchased.

Certain of the Company's operations use their local currency as the functional currency. For example, the lumber and building products operations, which are based in the Netherlands, use the euro as their functional currency. In certain tobacco markets that are primarily domestic, the Company uses the local currency as the functional currency. Examples of these domestic markets are Hungary and Poland. In each case, reported earnings are affected by the translation of the local currency into the U.S. dollar. See also "Qualitative and Quantitative Disclosure About Market Risk."

In Universal's tobacco business, customers usually pre-finance purchases or pay market rates of interest for inventory purchased on order. Because of changes in financial markets, the Company, like many others, has moved away from short-term credit markets. The Company is borrowing more long-term debt, and, through hedging agreements, it is swapping the interest rates on its existing fixed-rate debt to floating market interest rates to better match the interest rates that the Company charges its customers. To the extent Universal is unable to match these interest rates, a decrease in interest rates could increase its net financing costs.

#### **Item 7A. Qualitative and Quantitative Disclosures About Market Risk**

##### **Interest Rates**

Interest rate risk is limited in the tobacco business because customers usually pre-finance purchases or pay market rates of interest for inventory purchased for their accounts.

The Company's tobacco customers pay interest on tobacco purchased for their order. That interest is paid at rates based on current markets for variable rate debt. If Universal funds its committed tobacco inventory with fixed-rate debt, the Company may not be able to recover interest at that fixed rate if current market interest rates fall. As of June 30, 2003, tobacco inventory of \$530 million included \$469 million in inventory that was committed for sale to customers and \$61 million that was not committed. Committed inventory, after deducting \$42.1 million in customer deposits, represents the Company's net exposure of \$427 million. To manage that interest rate risk, Universal maintains a substantial portion of its debt at variable interest rates either directly or through interest rate exchange agreements. Debt carried at variable interest rates either on its face or through derivative instruments was \$629 million, in order to substantially mitigate interest rate risk related to carrying fixed-rate debt. Of the \$629 million in variable-rate debt, \$123.5 million represented hedges of fixed-rate debt in which Universal receives fixed-rate payments and pays variable-rate payments based on LIBOR. Although a hypothetical 1% change in short-term interest rates would result in a change in annual interest expense of approximately \$6.3 million, about two-thirds of that amount could be offset with changes in charges to customers.

##### **Currency**

The international tobacco trade generally is conducted in U.S. dollars, thereby limiting foreign exchange risk to that which is related to production costs and overhead in the source country. Most of

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the operations are accounted for using the U.S. dollar as the functional currency. Because there is no forward foreign exchange market in many of Universal's major countries of tobacco origin, the Company manages its foreign exchange risk by matching funding for inventory purchases with the currency of sale, which is usually the U.S. dollar, and by minimizing its net investment in individual countries. In these countries, the Company is vulnerable to currency gains and losses to the extent that any local currency balances do not offset each other. The Company recognized a \$12.6 million exchange gain due to remeasurement in 2003, and recorded remeasurement losses of \$2.9 million and \$1.7 million in 2002 and 2001, respectively. The consolidated \$12.6 million gain in fiscal year 2003 included a \$20.2 million gain generated on remeasurement of local currency liabilities after export rates were adjusted in Africa. Recognized exchange losses in 2003, 2002, and 2001 resulting from foreign currency transactions were \$900 thousand, \$1.4 million, and \$1.7 million, respectively.

The lumber and building products operations, which are based in the Netherlands, use the euro as their functional currency. In certain tobacco markets that are primarily domestic, the Company uses the local currency as the functional currency. Examples of these domestic markets are Hungary and Poland. In each case, reported earnings are affected by the translation of the local currency into the U.S. dollar.

#### **Commodity**

Universal uses commodity futures in its rubber trading business to reduce the risk of price fluctuations. The Company does not enter into rubber contracts for trading purposes. All forward commodity contracts are adjusted to fair market value during the year, and gains and losses are recorded in income at that time. The amounts recorded during 2003, 2002, and 2001 were not material.

#### **Derivatives Policies**

Hedging interest rate exposure using swaps and hedging foreign exchange exposure using forward contracts are specifically contemplated to manage risk in keeping with management's policies. Universal may use derivative instruments, such as swaps, forwards, or futures, which are based directly or indirectly upon interest rates, currencies, and commodities, to manage and reduce the risks inherent in interest rate, currency, and price fluctuations.

The Company does not utilize derivatives for speculative purposes, and it does not enter into market risk-sensitive instruments for trading purposes. Derivatives are transaction specific so that a specific debt instrument, contract, or invoice determines the amount, maturity, and other specifics of the hedge. Counter party risk is limited to institutions with long-term debt ratings of A or better.

**Item 8. Financial Statements and Supplementary Data**

**UNIVERSAL CORPORATION**

**CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended June 30,		
	2003	2002	2001
	(in thousands, except per share data)		
Sales and other operating revenues	\$ 2,636,776	\$ 2,500,078	\$ 3,017,579
Costs and expenses			
Cost of goods sold	2,098,625	2,006,727	2,486,275
Selling, general and administrative expenses	297,335	292,844	283,777
Restructuring costs	33,001		8,745
Operating income	207,815	200,507	238,782
Equity in pretax earnings of unconsolidated affiliates	10,439	18,311	10,189
Interest expense	45,270	47,831	61,576
Income before income taxes and other items	172,984	170,987	187,395
Income taxes	53,094	59,821	66,336
Minority interests	9,296	4,504	8,390
Net income	\$ 110,594	\$ 106,662	\$ 112,669
Net income:			
Per common share	\$ 4.35	\$ 4.01	\$ 4.09
Per diluted common share	\$ 4.34	\$ 4.00	\$ 4.08
Basis for per-share calculations:			
Weighted average common shares outstanding	25,420	26,579	27,534
Dilutive effect of stock options	79	101	111
Average common shares outstanding, assuming dilution	25,499	26,680	27,645

See accompanying notes.

**UNIVERSAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	June 30,	
	2003	2002
	(in thousands of dollars)	
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 44,659	\$ 58,003
Accounts receivable	370,784	301,197
Advances to suppliers	115,928	53,684
Accounts receivable—unconsolidated affiliates	7,595	5,647
Inventories—at lower of cost or market:		
Tobacco	529,736	453,417
Lumber and building products	140,647	80,848
Agri-products	82,527	83,634
Other	30,377	32,103
Prepaid income taxes	12,375	6,297
Deferred income taxes	6,168	5,945
Other current assets	34,201	24,262
<b>Total current assets</b>	<b>1,374,997</b>	<b>1,105,037</b>
Property, plant and equipment—at cost		
Land	51,110	27,214
Buildings	303,916	252,831
Machinery and equipment	679,556	565,414
	1,034,582	845,459
Less accumulated depreciation	521,201	452,963
	513,381	392,496
Other assets		
Goodwill and other intangibles	132,903	125,269
Investments in unconsolidated affiliates	90,119	89,762
Deferred income taxes	45,466	45,346
Other noncurrent assets	86,208	86,505
	354,696	346,882
	<b>\$ 2,243,074</b>	<b>\$ 1,844,415</b>

See accompanying notes.

**UNIVERSAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	June 30,	
	2003	2002
	(in thousands of dollars)	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Notes payable and overdrafts	\$ 265,742	\$ 126,798
Accounts payable	361,058	288,741
Accounts payable—unconsolidated affiliates	2,073	10,153
Customer advances and deposits	42,093	83,528
Accrued compensation	31,959	24,444
Income taxes payable	20,969	15,353
Current portion of long-term obligations	100,387	124,414
<b>Total current liabilities</b>	<b>824,281</b>	<b>673,431</b>
Long-term obligations	614,994	435,592
Postretirement benefits other than pensions	40,305	38,666
Other long-term liabilities	96,522	63,791
Deferred income taxes	12,348	16,640
Minority interests	34,346	28,300
Shareholders' equity		
Preferred stock, no par value, authorized 5,000,000 shares, none issued or outstanding		
Common stock, no par value, authorized 100,000,000 shares, issued and outstanding 24,920,083 shares (26,224,954 at June 30, 2002)	90,665	90,157
Retained earnings	592,673	569,059
Accumulated other comprehensive income (loss)	(63,060)	(71,221)
<b>Total shareholders' equity</b>	<b>620,278</b>	<b>587,995</b>
	<b>\$ 2,243,074</b>	<b>\$ 1,844,415</b>

See accompanying notes.

UNIVERSAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended June 30,		
	2003	2002	2001
(in thousands of dollars)			
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 110,594	\$ 106,662	\$ 112,669
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	47,969	49,026	46,024
Amortization	5,535	5,961	10,375
Translation (gain) loss, net	(12,558)	2,930	1,665
Restructuring costs, net of cash paid	16,340		8,745
Deferred taxes	(11,901)	4,845	(5,393)
Minority interests	9,296	4,504	8,390
Equity in net income of unconsolidated affiliates	(5,847)	(11,829)	(6,815)
Other	(1,783)	3,022	(629)
Changes in operating assets and liabilities net:			
Accounts and notes receivable	(92,268)	37,226	25,981
Inventories and other assets	(85,958)	(80,552)	(16,054)
Income taxes	12	2,950	(6,260)
Accounts payable and other accrued liabilities	(24,284)	45,638	(17,502)
Net cash provided (used) by operating activities	(44,853)	170,383	161,196
<b>Cash Flows From Investing Activities:</b>			
Purchase of property, plant and equipment	(115,396)	(110,790)	(61,145)
Purchase of business, net of cash acquired	(71,865)	(13,348)	(13,163)
Sales of property, plant and equipment and other	11,133	3,907	14,946
Net cash used in investing activities	(176,128)	(120,231)	(59,362)
<b>Cash Flows From Financing Activities:</b>			
Issuance (repayment) of short-term debt, net	142,875	(64,469)	(163,509)
Repayment of long-term debt	(120,400)	(2,313)	(121,076)
Issuance of long-term debt	273,655	43,050	292,000
Dividends paid to minority shareholders	(3,654)	(4,612)	(3,723)
Issuance of common stock	3,923	7,482	17,364
Purchases of common stock	(54,607)	(45,681)	(40,673)
Dividends paid	(35,788)	(35,187)	(34,029)
Net cash provided (used) in financing activities	206,004	(101,730)	(53,646)
Effect of exchange rate changes on cash	1,633	(41)	(43)
Net decrease in cash and cash equivalents	(13,344)	(51,537)	(48,145)
Cash and cash equivalents at beginning of year	58,003	109,540	61,395
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 44,659</b>	<b>\$ 58,003</b>	<b>\$ 109,540</b>
Supplemental information—cash paid:			
Interest	\$ 45,808	\$ 49,059	\$ 59,803
Income taxes, net of refunds	\$ 62,589	\$ 53,521	\$ 72,887

See accompanying notes.

UNIVERSAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Years Ended June 30,					
	2003		2002		2001	
	(in thousands of dollars)					
<b>Common stock:</b>						
Balance at beginning of year	\$	90,157	\$	85,582	\$	66,274
Issuance of common stock and exercise of stock options		3,923		7,482		22,398
Purchase of common stock		(3,415)		(2,907)		(3,090)
Balance at end of year		<u>90,665</u>		<u>90,157</u>		<u>85,582</u>
<b>Retained earnings:</b>						
Beginning balance		569,059		540,546		499,490
Net income		110,594	\$ 110,594	106,662	\$ 106,662	112,669
Cash dividends declared (\$1.42 per share in 2003; \$1.34 in 2002; \$1.27 in 2001)		(35,788)		(35,375)		(34,029)
Cost of common shares retired in excess of stated capital amount		(51,192)		(42,774)		(37,584)
Balance at end of year		<u>592,673</u>		<u>569,059</u>		<u>540,546</u>
<b>Accumulated Comprehensive Income (Loss):</b>						
Beginning balance		(71,221)		(73,999)		(67,985)
Translation adjustments for the year, net of taxes		28,800	28,800	2,778	2,778	(6,014)
Minimum pension liability, net of taxes		(20,639)	(20,639)			
Total comprehensive income			\$ 118,755		\$ 109,440	
Balance at end of year		<u>(63,060)</u>		<u>(71,221)</u>		<u>(73,999)</u>
<b>Shareholders' Equity at End of Year</b>		<u>\$ 620,278</u>		<u>\$ 587,995</u>		<u>\$ 552,129</u>
<b>Common Shares Outstanding:</b>						
(in thousands of shares)						
Balance at beginning of year		26,225		27,185		28,148
Issuance of common stock and exercise of stock options		182		304		382
Purchase of common stock		(1,486)		(1,264)		(1,345)
Balance at end of year		<u>24,921</u>		<u>26,225</u>		<u>27,185</u>

See accompanying notes.

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**UNIVERSAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All dollar amounts are in thousands except per share amounts or as otherwise noted.)

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Consolidation**

The financial statements include the accounts of Universal Corporation (which together with its subsidiaries is referred to herein as “Universal” or the “Company”) and its domestic and foreign subsidiaries in which Universal has a voting interest of greater than 50%, such that Universal controls all significant corporate activities of the subsidiary. All significant intercompany accounts and transactions are eliminated in consolidation. In each less than wholly owned consolidated subsidiary, the subsidiary’s minority shareholders have no significant authority in ordinary business decisions. The fiscal years of foreign subsidiaries generally end March 31 or April 30 to facilitate timely reporting. The Company discloses or recognizes the financial impact from intervening events that materially affect its consolidated financial position or results of operations.

The equity method of accounting is used for investments in companies where Universal Corporation has a 20% to 50% voting interest. The investments are accounted for under the equity method because Universal exercises significant influence over those companies, but not control. Investments where Universal has a voting interest of less than 20% are not significant and are accounted for under the cost method. Under the cost method, the Company recognizes earnings upon its receipt of dividends.

**Investments in Unconsolidated Affiliates**

The Company’s equity method investments are non–marketable securities. Universal reviews such investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recovered. For example, the Company would test such an investment for impairment if the investee were to lose a significant customer, suffer a large reduction in sales margins, experience a change in its business environment, or undergo any other significant change in its normal business. In assessing the recoverability of equity method investments, the Company uses discounted cash flow models. If the fair value of an equity investee is determined to be lower than its carrying value, an impairment loss is recognized. The preparation of discounted future operating cash flow analysis requires significant management judgment with respect to operating earnings growth rates and the selection of an appropriate discount rate. The use of different assumptions could increase or decrease estimated future operating cash flows and therefore could increase or decrease any impairment charge.

**Net Income per Share and Share Purchase**

The Company calculates earnings per share in accordance with Statement of Financial Accounting Standards No. 128, “Earnings per Share.” The Company uses the weighted average number of common shares outstanding during each period to compute basic earnings per common share. Diluted earnings per share is computed using the weighted average number of common shares and dilutive potential



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**UNIVERSAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

common shares outstanding. Dilutive potential common shares are outstanding dilutive stock options that are assumed to be exercised.

Since May 1998, the Board of Directors of the Company has approved \$450 million in stock purchase programs. These programs will expire on June 30, 2004. The Company had purchased an aggregate of 12,078,292 shares at a total cost of \$353 million by June 30, 2003, and 10,595,829 shares at a cost of about \$298 million by June 30, 2002.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

**Advances to Suppliers**

The Company provides agronomy services and crop advances of, or for, seed, fertilizer, and other supplies. These advances are short term in nature and are repaid upon delivery of tobacco to the Company.

**Inventories**

Inventories of tobacco and agri-products are valued at the lower of cost or market with cost determined under the specific cost method. In the tobacco and agri-product businesses, raw materials are clearly identified at the time of purchase. The Company tracks the costs associated with raw materials in the final product lots, and maintains this identification through the time of sale. The Company also capitalizes direct and indirect costs related to processing raw materials. This method of cost accounting is referred to as the specific cost or specific identification method. Lumber and building products inventory is valued at the lower of cost or market, with cost determined under the first-in, first-out ("FIFO") method. All other inventories are valued principally at the lower of average cost or market. Inventory valuation allowances for damaged or slow-moving items were \$14 million and \$12 million at June 30, 2003, and June 30, 2002, respectively.

The predominant cost components of the Company's inventories are the costs of unprocessed tobacco, tea, seeds, and nuts, as well as hardwood and softwood lumber. Direct and indirect processing costs related to these raw materials are capitalized and allocated to inventory in a systematic manner. The Company does not capitalize any interest or sales-related costs in inventory.

**Property, Plant and Equipment**

Depreciation of plant and equipment is based upon historical cost and the estimated useful lives of the assets. Depreciation is calculated using the straight-line method. Buildings include tobacco and agri-product processing and blending facilities, lumber outlets, offices, and warehouses. Machinery and equipment represent processing and packing machinery and transportation, office, and computer equipment. Estimated useful lives range as follows: buildings—15 to 40 years; processing and packing

## UNIVERSAL CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

machinery—3 to 11 years; transportation equipment—3 to 10 years; and office and computer equipment—3 to 10 years. The Company capitalized approximately \$2 million in interest in fiscal year 2003 and approximately \$600 thousand in interest last year on the construction of the Nash facility.

#### Goodwill and Other Intangibles

Goodwill and other intangibles include principally the excess of the purchase price of acquired companies over the net assets. The Company did not record any charges for impairment of goodwill in fiscal years 2003, 2002, and 2001. The Company uses discounted cash flow models to assess recoverability of goodwill. The preparation of discounted future operating cash flow analyses requires significant management judgment with respect to operating earnings growth rates, and the selection of an appropriate discount rate. The use of different assumptions would increase or decrease estimated future operating cash flows and could increase or decrease an impairment charge. With the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," goodwill amortization was zero in fiscal years 2003 and 2002 and \$4.2 million in fiscal year 2001.

#### Income Taxes

The Company provides deferred income taxes on temporary differences between the book and tax basis of its assets and liabilities. Those differences arise principally from employee benefit accruals, depreciation, deferred compensation, undistributed earnings of unconsolidated affiliates, and undistributed earnings of foreign subsidiaries not permanently reinvested. At June 30, 2003, the cumulative amount of permanently reinvested earnings of foreign subsidiaries, on which no provision for U.S. income taxes had been made, was \$133 million.

#### Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of :

	Years Ended June 30,		
	2003	2002	2001
Translation adjustment	\$ (65,263)	\$ (109,571)	\$ (113,845)
Allocated income taxes	22,842	38,350	39,846
Minimum pension liability	(31,753)		
Allocated income taxes	11,114		
Total accumulated other comprehensive income (loss)	\$ (63,060)	\$ (71,221)	\$ (73,999)

#### Fair Values of Financial Instruments

The fair values of the Company's long-term obligations have been estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of all other assets and liabilities that qualify as financial instruments approximates fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**Derivative Financial Instruments**

The Company recognizes all derivatives on the balance sheet at fair value. The Company uses interest rate swaps and forward foreign exchange contracts to minimize interest rate and foreign currency risk. The Company enters into such contracts only with financial institutions of good standing, and the total credit exposure related to non-performance by those institutions is not material to the operations of the Company. All interest rate swaps are accounted for as fair value hedges. The average remaining life on the Company's interest rate swaps approximated 4.6 years at June 30, 2003. A \$7.5 million deferred gain on the termination of certain interest rate swaps was recorded in fiscal year 2002. The gain is being amortized to interest expense over the life of the debt instrument that was hedged. No material gain or loss was recorded during fiscal year 2003 from hedge ineffectiveness. In addition, the Company uses commodity futures in its rubber business to reduce the risk of price fluctuations. The Company does not enter into contracts for trading purposes. All forward foreign exchange contracts and forward commodity contracts are adjusted to fair market value during the year.

**Translation of Foreign Currencies**

The financial statements of foreign subsidiaries, for which the local currency is the functional currency, are translated into U.S. dollars using exchange rates in effect at period end for assets and liabilities and average exchange rates during each reporting period for results of operations. Adjustments resulting from translation of financial statements are reflected as a separate component of comprehensive income.

The financial statements of foreign subsidiaries, for which the U.S. dollar is the functional currency and which have certain transactions denominated in a local currency, are remeasured into U.S. dollars. The remeasurement of local currencies into U.S. dollars creates remeasurement adjustments that are included in net income. The Company recognized a \$12.6 million exchange gain due to remeasurement in 2003, and recorded remeasurement losses of \$2.9 million and \$1.7 million in 2002 and 2001, respectively. The consolidated \$12.6 million gain in fiscal year 2003 included a \$20.2 million gain generated on remeasurement of local currency liabilities after export rates were adjusted in Africa. Recognized exchange losses in 2003, 2002, and 2001 resulting from foreign currency transactions were \$900 thousand, \$1.4 million, and \$1.7 million, respectively.

The Company operates in the following highly inflationary economies: Malawi, Mozambique, Turkey (through an equity investment), Zambia, and Zimbabwe. The Company uses the U.S. dollar as the functional currency for subsidiaries located in such economies, and remeasures the results of these subsidiaries.

**Revenue Recognition**

Revenue is recognized when title and risk of loss are passed to the customer, and the earnings process is complete. The majority of the revenue recognized in the tobacco, lumber and building products, and agri-products segments is based on the physical transfer of products to customers. The

**UNIVERSAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

products delivered to customers can be readily inspected and approved for acceptance. Universal also processes tobacco owned by its customers, and revenue is recognized when the processing is completed.

**Stock-Based Compensation**

During the third quarter of fiscal year 2003, the Company adopted Financial Accounting Standards No. 148 “Accounting for Stock-Based Compensation – Transition and Disclosure” (“Statement No. 148”). This statement was an amendment to Statement of Financial Accounting Standards No. 123 “Accounting for Stock-Based Compensation” (“Statement No. 123”). As permitted under Statement No. 123, the Company applies the Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” and as required under Statement No. 148 discloses the pro forma net income and basic and diluted earnings per share as if the fair value based method had been applied to all awards. The disclosure is as follows:

	Years Ended June 30,		
	2003	2002	2001
Net income	\$ 110,594	\$ 106,662	\$ 112,669
Stock-based employee compensation cost, net of tax effect, under fair value method	6,639	713	1,125
Pro forma net income under fair value method	\$ 103,955	\$ 105,949	\$ 111,544
Earnings per share – basic	\$ 4.35	\$ 4.01	\$ 4.09
Per share stock-based employee compensation cost, net of tax effect, under fair value method	0.26	0.03	0.04
Pro forma earnings per share – basic	\$ 4.09	\$ 3.98	\$ 4.05
Earnings per share – diluted	\$ 4.34	\$ 4.00	\$ 4.08
Per share stock-based employee compensation cost, net of tax effect, under fair value method	0.26	0.03	0.04
Pro forma earnings per share – diluted	\$ 4.08	\$ 3.97	\$ 4.04

The Black-Scholes option valuation model was used to estimate the fair value of the options granted in the periods ending June 30, 2003, 2002, and 2001. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options that have no vesting restrictions and that are fully transferable. For example, the expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the options granted. The Company’s stock-based employee compensation plans have characteristics that differ from traded options. In management’s opinion, such valuation models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

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**UNIVERSAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Principal assumptions used in applying the Black–Scholes model along with the results from the model were as follows:

	Years Ended June 30,		
	2003	2002	2001
<b>Assumptions:</b>			
Risk-free interest rate	2.71%	2.53%	4.05%
Expected life, in years	4.64	1.79	1.37
Expected volatility	.306	.310	.315
Expected dividend yield	3.71%	3.59%	3.30%
<b>Results:</b>			
Fair value per share of options granted	\$ 7.03	\$ 5.13	\$ 4.89

**Estimates and Assumptions**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Accounting Pronouncements**

In the third quarter of fiscal year 2003, the Company adopted Financial Accounting Standards Board Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("Interpretation No. 45"). The interpretation addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. In addition, it clarifies the requirements related to the recognition of a liability by a guarantor at the inception of a guarantee for the obligations the guarantor has undertaken in issuing that guarantee. The adoption of Interpretation No. 45 did not have a material impact on the Company's financial statements. The disclosure requirements of Interpretation No. 45 are presented in Note 9 of "Notes to Consolidated Financial Statements."

In the third quarter of fiscal year 2003, the Company also adopted Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("Statement No. 148"). This statement amended Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("Statement No. 123"). As permitted under Statement No. 123, the Company continues to apply the Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under Statement No. 148, the Company is required to report pro forma net income and basic and diluted earnings per share each quarter as if the fair value-based method had been applied to all awards. See Note 8 of "Notes to Consolidated Financial Statements."

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("Interpretation No. 46"). The interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Interpretation No. 46 requires that if a business enterprise has a

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**UNIVERSAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

controlling financial interest in a variable interest entity, the assets, liabilities and results of the activities of the variable interest entity should be included in the consolidated financial statements of the business enterprise. The provisions of Interpretation No. 46 were effective beginning in the Company's third quarter of fiscal year 2003. The adoption of Interpretation No. 46 did not have a material impact on the Company's financial statements.

**Reclassifications**

Certain amounts in prior years' statements have been reclassified to be reported on a consistent basis with the current year's presentation.

**NOTE 2. RESTRUCTURING**

In June 2001, the Company adopted restructuring plans for its U.S. and Polish tobacco operations. In the United States, direct contracting with farmers has caused the Company to restructure its leaf purchasing operations, necessitating a reduction in personnel. The restructuring charge included approximately \$3.9 million of severance costs related to 66 employees in purchasing, sales, and administrative support departments. In Poland, due to declining domestic tobacco production, the Company closed one of its two processing plants, resulting in a \$4.4 million restructuring charge. The restructuring charge included approximately \$1.1 million of severance costs for 136 production personnel and agronomists and a \$3.3 million fixed asset impairment charge.

During 2003, the Company recognized approximately \$33 million in restructuring charges, of which \$12.5 million resulted from the reduction of operations in Zimbabwe due to the decline in crops there. The Zimbabwe restructuring plan affected 268 salaried employees in production, sales, and administration. All employees under this plan were paid by June 30, 2003. The remaining \$20.5 million represented costs of rationalizing U.S. operations. In the United States, the Company incurred \$15.5 million in restructuring costs associated with severance costs for 98 salaried employees and 941 hourly employees. The salaried employees were from the U.S. tobacco operation and the U.S. headquarters. The severance portion of the program will be paid over a period not to exceed two years. The 941 hourly employees were production employees with the tobacco processing operation. The U.S. operations also incurred a \$5 million impairment charge on buildings and equipment associated with the closure of two redundant processing facilities. A summary of the restructuring charges in fiscal year 2003 is as follows:

	<b>Fiscal Year 2003</b>
Severance costs in Zimbabwe	\$ 12,500
Severance costs in the United States	15,481
<b>Total severance costs</b>	<b>27,981</b>
Impairment charges in the United States	5,020
<b>Total restructuring costs</b>	<b>\$ 33,001</b>

UNIVERSAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Changes in severance liabilities are described below:

	Years Ended June 30,	
	2003	2002
<b>Severance Liabilities</b>		
Balance as of June 30	\$ 2,079	\$ 7,099
Severance cost in restructuring charges	27,981	
Payments	(16,661)	(5,020)
Balance as of June 30	\$ 13,399	\$ 2,079

NOTE 3. INCOME TAXES

Income taxes consist of the following:

	Years Ended June 30,		
	2003	2002	2001
<b>Current</b>			
United States	\$ (2,878)	\$ (8,745)	\$ (14,165)
State and local	806	705	994
Foreign	64,864	72,228	85,140
	\$ 62,792	\$ 64,188	\$ 71,969
<b>Deferred</b>			
United States	\$ (14,486)	\$ (9,416)	\$ 1,567
State and local	(57)	264	722
Foreign	4,845	4,785	(7,922)
	(9,698)	(4,367)	(5,633)
<b>Total</b>	\$ 53,094	\$ 59,821	\$ 66,336

A reconciliation of the statutory U.S. federal rate to the effective income tax rate is as follows:

	Years Ended June 30,		
	2003	2002	2001
Statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	0.3	0.4	0.6
Impact of permanently reinvested earnings	(5.0)		(0.4)
Income taxed at other than the U.S. rate	0.4	(0.4)	0.2
Effective income tax rate	30.7%	35.0%	35.4%

UNIVERSAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Significant components of deferred tax liabilities and assets were as follows:

	At June 30,	
	2003	2002
<b>Liabilities</b>		
Undistributed earnings	\$20,074	\$11,595
Tax over book depreciation	14,093	10,599
Goodwill	19,719	15,597
All other	6,104	8,690
<b>Total deferred tax liabilities</b>	<b>\$59,990</b>	<b>\$46,481</b>
<b>Assets</b>		
Employee benefit plans	\$30,078	\$24,948
Foreign currency translation	12,125	32,102
Minimum pension liability	11,114	
Deferred compensation	8,541	10,655
Tax credits	39,232	15,677
All other	8,218	4,370
Valuation allowance	(9,991)	(7,053)
<b>Total deferred tax assets</b>	<b>\$99,317</b>	<b>\$80,699</b>

The components of income before income taxes and other items consist of the following:

	Years Ended June 30,		
	2003	2002	2001
United States	\$ (72,121)	\$ (56,361)	\$ (35,310)
Foreign	245,105	227,348	222,705
<b>Total</b>	<b>\$172,984</b>	<b>\$170,987</b>	<b>\$187,395</b>

The Company has approximately \$31 million in foreign tax credit carryforwards. If not utilized earlier, credits of \$7 million will expire in fiscal year 2004, and \$24 million will expire in fiscal year 2008.

**NOTE 4. SHORT-TERM CREDIT FACILITIES**

The Company maintains lines of credit in the United States and in a number of foreign countries. Foreign borrowings are generally in the form of overdraft facilities at rates competitive in the countries in which the Company operates. Generally, each foreign line is available only for borrowings related to operations of a specific country.

At June 30, 2003, unused, uncommitted lines of credit were approximately \$670 million. The weighted average interest rate on short-term borrowings outstanding as of June 30, 2003 and 2002, was approximately 2.8% and 4.5%, respectively.



UNIVERSAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 5. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

	At June 30,	
	2003	2002
6.5% notes due February 2006	\$ 100,000	\$ 100,000
8.5% notes due February 2003		120,000
Term loan due April 2006	125,000	
Medium-term notes due from 2003 to 2012 at various rates	400,000	300,500
Secured loans due December 2007	83,705	34,550
Other	6,676	4,956
	<u>715,381</u>	<u>560,006</u>
Less current portion	(100,387)	(124,414)
Long-term obligations	<u>\$ 614,994</u>	<u>\$ 435,592</u>

The fair value of the Company's long-term obligations was approximately \$665 million at June 30, 2003, and \$469 million at June 30, 2002. Certain notes are denominated in local currencies of foreign subsidiaries.

On April 7, 2003, the Company entered into new bank facilities totaling \$375 million. The facilities replaced those totaling \$295 million, which the Company terminated on that date. Of the new facilities, \$125 million represents a term loan that will mature on April 7, 2006. The Company received proceeds of that loan on April 10, 2003, and used them to reduce short-term notes payable. The remaining \$250 million is a revolving credit facility that also matures April 7, 2006. The latter facility is intended to support short-term borrowings, including the issuance of commercial paper.

On December 28, 2001, one of the Company's subsidiaries entered into a secured, multi-draw, \$75 million term loan facility. This financing was put in place to fund the construction of the new factory in Nash County, North Carolina, and the upgrade of an existing plant in Danville, Virginia. The facility is guaranteed by the Company and is secured by assets of the projects. It matures on December 28, 2007, and under certain conditions, which include minimum credit ratings, earnings levels, and the absence of default, the subsidiary can exercise an extension option for an additional four years. The Company had borrowed over \$72 million under the loan facility as of June 30, 2003. On December 26, 2002, one of the Company's subsidiaries entered into a secured \$12 million term loan. Universal guaranteed the loan, and it is secured by an aircraft. It matures on December 31, 2007, and under certain conditions, which include minimum credit ratings, earnings levels, and the absence of default, the Company's subsidiary can exercise an extension option for an additional four years. The proceeds of these financings were used for general corporate purposes.

By December 31, 2002, the Company completed the sale of all securities registered pursuant to a \$400 million shelf registration filed in 2000. All the securities were issued as medium-term notes. The \$400 million in medium-term notes issued have maturity dates from October 2003 to September 2012. The notes were issued with both fixed and variable interest rates. At June 30, 2003, interest rates on the notes issued ranged from 2.63% to 8.5%. At June 30, 2003, the Company had outstanding interest rate swap agreements on \$123.5 million of long-term debt that effectively adjust interest rates from fixed to

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**UNIVERSAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

variable, based on the LIBOR rate. These swaps were accounted for as fair value hedges. The estimated fair value of the swap agreements was about \$6 million at June 30, 2003.

Under certain of its credit facilities, the Company must meet financial covenants relating to minimum tangible net worth, minimum working capital, and maximum levels of long-term debt. The Company was in compliance with all such covenants at June 30, 2003 and 2002.

Maturities of long-term debt for the fiscal years succeeding June 30, 2003, are as follows: 2004—\$100,387; 2005—\$55,716; 2006—\$166,230; 2007—\$64,297; 2008—\$177,469; and 2009 and after—\$151,282.

**NOTE 6. PENSION PLANS AND POSTRETIREMENT BENEFITS**

The Company has several defined benefit pension plans covering U.S. and foreign salaried employees and certain other employee groups. These plans provide retirement benefits based primarily on employee compensation and years of service. Domestic and foreign plan assets consist primarily of fixed income securities and equity investments. Prior service costs are amortized equally over the average remaining service period of employees.

The Company provides postretirement health and life insurance benefits for eligible U.S. employees attaining specific age and service levels. The health benefits are funded by the Company as the costs of the benefits are incurred and contain cost-sharing features such as deductibles and coinsurance. The Company funds the life insurance benefits with deposits to a reserve account held by an insurance company. The Company reserves the right to amend or discontinue these benefits at any time.

UNIVERSAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Assumptions used for financial reporting purposes to compute net periodic benefit income or cost and benefit obligations, as well as the components of net periodic benefit income or cost are as follows:

	Foreign Pension Benefits (April 30 Measurement Date)			Domestic Pension Benefits (March 31 Measurement Date)			Other Postretirement Benefits (March 31 Measurement Date)		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
<b>Assumptions:</b>									
Discount rate, end of year	5.00%	5.00%	5.00%	6.25%	7.00%	7.00%	6.25%	7.00%	7.00%
Rate of compensation increases, end of year	3.00%	3.00%	3.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Expected long-term return on plan assets, end of year	5.00%	5.00%	5.00%	8.00%	8.50%	8.75%	4.30%	4.30%	4.30%
Rate of increase in per-capita cost of covered health care benefits							11.50%	8.00%	8.50%
<b>Components of net periodic benefits — cost (income):</b>									
Service cost	\$ 2,112	\$ 3,448	\$ 3,174	\$ 4,962	\$ 5,377	\$ 4,656	\$ 1,034	\$ 771	\$ 893
Interest cost	5,284	5,740	5,325	11,956	11,664	10,575	3,456	2,807	2,832
Expected return on plan assets	(4,818)	(3,549)	(4,816)	(11,231)	(11,120)	(10,509)	(181)	(189)	(181)
Settlement/curtailment cost	987			158			3,766		
Net amortization and deferral	(251)	(1,066)	(1,669)	2,676	8,406	7,253	217	(704)	(3,059)
Net periodic benefit cost	\$ 3,314	\$ 4,573	\$ 2,014	\$ 8,521	\$ 14,327	\$ 11,975	\$ 8,292	\$ 2,685	\$ 485

UNIVERSAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table reconciles the changes in benefit obligations and plan assets in 2003 and 2002, and the funded status to prepaid or accrued cost at June 30, 2003 and 2002:

	Foreign Pension Benefits (April 30 Measurement Date)		Domestic Pension Benefits (March 31 Measurement Date)		Other Postretirement Benefits (March 31 Measurement Date)	
	2003	2002	2003	2002	2003	2002
<b>Change in projected benefit obligation:</b>						
Benefit obligation, beginning of year	\$ 116,958	\$ 108,644	\$ 174,900	\$ 159,651	\$ 51,216	\$ 41,614
Service cost	2,112	3,448	4,962	5,377	1,034	771
Interest cost	5,284	5,740	11,956	11,664	3,456	2,807
Effect of discount rate change			14,221		3,975	
Foreign currency exchange rate changes	21,400	1,340				
Purchase of business	7,934					
Curtailement	(11,797)		(70)		3,766	
Settlement	(10,710)		(382)			
Other	1,693	1,930	2,134	7,457	188	9,303
Benefits paid	(8,959)	(4,144)	(23,970)	(9,249)	(2,957)	(3,279)
Projected benefit obligation, end of year	\$ 123,915	\$ 116,958	\$ 183,751	\$ 174,900	\$ 60,678	\$ 51,216
<b>Change in plan assets:</b>						
Plan assets at fair value, beginning of year	\$ 98,642	\$ 96,096	\$ 128,050	\$ 126,321	\$ 5,030	\$ 5,067
Actual return on plan assets	3,428	2,759	(16,693)	9,481	224	143
Employer contributions	6,645	2,833	16,932	1,497	2,133	3,099
Purchase of business	6,562					
Settlements	(14,626)		(382)			
Foreign currency exchange rate changes	18,083	1,098				
Benefits paid	(8,959)	(4,144)	(23,970)	(9,249)	(2,957)	(3,279)
Plan assets at fair value, end of year	\$ 109,775	\$ 98,642	\$ 103,937	\$ 128,050	\$ 4,430	\$ 5,030
<b>Reconciliation of prepaid (accrued) cost:</b>						
Funded status of the plans	\$ (14,140)	\$ (18,316)	\$ (79,814)	\$ (46,850)	\$ (56,248)	\$ (46,186)
Contributions after measurement date	211		4,245	287	754	
Unrecognized net transition (asset) obligation	(461)	(871)		576		
Unrecognized prior service cost	(43)		1,898	2,312	(325)	(94)
Unrecognized gain on plan amendment		(39)				
Unrecognized net (gain) loss	10,442	13,825	60,040	17,729	11,748	7,614
Additional minimum liability	(503)	(655)	(33,148)			
Prepaid (accrued) cost, end of year	\$ (4,494)	\$ (6,056)	\$ (46,779)	\$ (25,946)	\$ (44,071)	\$ (38,666)

Prepaid pension costs of \$8.9 million and \$8.7 million at June 30, 2003 and 2002 are included in other noncurrent assets; accrued pension costs of \$60.2 million and \$40.7 million were included in long-term liabilities at June 30, 2003 and 2002.

UNIVERSAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In the first quarter of fiscal year 2003, the Company's lumber and building products subsidiary in the Netherlands joined a multi-employer industry pension fund. This change reduced the projected benefit obligation and fair value of assets by \$22.5 million and \$14.6 million, respectively, and resulted in a settlement charge during fiscal year 2003 of \$1.0 million. Lump-sum payments required by the non-qualified domestic pension plan, which is not funded, caused an increase in contributions to cover benefits paid in fiscal year 2003.

As a result of the decrease in the discount rate used to value the pension liability and losses on plan assets caused by the downturn in worldwide equity markets, an increase to the additional minimum pension liability resulted in a \$33.1 million pre-tax or \$20.6 million after-tax reduction of accumulated other comprehensive income during fiscal year 2003. The rate of increase in per-capita cost of covered healthcare benefits is assumed to decrease gradually from 11.5% in 2003 to 6.0% for fiscal year 2014.

A one-percentage-point increase in the assumed health care cost trend would increase the June 30, 2003, accumulated benefit obligation by approximately \$2.3 million and the aggregate of the service and interest cost components of the net periodic postretirement benefit expense for the 2004 fiscal year by approximately \$148 thousand. A one-percentage-point decrease in the assumed health care cost trend would decrease the June 30, 2003, accumulated benefit obligation by approximately \$2.0 million and the aggregate of the service and interest cost components of the net periodic postretirement benefit expense for the 2004 fiscal year by approximately \$127 thousand.

Amounts included in the preceding table that are applicable to the Company's pension plans with accumulated benefit obligations in excess of plan assets are as follows:

	At June 30,	
	2003	2002
<b>Foreign</b>		
Projected benefit obligation	\$ 32,088	\$11,081
Accumulated benefit obligation	29,087	10,322
Fair value of plan assets	17,526	1,612
<b>Domestic</b>		
Projected benefit obligation	\$183,751	\$45,657
Accumulated benefit obligation	153,302	34,744
Fair value of plan assets	103,937	3,518

In fiscal year 2002, some of the Company's domestic pension plans were not included in the above table because plan assets exceeded accumulated benefit obligations in some of the plans. However, in fiscal year 2003, all domestic pension plans are included in the preceding table. Losses on plan assets of approximately \$17 million and increases in the accumulated benefit obligations of about \$14 million, due to a decline in the discount rate assumption, resulted in the accumulated benefit obligations exceeding the plan assets in each of the Company's domestic pension plans.

Universal and several U.S. subsidiaries offer an employer-matched stock purchase plan. Amounts charged to expense for this defined contribution plan were \$1.3 million, \$1.3 million, and \$1.2 million for 2003, 2002, and 2001, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**NOTE 7. SHARE PURCHASE RIGHTS PLAN**

In 1999, the Company distributed, as a dividend, one preferred share purchase right for each outstanding share of common stock. Each right entitles the shareholder to purchase 1/200 of a share of Series A Junior Participating Preferred Stock (“Preferred Stock”) at an exercise price of \$110, subject to adjustment. The rights will become exercisable only if a person or group acquires or announces a tender offer for 15% or more of the Company’s outstanding shares of common stock. Under certain circumstances, the Board of Directors may reduce this threshold percentage to not less than 10%. If a person or group acquires the threshold percentage of common stock, each right will entitle the holder, other than the acquiring party, to buy shares of common stock or Preferred Stock having a market value of twice the exercise price. If the Company is acquired in a merger or other business combination, each right will entitle the holder, other than the acquiring person, to purchase securities of the surviving company having a market value equal to twice the exercise price of the rights. Following the acquisition by any person of more than the threshold percentage of the Company’s outstanding common stock but less than 50% of such shares, the Company may exchange one share of common stock or 1/200 of a share of Preferred Stock for each right (other than rights held by such person). Until the rights become exercisable, they may be redeemed by the Company at a price of one cent per right. The rights expire on February 13, 2009.

**NOTE 8. EXECUTIVE STOCK PLANS**

The Company’s 1989 Executive Stock Plan by its terms expired on June 30, 1998, and was replaced by the Company’s 1997 Executive Stock Plan, and the 2002 Executive Stock Plan was approved by shareholders in the second quarter of fiscal year 2003 (together, the “Plans”). Under the Plans, officers, directors, and employees of the Company and its subsidiaries may receive grants and awards of common stock, restricted stock, incentive stock options, non-qualified stock options, and reload options. Reload options allow a participant to exercise an option and receive new options by exchanging previously acquired common stock for the shares received from the exercise. One new option may be granted for each share exchanged with an exercise price equivalent to the market price at the date of exchange. Accordingly, the issuance of reload options does not result in a greater number of shares potentially outstanding than that contemplated in the grant of the original option. Up to 2 million shares of the Company’s common stock may be issued under each of the Plans. However, under the 2002 Executive Stock Plan only 500,000 shares of restricted stock may be awarded. Pursuant to the Plans, non-qualified and reload options have been granted to executives and key employees at an option price equal to the fair market value of a share of common stock on the date of grant.

Options granted under the Company’s Plans generally become exercisable either one to three years or six months after the date of grant. Options that become exercisable six months after the date of grant qualify for reload options, which are also exercisable six months after the date of grant. Most options expire ten years after the date of grant.

UNIVERSAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A summary of the Company's stock option activity and related information for the fiscal years ended June 30 follows:

	Years Ended June 30,					
	2003		2002		2001	
	Shares	Average Exercise Price	Shares	Average Exercise Price	Shares	Average Exercise Price
Outstanding, beginning of year	1,637,677	\$ 36.92	2,033,408	\$ 33.95	2,674,499	\$ 31.83
Granted	1,625,713	37.09	826,111	37.80	373,818	33.85
Exercised	(521,094)	34.58	(1,221,842)	32.58	(1,014,909)	28.33
Outstanding, end of year	2,742,296	37.46	1,637,677	36.92	2,033,408	33.95
Exercisable	1,860,041	37.07	1,113,930	36.89	1,673,506	34.89
Available for grant	992,624		222,438		135,670	

The following table summarizes information concerning currently outstanding and exercisable options as of June 30, 2003:

	Range of Exercise Prices, per Share		
	\$20-\$30	\$30-\$40	\$40-\$50
<b>For options outstanding:</b>			
Number outstanding	134,053	2,196,643	411,600
Weighted average remaining contractual life	6.14	7.19	7.76
Weighted average exercise price, per share	\$ 24.74	\$ 37.34	\$ 42.25
<b>For options exercisable:</b>			
Number exercisable	134,053	1,636,309	89,679
Weighted average exercise price, per share	\$ 24.74	\$ 37.91	\$ 40.19

Certain potentially dilutive securities outstanding at June 30, 2003, 2002, and 2001, were not included in the computation of earnings per diluted share since their exercise prices were greater than the average market price of the common shares during the period, and accordingly, their effect is antidilutive. These shares totaled 322 thousand at a weighted-average exercise price of \$42.82 per share for 2003; 1.37 million shares at a weighted-average exercise price of \$38.80 per share in 2002; and 116 thousand shares at a weighted-average exercise price of \$40.19 per share in 2001.

**NOTE 9. COMMITMENTS AND OTHER MATTERS**

A material part of the Company's tobacco business is dependent upon a few customers. For the years ended June 30, 2003, 2002, and 2001, revenue from subsidiaries and affiliates of Altria Group, Inc. was approximately \$500 million, \$400 million, and \$900 million, respectively. Beginning with the U.S. burley crop in fiscal year 2001, followed by both the U.S. flue-cured and burley crops in fiscal year 2002, Philip Morris made purchases directly from growers under contract arrangements rather than through leaf merchants like Universal. This change was the primary cause of the decline in revenue, and it did not have a commensurate effect on operating income because the Company continued to process its normal share of the crops for this customer. For the years ended June 30, 2003 and 2002, another customer accounted for revenue of approximately \$300 million. The loss of, or substantial reduction in business from, either of these customers would have a material adverse effect on the Company.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The Company has adopted Financial Accounting Standards Board Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“Interpretation No. 45”). The adoption of Interpretation No. 45 did not have a material impact on the Company’s financial statements. Guarantees of bank loans to growers for crop financing and construction of curing barns or other tobacco producing assets are industry practice in Brazil and support the farmers’ production of tobacco there. At June 30, 2003, total exposure under subsidiaries’ guarantees issued for banking facilities of Brazilian farmers was approximately \$52.6 million. About 40% of these guarantees expire within one year, and the remainder expire within five years. The Company withholds payments due to the farmers on delivery of tobacco and forwards those payments to the third-party bank. Failure of farmers to deliver sufficient quantities of tobacco to the Company to cover their obligations to third-party banks could result in a liability for the Company; however, in that case, the Company would have recourse against the farmers. The fair value of guarantees issued or last modified after December 31, 2002, was not material. The maximum potential amount of future payments that the Company’s subsidiary could be required to make is the face amount, \$52.6 million, and any unpaid accrued interest. Other contingent liabilities totaled approximately \$15.5 million and included value-added tax payments that would be required if subsidiaries fail to export tobacco. They also included bid and performance bonds. The Company considers the possibility of a material loss on any of the guarantees and other contingencies to be remote, and the accrual recorded for exposure under them was not material at June 30, 2003.

If the political situation in Zimbabwe were to deteriorate significantly, the Company’s ability to recover its assets there could be impaired. The Company’s equity in its net assets of subsidiaries in Zimbabwe was \$61 million at June 30, 2003.

On February 26, 2001, Universal Leaf Tobacco Company, Incorporated, J.P. Taylor Company, Incorporated, and Southwestern Tobacco Company, Incorporated, which are subsidiaries of Universal Corporation (the “Company Subsidiaries”), were served with the Third Amended Complaint, naming them and other leaf tobacco merchants as defendants in DeLoach, et al. v. Philip Morris Inc., et al., a suit originally filed against U.S. cigarette manufacturers in the United States District Court for the District of Columbia and now pending in the United States District Court for the Middle District of North Carolina, Greensboro Division (Case No. 00–CV–1235) (the “DeLoach Suit”). The DeLoach Suit is a class action brought on behalf of U.S. tobacco growers and quota holders that alleges that defendants violated antitrust laws by bid-rigging at tobacco auctions and by conspiring to undermine the tobacco quota and price support program administered by the federal government. In May 2003, the Company Subsidiaries, along with several other domestic cigarette manufacturers and tobacco-leaf dealers entered into a settlement agreement with the plaintiffs.

Under the settlement agreement, the Company Subsidiaries will collectively pay \$12 million for distribution to members of the class. The total amount to be paid by all the settling defendants, of which there are five in addition to the Company Subsidiaries, to the class is approximately \$212 million, plus commitments by the three settling cigarette manufacturers (i) to purchase certain volumes of domestic flue-cured and burley tobacco for at least ten years and (ii) to pay the fees of plaintiffs’ counsel when approved by the court. The settlement agreement is contingent on final approval by the court.



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**UNIVERSAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The Company maintains that none of its three subsidiaries party to this lawsuit and none of their employees have violated any antitrust laws. The Company decided to enter into the settlement in order to avoid further expense, inconvenience, and burden of this litigation; to prevent the distraction and diversion of our employees; and to put to rest this controversy with valued U.S. tobacco growers. The parties have agreed that the settlement agreement does not constitute an admission of the truth of any of the claims or allegations in the lawsuit. Because management believes it is probable that the court will ultimately approve the settlement agreement, the Company has recorded an accrual of \$12 million before taxes, or about \$7.7 million after taxes, in the fourth quarter of fiscal year 2003.

The Competition Directorate-General of the European Commission (“DG Comp”) is investigating the buying practices of Spanish tobacco processors with the stated aim of determining to what extent the tobacco processing companies have jointly agreed on raw tobacco qualities and prices offered to Spanish tobacco growers. After conducting an investigation, the Company believes that Spanish tobacco processors, including the Company’s Spanish subsidiary, Tabacos Espanoles, S.A. (“TAES”), have jointly agreed to the terms of sale of green tobacco and quantities to be purchased from associations of farmers and have jointly negotiated with those associations. TAES is cooperating fully with the DG Comp in its investigation and believes that there are unusual, mitigating circumstances peculiar to the highly structured market for green tobacco in Spain. At this time, no estimate can be made of the amount or timing of the fine, if any, that DG Comp may assess on TAES.

The Company’s operating subsidiaries within each industry segment perform credit evaluations of customers’ financial condition prior to the extension of credit. Generally, accounts and notes receivable are unsecured and are due within 30 days. When collection terms are extended for longer periods, interest and carrying costs are usually recovered. Credit losses are provided for in the financial statements, and such amounts have not been material. The allowance for doubtful accounts as of June 30, 2003 and 2002, was \$21 million and \$17 million, respectively. In the lumber and building product operations in Europe, it is traditional business practice to insure a major portion of accounts and notes receivable against uncollectibility. At June 30, accounts and notes receivable by operating segment were as follows:

	At June 30,	
	2003	2002
Tobacco	\$193,585	\$168,943
Lumber and building products	118,723	84,343
Agri-products	58,478	47,911
	<u>\$370,786</u>	<u>\$301,197</u>

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**UNIVERSAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**NOTE 10. SEGMENT INFORMATION**

The Company reports information regarding operating segments on the basis used internally by management to evaluate segment performance. Segments are based on product categories. The Company evaluates performance based on operating income and equity in pretax earnings of unconsolidated affiliates.

The accounting policies of the segments are the same as those described in Note 1 of "Notes to Consolidated Financial Statements." Sales between segments are insignificant. Sales and other operating revenues are attributed to individual countries based on the location of the subsidiary.

Equity in pretax earnings of unconsolidated affiliates relates primarily to the tobacco segment.

Long-lived assets consist of net property, plant and equipment, goodwill, other intangibles, and other noncurrent assets.

Reportable segments are as follows:

**Tobacco**

Selecting, buying, shipping, processing, packing, storing, and financing of leaf tobacco in tobacco growing countries for the account of, or for resale to, manufacturers of tobacco products throughout the world.

**Lumber and Building Products**

Distribution of lumber and related products to the construction markets and to do-it-yourself retailers in Europe, primarily in the Netherlands.

**Agri-Products**

Trading and processing tea, sunflower seeds, and nuts and trading of other products from the countries of origin to various customers throughout the world.

UNIVERSAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Reportable Segment Data

Years Ended June 30,	Sales and Other Operating Revenues			Operating Income		
	2003	2002	2001	2003	2002	2001
Tobacco	\$ 1,592,440	\$ 1,559,811	\$ 2,062,080	\$ 230,125	\$ 203,010	\$ 239,557
Lumber and building products	597,909	514,084	498,615	32,494	24,736	25,527
Agri-products	446,427	426,183	456,884	12,604	12,505	13,703
Total segments	2,636,776	2,500,078	3,017,579	275,223	240,251	278,787
Corporate expenses				(23,968)	(21,433)	(21,071)
Restructuring costs				(33,001)		(8,745)
Equity in pretax earnings of unconsolidated affiliates				(10,439)	(18,311)	(10,189)
Consolidated total	\$ 2,636,776	\$ 2,500,078	\$ 3,017,579	\$ 207,815	\$ 200,507	\$ 238,782

Years Ended June 30,	Segment Assets			Goodwill		
	2003	2002	2001	2003	2002	2001
Tobacco	\$ 1,651,084	\$ 1,425,050	\$ 1,398,952	\$ 100,916	\$ 100,878	\$ 101,105
Lumber and building products	423,106	260,256	222,661	24,727	16,703	9,883
Agri-products	165,478	156,974	158,477	750	358	353
Total segments	2,239,668	1,842,280	1,780,090	126,393	117,939	111,341
Corporate	3,406	2,135	2,283			
Consolidated total	\$ 2,243,074	\$ 1,844,415	\$ 1,782,373	\$ 126,393	\$ 117,939	\$ 111,341

Years Ended June 30,	Depreciation and Amortization			Capital Expenditures		
	2003	2002	2001	2003	2002	2001
Tobacco	\$ 40,396	\$ 45,432	\$ 47,208	\$ 103,860	\$ 99,190	\$ 53,656
Lumber and building products	8,945	7,354	6,963	10,031	8,414	5,886
Agri-products	2,384	2,201	2,228	1,505	3,186	1,603
Total segments	51,725	54,987	56,399	115,396	110,790	61,145
Corporate						
Consolidated total	\$ 51,725	\$ 54,987	\$ 56,399	\$ 115,396	\$ 110,790	\$ 61,145

Geographic Data

Years Ended June 30,	Sales and Other Operating Revenues		
	2003	2002	2001
United States	\$ 857,286	\$ 908,846	\$ 1,322,999
The Netherlands	730,568	655,239	658,208
All other countries	1,048,922	935,993	1,036,372
Consolidated total	\$ 2,636,776	\$ 2,500,078	\$ 3,017,579

Long-Lived Assets		
2003	2002	2001

United States	\$ 323,614	\$ 266,734	\$ 217,721
The Netherlands	150,387	80,274	66,956
Brazil	93,217	85,962	72,778
All other countries	165,273	171,300	175,793
	<u>          </u>	<u>          </u>	<u>          </u>
Consolidated total	\$ 732,491	\$ 604,270	\$ 533,248
	<u>          </u>	<u>          </u>	<u>          </u>

UNIVERSAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 11. UNAUDITED QUARTERLY FINANCIAL DATA

Due to the seasonal nature of the tobacco, lumber and building products, and agri-products businesses, management believes it is generally more meaningful to focus on cumulative rather than quarterly results.

	Years Ended June 30,			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2003</b>				
Sales and other operating revenues	\$ 657,276	\$ 708,578	\$ 593,836	\$ 677,086
Gross profit	131,705	131,934	118,746	155,766
Net income	28,477	26,743	23,785	31,589
Net income per common share: Basic	1.09	1.04	0.95	1.27
Diluted	1.09	1.04	0.94	1.26
Cash dividends declared per common share	0.34	0.36	0.36	0.36
Market price range: High	39.23	37.52	39.28	43.01
Low	31.81	32.85	35.40	37.69
<b>2002</b>				
Sales and other operating revenues	\$ 616,377	\$ 744,275	\$ 547,073	\$ 592,353
Gross profit	116,466	133,685	127,077	116,123
Net income	28,329	29,091	33,114	16,128
Net income per common share: Basic	1.04	1.09	1.26	0.61
Diluted	1.04	1.09	1.26	0.61
Cash dividends declared per common share	0.32	0.34	0.34	0.34
Market price range: High	43.05	37.54	39.45	43.00
Low	33.37	31.74	34.90	36.01

NOTE 12. SUBSEQUENT EVENT

The Company has decided to change its fiscal year-end to March 31 from June 30, bringing all consolidated subsidiaries to the same reporting date. The Company plans to file a Transitional Report on Form 10-K for the nine months ending March 31, 2004.

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**Report of Ernst & Young LLP, Independent Auditors**

To the Board of Directors and  
Shareholders of Universal Corporation:

We have audited the accompanying consolidated balance sheets of Universal Corporation and subsidiaries as of June 30, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Universal Corporation and subsidiaries at June 30, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2003, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Richmond, Virginia  
August 7, 2003

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**Report of Management**

To the Shareholders of Universal Corporation:

The consolidated financial statements of Universal Corporation have been prepared under the direction of management, which is responsible for their integrity and objectivity. The statements have been prepared in accordance with generally accepted accounting principles and, where appropriate, include amounts based on the judgment of management.

Management is also responsible for maintaining an effective system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and properly recorded. This system is continually reviewed and is augmented by written policies and procedures, the careful selection and training of qualified personnel, and an internal audit program to monitor its effectiveness.

Ernst & Young LLP, independent auditors, are retained to audit our financial statements. Their audit provides an objective assessment of how well management discharged its responsibility for fairness in financial reporting.

The Audit Committee of the Board of Directors is composed solely of outside directors. The Audit Committee meets periodically with management, the internal auditors and the independent auditors to assure that each is properly discharging its responsibilities. Ernst & Young LLP and the internal auditors have full and free access to meet privately with the Audit Committee to discuss accounting controls, audit findings and financial reporting matters.

/s/ HARTWELL H. ROOPER

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**Hartwell H. Roper**  
**Vice President and Chief Financial**  
**Officer**

August 7, 2003

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

For the three years ended June 30, 2003, there were no changes in or disagreements between the Company and its independent auditors on any matter of accounting principles, practices or financial disclosures.

**Item 9A. Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed by the Company under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer evaluated, with the participation of other members of the Company's management, the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 15d-15(e)), as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, the Company's management concluded that the Company's disclosure controls and procedures were effective. There were no significant changes in the Company's internal controls over financial reporting identified in connection with this evaluation that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**PART III****Item 10. Directors and Executive Officers of the Registrant**

Refer to the captions "Election of Directors" and "Stock Ownership – Section 16(a) Beneficial Ownership Reporting Compliance" in the September 23, 2003 Proxy Statement, which information is incorporated herein by reference. The following are executive officers of Universal Corporation as of September 12, 2003.

<u>Name</u>	<u>Position</u>	<u>Age</u>
A. B. King	President and Chief Executive Officer	57
H. H. Roper	Vice President and Chief Financial Officer	55
W. L. Taylor	Vice President and Chief Administrative Officer	62
J. M. M. van de Winkel	President and Chairman of the Board of Deli Universal, Inc.	54
J. H. Starkey, III	Vice President	62
G. C. Freeman, III	General Counsel and Secretary	40
J. A. Huffman	Controller	41

There are no family relationships between any of the above officers.

All of the above officers, except Messrs. King, van de Winkel, Freeman, and Huffman, have been employed by the Company in the listed capacities during the last five years. A. B. King served as President and Chief Operating Officer from December 1992 until December 2002 and was elected President and Chief Executive Officer effective January 1, 2003. J. M. M. van de Winkel was Co-



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President and Co-Chairman of Deli Universal, Inc. from August 1998 until August 5, 2003. G. C. Freeman, III served as Vice President, Associate General Counsel and Assistant Secretary of Universal Leaf Tobacco Company, Incorporated from June 1998 to February 2001. J. A. Huffman was Director, Financial Reporting prior to November 2000.

**Item 11. Executive Compensation**

Refer to the captions "Executive Compensation" and "Directors' Compensation" in the Company's September 23, 2003 Proxy Statement, which information is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management**

See "Market for Registrant's Common Equity and Related Shareholder Matters." Refer also to the caption "Stock Ownership" in the Company's September 23, 2003 Proxy Statement, which information is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions**

Refer to the caption "Certain Transactions" in the Company's September 23, 2003 Proxy Statement, which information is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

Refer to the caption "Audit Information – Fees of Independent Auditors" in the Company's September 23, 2003 Proxy Statement, which information is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

- (a)(1) The following consolidated financial statements of Universal Corporation and Subsidiaries are included in Item 8:
- Consolidated Statements of Income for the years ended June 30, 2003, 2002, and 2001
  - Consolidated Balance Sheets at June 30, 2003 and 2002
  - Consolidated Statements of Cash Flows for the years ended June 30, 2003, 2002, and 2001
  - Consolidated Statements of Changes in Shareholders' Equity for the years ended June 30, 2003, 2002, and 2001
  - Notes to Consolidated Financial Statements for the years ended June 30, 2003, 2002, and 2001
  - Report of Ernst & Young LLP, Independent Auditors
- (2) Financial Statement Schedules: None
- (3) List of Exhibits:
- 3.1 Amended and Restated Articles of Incorporation (incorporated herein by reference to the Registrant's Form 8-A Registration Statement, dated December 22, 1998, File No. 1-652).
  - 3.2 Bylaws (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No 1-652).
  - 4.1 Indenture between the Registrant and Chemical Bank, as trustee (incorporated herein by reference to the Registrant's Current Report on Form 8-K dated February 25, 1991, File No. 1-652).
  - 4.2 Rights Agreement, dated as of December 3, 1998, between the Registrant and Wachovia Bank, N.A., as Rights Agent (incorporated herein by reference to the Registrant's Current Report on Form 8-K dated December 3, 1998, File No. 1-652).
  - 4.3 First Amendment to the Rights Agreement, dated as of April 23, 1999, between the Registrant, Wachovia Bank, N.A., as Rights Agent, and Norwest Bank Minnesota, N.A., as Successor Rights Agent (incorporated herein by reference to the Registrant's Current Report on Form 8-K dated May 7, 1999, File No. 1-652).
  - 4.4 Specimen Common Stock Certificate (incorporated herein by reference to Amendment No. 1 to the Registrant's Form 8-A Registration Statement, dated May 7, 1999, File No. 1-652).

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- 4.5 Form of 6 1/2% Note due February 15, 2006 (incorporated herein by reference to the Registrant's Current Report on Form 8-K dated February 20, 1996, File No. 1-652).
  - 4.6 Distribution Agreement dated September 6, 2000 (including forms of Terms Agreement, Pricing Supplement, Fixed Rate Note and Floating Rate Note) (incorporated herein by reference to the Registrant's Current Report on Report 8-K dated September 6, 2000, File No. 1-652).
  - 4.7 Form of Fixed Rate Note due October 2, 2003 (incorporated herein by reference to the Registrant's Current Report on Form 8-K dated October 2, 2000, File No. 1-652).
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- 4.21 Form of Fixed Rate Note due September 15, 2009 (incorporated herein by reference to the Registrant's Current Report on Form 8-K dated October 31, 2002, File No. 1-652).
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The Registrant, by signing this Report on Form 10-K, agrees to furnish the Securities and Exchange Commission, upon its request, a copy of any instrument which defines the rights of holders of long-term debt of the Registrant and its consolidated subsidiaries, and for any unconsolidated subsidiaries for which financial statements are required to be filed, and that authorizes a total amount of securities not in excess of 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis.

- 10.1 Universal Corporation Restricted Stock Plan for Non-Employee Directors (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1991, File No. 1-652).
- 10.2 Universal Leaf Tobacco Company, Incorporated Supplemental Stock Purchase Plan (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1991, File No. 1-652).
- 10.3 Form of Universal Leaf Tobacco Company, Incorporated Executive Life Insurance Agreement (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, File No. 1-652).
- 10.4 Universal Leaf Tobacco Company, Incorporated Deferred Income Plan (incorporated herein by reference to the Registrant's Report on Form 8, dated February 8, 1991, File No. 1-652).
- 10.5 Universal Leaf Tobacco Company, Incorporated Benefit Replacement Plan (incorporated herein by reference to the Registrant's Report on Form 8, dated February 8, 1991, File No. 1-652).
- 10.6 Universal Leaf Tobacco Company, Incorporated 1996 Benefit Restoration Plan (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998, File No. 1-652).
- 10.7 Universal Corporation 1989 Executive Stock Plan, as amended on August 7, 2003.\*
- 10.8 Universal Corporation 1991 Stock Option and Equity Accumulation Agreement (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1991, File No. 1-652).

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- 10.9 Amendment to Universal Corporation 1991 Stock Option and Equity Accumulation Agreement (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1992, File No. 1-652).
- 10.10 Universal Leaf Tobacco Company, Incorporated 1994 Deferred Income Plan, amended and restated as of September 1, 1998 (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, File No. 1-652).
- 10.11 Universal Corporation Outside Directors' Deferred Income Plan, restated as of October 1, 1998 (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, File No. 1-652).
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- 10.14 Universal Corporation 1994 Amended and Restated Stock Option Plan for Non-Employee Directors (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1998, File No. 1-652).
- 10.15 Form of Universal Corporation Non-Employee Director Non-Qualified Stock Option Agreement (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000, File No. 1-652).
- 10.16 Universal Leaf Tobacco Company, Incorporated Benefit Restoration Plan Trust, dated June 25, 1997, among Universal Leaf Tobacco Company, Incorporated, Universal Corporation and Wachovia Bank, N.A., as trustee (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1997, File No. 1-652).
- 10.17 First Amendment to the Universal Leaf Tobacco Company, Incorporated Benefit Restoration Trust, dated January 12, 1999, between Universal Leaf Tobacco Company, Incorporated and Wachovia Bank, N.A., as trustee (incorporated herein by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1998, File No. 1-652).
- 10.18 Form of Universal Corporation 1997 Restricted Stock Agreement with Schedule of Awards to named executive officers (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1997, File No. 1-652).
- 10.19 Form of Universal Corporation 1997 Stock Option and Equity Accumulation Agreement, with Schedule of Grants to named executive officers (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1997, File No. 1-652).
- 10.20 Form of Universal Corporation Non-Employee Director Restricted Stock Agreement (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1998, File No. 1-652).

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- 10.21 Form of Employment Agreement dated January 15, 1998, between Universal Corporation and named executive officers (Henry H. Harrell, Allen B. King, William L. Taylor, Hartwell H. Roper) (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1997, File No. 1-652).
- 10.22 Universal Corporation Director's Charitable Award Program (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998, File No. 1-652).
- 10.23 Universal Corporation 1997 Executive Stock Plan, as amended on August 7, 2003.\*
- 10.24 1997 Non-Qualified Stock Option Agreement between Deli Universal, Inc. and J. M. M. van de Winkel (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998, File No. 1-652).
- 10.25 Form of Universal Corporation 1999 Stock Option and Equity Accumulation Agreement, with Schedule of Grants to Executive Officers (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.26 Form of Amendment to Stock Option and Equity Accumulation Agreements dated December 31, 1999 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.27 Form of Universal Corporation 2000 Special Non-Qualified Stock Option Agreement, with Schedule of Grants and Exercise Loans to named executive officers (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000, File No. 1-652).
- 10.28 Agreement for Stemming Services between Philip Morris Incorporated and Universal Leaf Tobacco Company, Incorporated, dated May 11, 2001 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.29 Form of Amendment to Stock Option and Equity Accumulation Agreements dated March 15, 1999 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.30 Form of Amendment to Stock Option and Equity Accumulation Agreements dated December 8, 2000 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.31 Form of Amendment to Stock Option and Equity Accumulation Agreements dated June 11, 2001 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.32 Form of Amendment to Non-Qualified Stock Option Agreements dated June 11, 2001 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).

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- 10.33 Form of Amendment to 2000 Special Non-Qualified Stock Option Agreements dated June 15, 2001 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.34 Form of 2001 Non-Qualified Stock Option Agreement, with Schedule of Grants to Executive Officers (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2002, File No. 1-652).
- 10.35 Amendment No. 1 to Stemming Services Agreement by and between Philip Morris Incorporated and Universal Leaf Tobacco Company Incorporated dated August 29, 2002 (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, File No. 1-652).
- 10.36 Universal Corporation 2002 Executive Stock Plan, as amended on August 7, 2003.\*
- 10.37 Form of 2002 Stock Option and Equity Accumulation Agreement, with Schedule of Grants to Executive Officers.\*
- 10.38 Form of 2002 Non-Qualified Stock Option Agreement, with Schedule of Grants to Executive Officers.\*
- 10.39 Term Loan Credit Agreement dated as of April 7, 2003, by and among the Registrant and the Registrant's subsidiaries identified therein as a "Guarantor" and such other entities as may from time to time become a party thereto, the lenders named therein and such other lenders as may become a party thereto, and Wachovia Bank, National Association, as Administrative Agent (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, File No. 1-652).
- 12 Ratio of Earnings to Fixed Charges.\*
- 21 Subsidiaries of the Registrant.\*
- 23 Consent of Independent Auditors.\*
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.\*
- 32.2 Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.\*

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\* Filed herewith.

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(b) Reports on Form 8-K

- (1) Form 8-K dated May 5, 2003, reporting Item 5 concerning appointment of new director and filing related press release under Item 7.
- (2) Form 8-K dated May 6, 2003, reporting Item 12 concerning earnings for quarter ended March 31, 2003 and furnishing related press release under Item 7.
- (3) Form 8-K dated May 13, 2003, reporting Item 5 concerning remarks of Allen B. King at 2003 Tobacco Supplier Conference, May 13, 2003 and filing transcript of remarks under Item 7.
- (4) Form 8-K dated May 16, 2003, reporting Item 5 concerning entering DeLoach Case Settlement Agreement and filing related press release under Item 7.
- (5) Form 8-K dated August 7, 2003, reporting Item 12 concerning earnings for period ended June 30, 2003, reporting Item 8 concerning change in fiscal year, and furnishing related press releases under Item 7.

(c) Exhibits

The exhibits listed in Item 14(a)(3) are filed as part of this annual report.

(d) Financial Statement Schedules

All schedules are omitted since the required information is not present in amounts sufficient to require submission or because the information required is included in the consolidated financial statements and notes therein.





<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ E DDIE N. M OORE</u> <b>Eddie N. Moore</b>	Director	September 12, 2003
<u>/s/ J EREMIAS J. S HEEHAN</u> <b>Jeremiah J. Sheehan</b>	Director	September 12, 2003
<u>/s/ H UBERT R. S TALLARD</u> <b>Hubert R. Stallard</b>	Director	September 12, 2003
<u>/s/ W ALTER A. S TOSCH</u> <b>Walter A. Stosch</b>	Director	September 12, 2003
<u>/s/ D R. E UGENE P. T RANI</u> <b>Dr. Eugene P. Trani</b>	Director	September 12, 2003

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## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Document</u>
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4.1	Indenture between the Registrant and Chemical Bank, as trustee (incorporated herein by reference to the Registrant's Current Report on Form 8-K dated February 25, 1991, File No. 1-652).
4.2	Rights Agreement, dated as of December 3, 1998, between the Registrant and Wachovia Bank, N.A., as Rights Agent (incorporated herein by reference to the Registrant's Current Report on Form 8-K dated December 3, 1998, File No. 1-652).
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4.5	Form of 6 <sup>1</sup> / <sub>2</sub> % Note due February 15, 2006 (incorporated herein by reference to the Registrant's Current Report on Form 8-K dated February 20, 1996, File No. 1-652).
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- 10.20 Form of Universal Corporation Non-Employee Director Restricted Stock Agreement (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1998, File No. 1-652).
- 10.21 Form of Employment Agreement dated January 15, 1998, between Universal Corporation and named executive officers (Henry H. Harrell, Allen B. King, William L. Taylor, Hartwell H. Roper) (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1997, File No. 1-652).
- 10.22 Universal Corporation Director's Charitable Award Program (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998, File No. 1-652).
- 10.23 Universal Corporation 1997 Executive Stock Plan, as amended on August 7, 2003.\*

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- 10.24 1997 Non-Qualified Stock Option Agreement between Deli Universal, Inc. and J. M. M. van de Winkel (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1998, File No. 1-652).
- 10.25 Form of Universal Corporation 1999 Stock Option and Equity Accumulation Agreement, with Schedule of Grants to Executive Officers (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.26 Form of Amendment to Stock Option and Equity Accumulation Agreements dated December 31, 1999 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.27 Form of Universal Corporation 2000 Special Non-Qualified Stock Option Agreement, with Schedule of Grants and Exercise Loans to named executive officers (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2000, File No. 1-652).
- 10.28 Agreement for Stemming Services between Philip Morris Incorporated and Universal Leaf Tobacco Company, Incorporated, dated May 11, 2001 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.29 Form of Amendment to Stock Option and Equity Accumulation Agreements dated March 15, 1999 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.30 Form of Amendment to Stock Option and Equity Accumulation Agreements dated December 8, 2000 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.31 Form of Amendment to Stock Option and Equity Accumulation Agreements dated June 11, 2001 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.32 Form of Amendment to Non-Qualified Stock Option Agreements dated June 11, 2001 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).
- 10.33 Form of Amendment to 2000 Special Non-Qualified Stock Option Agreements dated June 15, 2001 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001, File No. 1-652).

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- 10.34 Form of 2001 Non-Qualified Stock Option Agreement, with Schedule of Grants to Executive Officers (incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2002, File No. 1-652).
- 10.35 Amendment No. 1 to Stemming Services Agreement by and between Philip Morris Incorporated and Universal Leaf Tobacco Company Incorporated dated August 29, 2002 (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, File No. 1-652).
- 10.36 Universal Corporation 2002 Executive Stock Plan as amended on August 7, 2003.\*
- 10.37 Form of 2002 Stock Option and Equity Accumulation Agreement, with Schedule of Grants to Executive Officers.\*
- 10.38 Form of 2002 Non-Qualified Stock Option Agreement, with Schedule of Grants to Executive Officers.\*
- 10.39 Term Loan Credit Agreement dated as of April 7, 2003, by and among the Registrant and the Registrant's subsidiaries identified therein as a "Guarantor" and such other entities as may from time to time become a party thereto, the lenders named therein and such other lenders as may become a party thereto, and Wachovia Bank, National Association, as Administrative Agent (incorporated herein by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, File No. 1-652).
- 12 Ratio of Earnings to Fixed Charges.\*
- 21 Subsidiaries of the Registrant.\*
- 23 Consent of Independent Auditors.\*
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.\*
- 32.2 Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.\*

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\* Filed herewith.



UNIVERSAL CORPORATION  
1989 EXECUTIVE STOCK PLAN

(As Amended on August 7, 2003)

Article 1

DEFINITIONS

1.01 Affiliate means any "subsidiary" or "parent corporation" (within the meaning of Section 424 of the Code) of the Company.

1.02 Agreement means a written agreement (including any amendment or supplement thereto) between the Company and a Participant specifying the terms and conditions of a Grant or an Award issued to such Participant.

1.03 Award means an award of Common Stock and/or Restricted Stock.

1.04 Board means the Board of Directors of the Company.

1.05 Change of Control means and shall be deemed to have taken place if: (i) a third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of the Company having 20 percent or more of the total number of votes that may be cast for the election of Directors of the Company; or, (ii) as the result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions (a "Transaction"), the persons who were Directors of the Company before the Transaction shall cease to constitute a majority of the Board of the Company or any successor to the Company.

1.06 Change of Control Date is the date on which an event described in (i) or (ii) of Section 1.05 occurs.

1.07 Code means the Internal Revenue Code of 1986, and any amendments thereto.

1.08 Committee means the Executive Compensation Committee of the Board.

1.09 Common Stock means the Common Stock of the Company.

1.10 Company means Universal Corporation.

1.11 Fair Market Value of a share of Common Stock as of any given date (i) prior to August 7, 2003, means the closing sale price of a share of Common Stock on the New York Stock Exchange Composite Tape on such date, or (ii) on or after August 7, 2003, means the closing sale price of a share of Common Stock on the New York Stock Exchange Composite

Tape on the next preceding date that the Common Stock was traded on such exchange, in either case as reported by such source as the Committee may select.

1.12 Grant means the grant of an Option.

1.13 Incentive Stock Option means an Option that is intended to qualify as an "incentive stock option" under Section 422 of the Code.

1.14 Non-Qualified Stock Option means an option other than an Incentive Stock Option.

1.15 Option means a stock option that entitles the holder to purchase from the Company a stated number of shares of Common Stock at the price set forth in an Agreement.

1.16 Option Price means the price per share for Common Stock purchased on the exercise of an Option as provided in Article VI.

1.17 Participant means an employee of the Company or of a Subsidiary, including an employee who is a member of the Board, who satisfies the requirements of Article IV and is selected by the Committee to receive a Grant or an Award.

1.18 Plan means the Universal Corporation 1989 Executive Stock Plan, as amended.

1.19 Restricted Stock means shares of Common Stock awarded to a Participant under Article IX. Shares of Common Stock shall cease to be Restricted Stock when, in accordance with the terms of the applicable Agreement, they become transferable and free of substantial risks of forfeiture.

1.20 Rule 16b-3 means Rule 16b-3, as promulgated by the Securities and Exchange Commission under Section 16(b) of the Securities Exchange Act of 1934, as amended from time to time.

1.21 Securities Broker means the registered securities broker acceptable to the Company who agrees to effect the cashless exercise of an Option pursuant to Section 8.04 hereof.

1.22 Subsidiary means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations in the chain (other than the last corporation) owns stock possessing at least 50 percent of the total combined voting power of all classes of stock in one of the other corporations in such chain.

## Article II

### PURPOSES

The Plan is intended to assist the Company in recruiting and retaining key employees with ability and initiative by enabling employees who contribute significantly to the Company or an

Affiliate to participate in its future success and to associate their interests with those of the Company and its shareholders. The Plan is intended to permit the award of Common Stock and Restricted Stock, and the issuance of Options qualifying as Incentive Stock Options or Non-Qualified Stock Options as designated by the Committee at time of grant. No Option that is intended to be an Incentive Stock Option, however, shall be invalid for failure to qualify as an Incentive Stock Option under Section 422 of the Code but shall be treated as a Non-Qualified Stock Option.

### Article III

#### ADMINISTRATION

The Plan shall be administered by the Committee. The Committee shall have authority to issue Grants and Awards upon such terms (not inconsistent with the provisions of this Plan) as the Committee may consider appropriate. The terms of such Grants and Awards may include conditions (in addition to those contained in this Plan) on (i) the exercisability of all or any part of an Option and (ii) the transferability or forfeitability of Restricted Stock. In addition, the Committee shall have complete authority to interpret all provisions of this Plan; to prescribe the form of Agreements; to adopt, amend, and rescind rules and regulations pertaining to the administration of the Plan; and to make all other determinations necessary or advisable for the administration of this Plan. To fulfill the purposes of the Plan without amending the Plan, the Committee may also modify any Grants or Awards issued to Participants who are nonresident aliens or employed outside of the United States to recognize differences in local law, tax policy or custom.

The express grant in the Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. Any decision made, or action taken, by the Committee or in connection with the administration of this Plan shall be final and conclusive. All expenses of administering this Plan shall be borne by the Company.

### Article IV

#### ELIGIBILITY

4.01 General. Any employee of the Company or of any Subsidiary (including any corporation that becomes a Subsidiary after the adoption of this Plan) who, in the judgment of the Committee, has contributed significantly or can be expected to contribute significantly to the profits or growth of the Company or a Subsidiary may receive one or more Awards or Grants, or any combination or type thereof. Directors of the Company who are employees are eligible to participate in this Plan. A person who is a member of the Committee may not be issued Awards or Grants while he is a member of the Committee.

4.02 Grants and Awards. The Committee will designate individuals to whom Grants and/or Awards are to be issued and will specify the number of shares of Common Stock subject to each such Grant or Award. All Grants or Awards issued under this Plan shall be evidenced by

Agreements which shall be subject to applicable provisions of this Plan and to such other provisions as the Committee may adopt. No Participant may be granted Options that are Incentive Stock Options (under all Incentive Stock Option Plans of the Company and Affiliates) which are first exercisable in any calendar year for stock having an aggregate Fair Market Value (determined as of the date an Option is granted) exceeding \$100,000. A Participant may not receive Grants and Awards under this Plan with respect to more than 200,000 shares of Common Stock during any calendar year.

4.03 Reload Options. The Committee shall have the authority to specify at the time of Grant that an optionee shall be granted the right to a further Non-Qualified Stock Option (a "Reload Option") in the event such optionee exercises all or a part of an Option, including a Reload Option (an "Original Option"), by surrendering in accordance with Section 8.02 hereof already owned shares of Common Stock in full or partial payment of the Option Price under such Original Option. Each Reload Option shall be granted on the date of exercise of the Original Option, shall cover a number of shares of Common Stock not exceeding the whole number of shares of Common Stock surrendered in payment of the Option Price under such Original Option, shall have an Option Price equal to the Fair Market Value on the date of Grant of such Reload Option, shall expire on the stated expiration date of the Original Option and shall be subject to such other terms and conditions as the Committee may determine.

4.04 Designation of Option as an Incentive Stock Option or a Non-Qualified Stock Option. The Committee will designate at the time an Option is granted whether the Option is to be treated as an Incentive Stock Option or a Non-Qualified Stock Option. In the absence, however, of any such designation, such Option shall be treated as a Non-Qualified Stock Option.

#### Article V

#### STOCK SUBJECT TO PLAN

The maximum number of shares of Common Stock available for Grants (other than Grants of Reload Options) and Awards under the Plan shall be 2,000,000. The maximum number of shares of Common Stock available for Grants of Reload Options under the Plan shall be 500,000, which amount, beginning on July 1, 1993 and ending on June 30, 1998, shall be increased in each fiscal year of the Company by an amount equal to two percent (2%) of the total number of shares of Common Stock outstanding as of the first day of each such fiscal year. Each such maximum number of shares of Common Stock is subject to adjustment (after taking into account the preceding annual increase in the maximum number of shares of Common Stock available for Grants of Reload Options) as provided in Article X. Shares of Common Stock subject to Grants and Awards under the Plan may be authorized but previously unissued shares of Common Stock or previously issued shares of Common Stock reacquired by the Company. The grant of a Reload Option under the Plan, by restoring an option opportunity on the number of shares of Common Stock surrendered to exercise an Original Option, will encourage a Participant to maximize his ownership interest in the Company without reducing the percentage interests of shareholders.

If any shares of Restricted Stock are forfeited for which the Participant did not receive any benefits of ownership (other than voting rights), or if any Option (other than a Reload Option) terminates without being exercised, shares of Common Stock subject to such Grants or Awards shall be available for distribution in connection with Grants (other than Grants of Reload Options) or Awards under the Plan. If any Reload Option terminates without being exercised, the shares of Common Stock subject to such terminated Reload Option shall be available for distribution in connection with Grants of Reload Options under the Plan.

#### Article VI

##### OPTION PRICE

The price per share for Common Stock purchased on the exercise of an Option shall be fixed by the Committee, but shall not be less than the Fair Market Value on the date of grant.

#### Article VII

##### EXERCISE OF OPTIONS

7.01 Maximum Option Period. The period in which an Option may be exercised shall be determined by the Committee on the date of grant; provided, however that an Incentive Stock Option shall not be exercisable after the expiration of 10 years from the date the Incentive Stock Option was granted.

7.02 Transferability of Options. Non-Qualified Stock Options may be transferable by a Participant and exercisable by a person other than a Participant, but only to the extent specifically provided in an Option Agreement. Incentive Stock Options, by their terms, shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable, during the Participant's lifetime, only by the Participant. No right or interest of a Participant in any Option shall be liable for, or subject to, any lien, obligation or liability of such Participant.

7.03 Employee Status. For purposes of determining the applicability of Section 422 of the Code (relating to incentive stock options), or in the event that the terms of any Grant provide that it may be exercised only during employment or within a specified period of time after termination of employment, the Committee may decide to what extent leaves of absence for governmental or military service, illness, temporary disability, or other reasons shall not be deemed interruptions of continuous employment.

## Article VIII

### METHOD OF EXERCISE

8.01 Exercise. Subject to the provisions of Articles VII and XI, an Option may be exercised in whole at any time or in part from time to time at such times and in compliance with such requirements as the Committee shall determine. An Option granted under this Plan may be exercised with respect to any number of whole shares less than the full number for which the Option could be exercised. Such partial exercise of an Option shall not affect the right to exercise the Option from time to time in accordance with this Plan with respect to remaining shares subject to the Option.

8.02 Payment. Unless otherwise provided by the Agreement, payment of the Option Price shall be made in cash. If the Agreement provides, payment of all or part of the Option Price may be made by surrendering already owned shares of Common Stock to the Company, provided the shares surrendered have a Fair Market Value (determined as of the day preceding the date of exercise) that is not less than such price or part thereof. In addition, the Committee may establish such payment or other terms as it may deem to be appropriate and consistent with these purposes.

8.03 Shareholder Rights. No participant shall have any rights as a shareholder with respect to shares subject to his Option until the date he exercises such Option.

8.04 Cashless Exercise. To the extent permitted under the applicable laws and regulations, at the request of the Participant and with the consent of the Committee, the Company agrees to cooperate in a "cashless exercise" of the Option. The cashless exercise shall be effected by the Participant delivering to the Securities Broker instructions to exercise all or part of the Option, including instructions to sell a sufficient number of shares of Common Stock to cover the costs and expenses associated therewith.

## Article IX

### COMMON STOCK AND RESTRICTED STOCK

9.01 Award. In accordance with the provisions of Article IV, the Committee will designate employees to whom an award of Common Stock and/or Restricted Stock is to be made and will specify the number of shares of Common Stock covered by such award or awards.

9.02 Vesting. In the case of Restricted Stock, on the date of the award, the Committee may prescribe that the Participant's rights in the Restricted Stock shall be forfeitable or otherwise restricted for a period of time set forth in the Agreement and/or until certain financial performance objectives are satisfied as determined by the Committee in its sole discretion. Subject to the provisions of Article XI hereof, the Committee may award Common Stock to a Participant which is not forfeitable and is free of any restrictions or transferability.

9.03 Shareholder Rights. Prior to their forfeiture in accordance with the terms of the Agreement and while the shares are Restricted Stock, a Participant will have all rights of a shareholder with respect to Restricted Stock, including the right to receive dividends and vote the shares; provided, however, that (i) a Participant may not sell, transfer, pledge, exchange, hypothecate, or otherwise dispose of Restricted Stock, (ii) the Company shall retain custody of the certificates evidencing shares of Restricted Stock, and (iii) the Participant will deliver to the Company a stock power, endorsed in blank, with respect to each award of Restricted Stock.

#### Article X

##### ADJUSTMENT UPON CHANGE IN COMMON STOCK

Should the Company effect one or more (x) stock dividends, stock split-ups, subdivisions or consolidations of shares or other similar changes in capitalization; (y) spin-offs, spin-outs, split-ups, split-offs, or other such distribution of assets to shareholders; or (z) direct or indirect assumptions and/or conversions of outstanding Options due to an acquisition of the Company, then the maximum number of shares as to which Grants and Awards may be issued under this Plan shall be proportionately adjusted and their terms shall be adjusted as the Committee shall determine to be equitably required, provided that the number of shares subject to any Grant or Award shall always be a whole number. Any determination made under this Article X by the Committee shall be final and conclusive.

The issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to any Grant or Award.

#### Article XI

##### COMPLIANCE WITH LAW AND APPROVAL OF REGULATORY BODIES

No Grant shall be exercisable, no Common Stock shall be issued, no certificates for shares of Common Stock shall be delivered, and no payment shall be made under this Plan except in compliance with all applicable Federal and state laws and regulations (including, without limitation, withholding tax requirements) and the rules of all domestic stock exchanges on which the Company's shares may be listed. The Company may rely on an opinion of its counsel as to such compliance. Any share certificate issued to evidence Common Stock for which a Grant is exercised or an Award is issued may bear such legends and statements as the Committee may deem advisable to assure compliance with Federal and state laws and regulations. No Grant shall be exercisable, no Common Stock shall be issued, no certificate for shares shall be delivered, and no payment shall be made under this Plan until the Company has obtained such consent or approval as the Committee may deem advisable from regulatory bodies having jurisdiction over such matters.

## Article XII

### GENERAL PROVISIONS

12.01 Effect on Employment. Neither the adoption of this Plan, its operation, nor any documents describing or referring to this Plan (or any part thereof) shall confer upon any employee any right to continue in the employ of the Company or a Subsidiary or in any way affect any right and power of the Company or a Subsidiary to terminate the employment of any employee at any time with or without assigning a reason therefor.

12.02 Unfunded Plan. The Plan, insofar as it provides for a Grant, is not required to be funded, and the Company shall not be required to segregate any assets that may at any time be represented by a Grant under this Plan.

12.03 Change of Control. At the discretion of the Committee, a Participant's interest in Restricted Stock may be made nonforfeitable and transferable as of a Change of Control Date. The Committee may also provide in an Agreement that a Participant may elect, by written notice to the Company within 60 days after a Change of Control Date, to receive, in exchange for shares that were Restricted Stock immediately before the Change of Control Date, a cash payment equal to the Fair Market Value of the shares surrendered on the last business day the Common Stock is traded on the New York Stock Exchange prior to receipt by the Company of such written notice. Notwithstanding any other provision in this Plan to the contrary, unless the Committee provides otherwise in an Agreement, a Grant may be exercised immediately in full upon a Change of Control.

12.04 Rules of Construction. Headings are given to the articles and sections of this Plan for ease of reference. The reference to any statute, regulation, or other provision of law shall be construed to refer to any amendment to or successor of such provision of law.

12.05 Amendment. The Board may amend or terminate this Plan from time to time; provided, however, that no amendment may become effective until shareholder approval is obtained if the amendment (i) materially increases the aggregate number of shares that may be issued pursuant to Options and Common Stock and Restricted Stock awards, (ii) materially increases the benefits to Participants under the Plan, or (iii) materially changes the class of employees eligible to become Participants. No amendment shall, without a Participant's consent, adversely affect any rights of such Participant under any Grant or Award outstanding at the time such amendment is made, except such an amendment made to cause the Plan to qualify for the Rule 16b-3 exemption. No amendment shall be made if it would disqualify the Plan from the exemption provided by Rule 16b-3. The Committee may amend the terms of any Grant or Award theretofore issued under this Plan, prospectively or retrospectively, and include in such amendment the right of the Committee to pay a Participant cash in lieu of shares of Common Stock upon the termination (by exercise or otherwise) of an Option, but no such amendment shall impair the rights of any Participant without the Participant's consent except such an amendment made to cause the Plan, or Grant or Award, to qualify for the exemption provided by Rule 16b-3.



12.06 Duration of Plan. No Grant or Award may be issued under this Plan before July 1, 1989, or after June 30, 1998; provided, however, a Grant of a Reload Option may be issued after June 30, 1998, upon the exercise of an Original Option as provided in Section 4.03 hereof. Grants and Awards issued on or after July 1, 1989, but on or before June 30, 1998, and Grants of Reload Options issued after June 30, 1998 upon the exercise of an Original Option as provided in Section 4.03 hereof, shall remain valid in accordance with their terms.

12.07 Shareholder Approval. This Plan was initially approved by the Board of Directors of the Company, effective as of July 1, 1989, and was approved by the shareholders of the Company entitled to vote at the 1989 Annual Meeting of Shareholders. Amendments to the Plan were approved by the Board of Directors of the Company, effective as of October 27, 1992, and by the shareholders of the Company entitled to vote at the 1992 Annual Meeting of Shareholders. Amendments to the Plan were approved by the Board of Directors of the Company, effective as of October 25, 1994, and by the shareholders of the Company entitled to vote at the 1994 Annual Meeting of Shareholders. Amendments to the Plan were approved by the Board of Directors of the Company effective as of December 1, 1994. Amendments to the Plan were approved by the Board of Directors of the Company effective as of December 2, 1999. Amendments to the Plan were approved by the Board of Directors of the Company effective as of August 7, 2003.

UNIVERSAL CORPORATION  
1997 EXECUTIVE STOCK PLAN

(As Amended on August 7, 2003)

Article I

DEFINITIONS

1.1. Affiliate means any "subsidiary" or "parent corporation" (within the meaning of Section 424 of the Code) of the Company.

1.2. Agreement means a written agreement (including any amendment or supplement thereto) between the Company and a Participant specifying the terms and conditions of a Grant or an Award issued to such Participant.

1.3. Award means an award of Common Stock and/or Restricted Stock.

1.4. Board means the Board of Directors of the Company.

1.5. Change of Control means and shall be deemed to have taken place if: (i) any individual, entity or "group" (within the meaning of Sections 13(d)(3) or 14(d)(2) of the Exchange Act) becomes the beneficial owner of shares of the Company having 20 percent or more of the total number of votes that may be cast for the election of directors of the Company, other than (a) as a result of any acquisition directly from the Company, or (b) as a result of any acquisition by any employee benefit plans (or related trusts) sponsored or maintained by the Company or its Subsidiaries; or (ii) there is a change in the composition of the Board such that the individuals who, as of the date hereof, constitute the Board (the Board as of the date hereof shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Section, that any individual who becomes a member of the Board subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board shall not be so considered as a member of the Incumbent Board; or (iii) if at any time, (w) the Company shall consolidate with, or merge with, any other Person and the Company shall not be the continuing or surviving corporation, (x) any Person shall consolidate with, or merge with, the Company, and the Company shall be the continuing or

surviving corporation and in connection therewith, all or part of the outstanding Common Stock shall be changed into or exchanged for stock or other securities of any other person or cash or any other property, (y) the Company shall be a party to a statutory share exchange with any other Person after which the Company is a Subsidiary of any other Person, or (z) the Company shall sell or otherwise transfer 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any Person or Persons.

1.6. Change of Control Date is the date on which an event described in (i), (ii) or (iii) of Section 1.5 occurs.

1.7. Code means the Internal Revenue Code of 1986, as amended from time to time. References to the Code shall include the valid and binding governmental regulations, court decisions and other regulatory and judicial authority issued or rendered thereunder.

1.8. Commission means the Securities and Exchange Commission or any successor agency.

1.9. Committee means the Executive Compensation Committee of the Board.

1.10. Common Stock means the Common Stock of the Company.

1.11. Company means Universal Corporation.

1.12. Disability, with respect to a Participant, means "disability" as defined from time to time under any long-term disability plan of the Company or Subsidiary with which the Participant is employed.

1.13. Exchange Act means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

1.14. Fair Market Value of a share of Common Stock as of any given date (i) prior to August 7, 2003, means the closing sale price of a share of Common Stock on the New York Stock Exchange Composite Tape on such date, or (ii) on or after August 7, 2003, means the closing sale price of a share of Common Stock on the New York Stock Exchange Composite Tape on the next preceding date that the Common Stock was traded on such exchange, in either case as reported by such source as the Committee may select.

1.15. Grant means the grant of an Option.

1.16. Incentive Stock Option means an Option that is intended to qualify as an "incentive stock option" under Section 422 of the Code.

1.17. Non-Qualified Stock Option means an Option other than an Incentive Stock Option.

1.18. Option means a stock option that entitles the holder to purchase from the Company a stated number of shares of Common Stock at the price set forth in an Agreement.

1.19. Option Price means the price per share for Common Stock purchased on the exercise of an Option as provided in Article VI.

1.20. Participant means an officer, director or employee of the Company or of a Subsidiary who satisfies the requirements of Article IV and is selected by the Committee to receive a Grant or an Award.

1.21. Plan means the Universal Corporation 1997 Executive Stock Plan.

1.22. Prior Plan means the Universal Corporation 1989 Executive Stock Plan.

1.23. Restricted Stock means shares of Common Stock awarded to a Participant under Article IX. Shares of Common Stock shall cease to be Restricted Stock when, in accordance with the terms of the applicable Agreement, they become transferable and free of substantial risks of forfeiture.

1.24. Rule 16b-3 means Rule 16b-3, as promulgated by the Commission under Section 16(b) of the Exchange Act, as amended from time to time.

1.25. Securities Broker means the registered securities broker acceptable to the Company who agrees to effect the cashless exercise of an Option pursuant to Section 8.4 hereof.

1.26. Subsidiary means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations in the chain (other than the last corporation) owns stock possessing at least 50 percent of the total combined voting power of all classes of stock in one of the other corporations in such chain.

## Article II

### PURPOSES

The Plan is intended to assist the Company in recruiting and retaining officers, directors and key employees with ability and initiative by enabling such persons who contribute significantly to the Company or an Affiliate to participate in its future success and to associate their interests with those of the Company and its shareholders. The Plan is intended to permit the award of Common Stock and Restricted Stock, and the issuance of Options qualifying as Incentive Stock Options or Non-Qualified Stock Options as designated by the Committee at time of grant. No Option that is intended to be an Incentive Stock Option, however, shall be invalid for failure to qualify as an Incentive Stock Option under Section 422 of the Code but shall be treated as a Non-Qualified Stock Option.

Article III  
ADMINISTRATION

The Plan shall be administered by the Committee. No Person shall be appointed to or shall serve as a member of the Committee unless at the time of such appointment and service he shall be a "non-employee director," as defined in Rule 16b-3 and an "outside director," as defined in Section 162(m)(4)(C)(i) of the Code. The Committee shall have authority to issue Grants and Awards upon such terms (not inconsistent with the provisions of this Plan) as the Committee may consider appropriate. The terms of such Grants and Awards may include conditions (in addition to those contained in this Plan) on (i) the exercisability of all or any part of an Option and (ii) the transferability or forfeitability of Restricted Stock. In addition, the Committee shall have complete authority to interpret all provisions of this Plan; to prescribe the form of Agreements; to adopt, amend, and rescind rules and regulations pertaining to the administration of the Plan; and to make all other determinations necessary or advisable for the administration of this Plan. To fulfill the purposes of the Plan without amending the Plan, the Committee may also modify any Grants or Awards issued to Participants who are nonresident aliens or employed outside of the United States to recognize differences in local law, tax policy or custom.

The express grant in the Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. Any decision made, or action taken, by the Committee or in connection with the administration of this Plan shall be final and conclusive. All expenses of administering this Plan shall be borne by the Company.

Article IV  
ELIGIBILITY

4.1. General. Any officer, director or employee of the Company or of any Subsidiary (including any corporation that becomes a Subsidiary after the adoption of this Plan) who, in the judgment of the Committee, has contributed significantly or can be expected to contribute significantly to the profits or growth of the Company or a Subsidiary may receive one or more Awards or Grants, or any combination or type thereof. Employee and non-employee directors of the Company are eligible to participate in this Plan.

4.2. Grants and Awards. The Committee will designate individuals to whom Grants and/or Awards are to be issued and will specify the number of shares of Common Stock subject to each such Grant or Award. An Option may be granted alone or in addition to other Grants and/or Awards under the Plan. The Committee shall have the authority to grant any Participant Incentive Stock Options, Non-Qualified Stock Options or both types of Options; provided, however, that Incentive Stock Options may be granted only to employees of the Company and its subsidiaries (within the meaning of Section 424(f) of the Code). All Grants or Awards issued under this Plan shall be evidenced by Agreements which shall be subject to applicable provisions of this Plan and to such other provisions as the Committee may determine. No Participant may

be granted Options that are Incentive Stock Options (under all Incentive Stock Option plans of the Company and Affiliates) which are first exercisable in any calendar year for stock having an aggregate Fair Market Value (determined as of the date an Option is granted) exceeding \$100,000. A Participant may not receive Grants and Awards under this Plan with respect to more than 200,000 shares of Common Stock during any calendar year.

4.3. Reload Options. The Committee shall have the authority to specify at the time of Grant that an optionee shall be granted the right to a further Non-Qualified Stock Option (a "Reload Option") in the event such optionee exercises all or a part of an Option, including a Reload Option (an "Original Option"), by surrendering in accordance with Section 8.2 hereof already owned shares of Common Stock in full or partial payment of the Option Price under such Original Option. Each Reload Option shall be granted on the date of exercise of the Original Option, shall cover a number of shares of Common Stock not exceeding the whole number of shares of Common Stock surrendered in payment of the Option Price under such Original Option, shall have an Option Price equal to the Fair Market Value on the date of Grant of such Reload Option, shall expire on the stated expiration date of the Original Option and shall be subject to such other terms and conditions as the Committee may determine.

4.4. Designation of Option as an Incentive Stock Option or a Non-Qualified Stock Option. The Committee will designate at the time an Option is granted whether the Option is to be treated as an Incentive Stock Option or a Non-Qualified Stock Option. In the absence, however, of any such designation, such Option shall be treated as a Non-Qualified Stock Option.

4.5. Qualification of Incentive Stock Option under Section 422 of the Code. Anything in the Plan to the contrary notwithstanding, no term of the Plan relating to Incentive Stock Options shall be interpreted, amended or altered nor shall any discretion or authority granted under the Plan be exercised so as to disqualify the Plan under Section 422 of the Code or, without the consent of the optionee affected, to disqualify any Incentive Stock Option under such Section 422.

#### Article V

#### STOCK SUBJECT TO PLAN

Subject to the adjustment provisions of Article X and the provisions of (a) through (c) of this Article V, up to 2,000,000 shares of Common Stock may be issued under the Plan. In addition to such authorization, the following shares of Common Stock may be issued under the Plan:

(a) Shares of Common Stock that are forfeited under the Prior Plan and shares of Common Stock that are not issued under the Prior Plan because of a payment of cash in lieu of shares of Common Stock, the cancellation, termination or expiration of Grants and Awards, and/or other similar events under the Prior Plan shall be available for issuance under this Plan.

(b) If a Participant tenders, or has withheld, shares of Common Stock in payment of all or part of the Option Price under an Option granted under the Plan, or in satisfaction of withholding tax obligations thereunder, the shares of Common Stock so tendered by the Participant or so withheld shall become available for issuance under the Plan.

(c) If shares of Common Stock that are issued under the Plan are subsequently forfeited in accordance with the terms of the Grant or Award, the forfeited shares of Common Stock shall become available for issuance under the Plan.

Notwithstanding (a) above, any shares of Common Stock that are authorized to be issued under the Prior Plan prior to the expiration of its term, but that are not issued or covered by Grants or Awards under the Prior Plan, shall not be available for issuance under this Plan.

Subject to the adjustment provisions of Article X, not more than 200,000 shares of Common Stock shall be issued under Awards of Common Stock and/or Restricted Stock.

Subject to the foregoing provisions of this Article V, if a Grant or an Award may be paid only in shares of Common Stock, or in either cash or shares of Common Stock, the shares of Common Stock shall be deemed to be issued hereunder only when and to the extent that payment is actually made in shares of Common Stock. However, the Committee may authorize a cash payment under a Grant or an Award in lieu of shares of Common Stock if there are insufficient shares of Common Stock available for issuance under the Plan.

#### Article VI

##### OPTION PRICE

The price per share for Common Stock purchased on the exercise of an Option shall be fixed by the Committee, but shall not be less than the Fair Market Value on the date of grant.

#### Article VII

##### EXERCISE OF OPTIONS

7.1. Maximum Option Period. The period in which an Option may be exercised shall be determined by the Committee on the date of grant; provided, however that an Incentive Stock Option shall not be exercisable after the expiration of 10 years from the date the Incentive Stock Option was granted.

7.2. Non-Transferability. Non-Qualified Stock Options may be transferable by a Participant and exercisable by a person other than a Participant, but only to the extent specifically provided in an Option Agreement. Incentive Stock Options, by their terms, shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable, during the Participant's lifetime, only by the Participant. No right or interest of a Participant in any Option shall be liable for, or subject to, any lien, obligation or liability of such Participant.

7.3. Employee Status. For purposes of determining the applicability of Section 422 of the Code (relating to Incentive Stock Options), or in the event that the terms of any Grant provide that it may be exercised only during employment or within a specified period of time after termination of employment, the Committee may decide to what extent leaves of absence for governmental or military service, illness, temporary Disability, or other reasons shall not be deemed interruptions of continuous employment.

#### Article VIII

##### METHOD OF EXERCISE

8.1. Exercise. Subject to the provisions of Articles VII and XI, an Option may be exercised in whole at any time or in part from time to time at such times and in compliance with such requirements as the Committee shall determine. An Option granted under this Plan may be exercised with respect to any number of whole shares less than the full number for which the Option could be exercised. Such partial exercise of an Option shall not affect the right to exercise the Option from time to time in accordance with this Plan with respect to remaining shares subject to the Option.

8.2. Payment. Unless otherwise provided by the Agreement, payment of the Option Price shall be made in cash. If the Agreement provides, payment of all or part of the Option Price (and any applicable withholding taxes) may be made by surrendering already owned shares of Common Stock to the Company or by the Company withholding shares of Common Stock from the Participant upon exercise, provided the shares surrendered or withheld have a Fair Market Value (determined as of the day preceding the date of exercise) that is not less than such price or part thereof and any such withholding taxes. In addition, the Committee may establish such payment or other terms as it may deem to be appropriate and consistent with these purposes.

8.3. Shareholder Rights. No participant shall have any rights as a shareholder with respect to shares subject to his Option until the date he exercises such Option.

8.4. Cashless Exercise. To the extent permitted under the applicable laws and regulations, at the request of the Participant and with the consent of the Committee, the Company agrees to cooperate in a "cashless exercise" of the Option. The cashless exercise shall be effected by the Participant delivering to the Securities Broker instructions to exercise all or part of the Option, including instructions to sell a sufficient number of shares of Common Stock to cover the costs and expenses associated therewith. The Committee may permit a Participant to elect to pay any applicable withholding taxes by requesting that the Company withhold the number of shares of Common Stock equivalent at current Fair Market Value to the withholding taxes due.



## Article IX

### COMMON STOCK AND RESTRICTED STOCK

9.1. Award. In accordance with the provisions of Article IV, the Committee will designate persons to whom an Award of Common Stock and/or Restricted Stock is to be made and will specify the number of shares of Common Stock covered by such Award or Awards.

9.2. Vesting. In the case of Restricted Stock, on the date of the Award, the Committee may prescribe that the Participant's rights in the Restricted Stock shall be forfeitable or otherwise restricted for a period of time set forth in the Agreement and/or until certain financial performance objectives are satisfied as determined by the Committee in its sole discretion. Subject to the provisions of Article XI hereof, the Committee may award Common Stock to a Participant which is not forfeitable and is free of any restrictions on transferability.

9.3. Shareholder Rights. Prior to their forfeiture in accordance with the terms of the Agreement and while the shares are Restricted Stock, a Participant will have all rights of a shareholder with respect to Restricted Stock, including the right to receive dividends and vote the shares; provided, however, that (i) a Participant may not sell, transfer, pledge, exchange, hypothecate, or otherwise dispose of Restricted Stock, (ii) the Company shall retain custody of the certificates evidencing shares of Restricted Stock, and (iii) the Participant will deliver to the Company a stock power, endorsed in blank, with respect to each award of Restricted Stock.

## Article X

### ADJUSTMENT UPON CHANGE IN COMMON STOCK

Should the Company effect one or more (x) stock dividends, stock split-ups, subdivisions or consolidations of shares or other similar changes in capitalization; (y) spin-offs, spin-outs, split-ups, split-offs, or other such distribution of assets to shareholders; or (z) direct or indirect assumptions and/or conversions of outstanding Options due to an acquisition of the Company, then the maximum number of shares as to which Grants and Awards may be issued under this Plan shall be proportionately adjusted and their terms shall be adjusted as the Committee shall determine to be equitably required, provided that the number of shares subject to any Grant or Award shall always be a whole number. Any determination made under this Article X by the Committee shall be final and conclusive.

The issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to any Grant or Award.

Article XI

COMPLIANCE WITH LAW AND APPROVAL OF REGULATORY BODIES

No Grant shall be exercisable, no Common Stock shall be issued, no certificates for shares of Common Stock shall be delivered, and no payment shall be made under this Plan except in compliance with all applicable federal and state laws and regulations (including, without limitation, withholding tax requirements) and the rules of all domestic stock exchanges on which the Company's shares may be listed. The Company may rely on an opinion of its counsel as to such compliance. Any share certificate issued to evidence Common Stock for which a Grant is exercised or an Award is issued may bear such legends and statements as the Committee may deem advisable to assure compliance with federal and state laws and regulations. No Grant shall be exercisable, no Common Stock shall be issued, no certificate for shares shall be delivered, and no payment shall be made under this Plan until the Company has obtained such consent or approval as the Committee may deem advisable from regulatory bodies having jurisdiction over such matters.

Article XII

GENERAL PROVISIONS

12.1. Effect on Employment. Neither the adoption of this Plan, its operation, nor any documents describing or referring to this Plan (or any part thereof) shall confer upon any employee any right to continue in the employ of the Company or a Subsidiary or in any way affect any right and power of the Company or a Subsidiary to terminate the employment of any employee at any time with or without assigning a reason therefor.

12.2. Unfunded Plan. The Plan, insofar as it provides for a Grant, is not required to be funded, and the Company shall not be required to segregate any assets that may at any time be represented by a Grant under this Plan.

12.3. Change of Control. Notwithstanding any other provision of the Plan to the contrary, in the event of a Change of Control:

(a) Unless otherwise provided by the Committee in an Agreement, any outstanding Option which is not presently exercisable and vested as of a Change of Control Date shall become fully exercisable and vested to the full extent of the original Grant upon such Change of Control Date.

(b) Unless otherwise provided by the Committee in an Agreement, the restrictions applicable to any outstanding Restricted Stock shall lapse, and such Restricted Stock shall become free of all restrictions and become fully vested, nonforfeitable and transferable to the full extent of the original Award. The Committee may also provide in an Agreement that a Participant may elect, by written notice to the Company within 60 days after a Change of Control Date, to receive, in exchange for shares that were Restricted Stock immediately before the

Change of Control Date, a cash payment equal to the Fair Market Value of the shares surrendered on the last business day the Common Stock is traded on the New York Stock Exchange prior to receipt by the Company of such written notice.

(c) The Committee may, in its complete discretion, cause the acceleration or release of any and all restrictions or conditions related to a Grant or Award, in such manner, in the case of officers and directors of the Company who are subject to Section 16(b) of the Exchange Act, as to conform to the provisions of Rule 16b-3.

12.4. Rules of Construction. Headings are given to the articles and sections of this Plan for ease of reference. The reference to any statute, regulation, or other provision of law shall be construed to refer to any amendment to or successor of such provision of law.

12.5. Rule 16b-3 Requirements. Notwithstanding any other provisions of the Plan, the Committee may impose such conditions on any Grant or Award, and the Board may amend the Plan in any such respects, as they may determine, on the advice of counsel, are necessary or desirable to satisfy the provisions of Rule 16b-3. Any provision of the Plan to the contrary notwithstanding, and except to the extent that the Committee determines otherwise: (a) transactions by and with respect to officers and directors of the Company who are subject to Section 16(b) of the Exchange Act shall comply with any applicable conditions of Rule 16b-3; and (b) every provision of the Plan shall be administered, interpreted, and construed to carry out the foregoing provisions of this sentence.

12.6. Amendment, Modification, and Termination. At any time and from time to time, the Board may terminate, amend, or modify the Plan. Such amendment or modification may be without shareholder approval except to the extent that such approval is required by the Code, pursuant to the rules under Section 16 of the Exchange Act, by any national securities exchange or system on which the Common Stock is then listed or reported, by any regulatory body having jurisdiction with respect thereto, or under any other applicable laws, rules, or regulations. No termination, amendment, or modification of the Plan, other than pursuant to Section 12.5 herein, shall in any manner adversely affect any Grant or Award theretofore issued under the Plan, without the written consent of the Participant. The Committee may amend the terms of any Grant or Award theretofore issued under this Plan, prospectively or retrospectively, but no such amendment shall impair the rights of any Participant without the Participant's written consent except an amendment provided for or contemplated in the terms of the Grant or Award, an amendment made to cause the Plan, or Grant or Award, to qualify for the exemption provided by Rule 16b-3, or an amendment to make an adjustment under Article X. Except as provided in Article X, the Option Price of any outstanding Option may not be adjusted or amended, whether through amendment, cancellation or replacement, unless such adjustment or amendment is approved by the shareholders of the Company.

12.7. Governing Law. The validity, construction and effect of the Plan and any actions taken or related to the Plan shall be determined in accordance with the laws of the Commonwealth of Virginia and applicable federal law.

12.8. Successors and Assigns. All obligations of the Company under the Plan, with respect to Grants and Awards issued hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company. The Plan shall be binding on all successors and permitted assigns of a Participant, including, but not limited to, the estate of such Participant and the executor, administrator or trustee of such estate, and the guardians or legal representative of the Participant.

12.9. Effect on Prior Plan and Other Compensation Arrangements. The adoption of this Plan shall have no effect on Grants and Awards made or to be made pursuant to the Prior Plan and the Company's other compensation arrangements. Nothing contained in this Plan shall prevent the Company from adopting other or additional compensation plans or arrangements for its officers, directors or employees.

12.10. Duration of Plan. No Grant or Award may be issued under this Plan before July 1, 1997, or after June 30, 2007; provided, however, a Grant of a Reload Option may be issued after June 30, 2007, upon the exercise of an Original Option as provided in Section 4.3 hereof. Grants and Awards issued on or after July 1, 1997, but on or before June 30, 2007, and Grants of Reload Options issued after June 30, 2007 upon the exercise of an Original Option as provided in Section 4.3 hereof, shall remain valid in accordance with their terms.

12.11. Effective Date. This Plan has been approved by the Board of Directors of the Company, effective as of July 1, 1997, and by the shareholders of the Company entitled to vote at the 1997 Annual Meeting of Shareholders. Amendments to the Plan were approved by the Board of Directors of the Company effective as of December 2, 1999. Amendments to the Plan were approved by the Board of Directors of the Company effective as of August 7, 2003.

UNIVERSAL CORPORATION  
2002 EXECUTIVE STOCK PLAN

(as amended and restated August 7, 2003)

Article I

DEFINITIONS

1.1. Affiliate means any "subsidiary" or "parent corporation" (within the meaning of Section 424 of the Code) of the Company.

1.2. Agreement means a written agreement (including any amendment or supplement thereto) between the Company and a Participant specifying the terms and conditions of a Grant or an Award issued to such Participant.

1.3. Award means an award of Common Stock, Restricted Stock and/or Phantom Stock.

1.4. Board means the Board of Directors of the Company.

1.5. Change of Control means and shall be deemed to have taken place if: (i) any individual, entity or "group" (within the meaning of Sections 13(d)(3) or 14(d)(2) of the Exchange Act) becomes the beneficial owner of shares of the Company having 20 percent or more of the total number of votes that may be cast for the election of directors of the Company, other than (a) as a result of any acquisition directly from the Company, or (b) as a result of any acquisition by any employee benefit plans (or related trusts) sponsored or maintained by the Company or its Subsidiaries; or (ii) there is a change in the composition of the Board such that the individuals who, as of the date hereof, constitute the Board (the Board as of the date hereof shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Section, that any individual who becomes a member of the Board subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board shall not be so considered as a member of the Incumbent Board; or (iii) if at any time, (w) the Company shall consolidate with, or merge with, any other Person and the Company shall not be the continuing or surviving corporation, (x) any Person shall consolidate with, or merge with, the Company, and the Company shall be the continuing or

surviving corporation and in connection therewith, all or part of the outstanding Common Stock shall be changed into or exchanged for stock or other securities of any other person or cash or any other property, (y) the Company shall be a party to a statutory share exchange with any other Person after which the Company is a Subsidiary of any other Person, or (z) the Company shall sell or otherwise transfer 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any Person or Persons.

1.6. Change of Control Date is the date on which an event described in (i), (ii) or (iii) of Section 1.5 occurs.

1.7. Code means the Internal Revenue Code of 1986, as amended from time to time. References to the Code shall include the valid and binding governmental regulations, court decisions and other regulatory and judicial authority issued or rendered thereunder.

1.8. Commission means the Securities and Exchange Commission or any successor agency.

1.9. Committee means the Executive Compensation and Nominating Committee of the Board.

1.10. Common Stock means the Common Stock of the Company.

1.11. Company means Universal Corporation.

1.12. Disability, with respect to a Participant, means "disability" as defined from time to time under any long-term disability plan of the Company or Subsidiary with which the Participant is employed.

1.13. Exchange Act means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

1.14. Fair Market Value of a share of Common Stock as of any given date (i) prior to August 7, 2003, means the closing sale price of a share of Common Stock on the New York Stock Exchange Composite Tape on such date, or (ii) on or after August 7, 2003, means the closing sale price of a share of Common Stock on the New York Stock Exchange Composite Tape on the next preceding date that the Common Stock was traded on such exchange, in either case as reported by such source as the Committee may select.

1.15. Grant means the grant of an Option or an SAR, or both.

1.16. Incentive Stock Option means an Option that is intended to qualify as an "incentive stock option" under Section 422 of the Code.

1.17. Initial Value means, with respect to an SAR, the Fair Market Value of one share of Common Stock on the date of grant, as set forth in an Agreement.

1.18. Non-Qualified Stock Option means an Option other than an Incentive Stock Option.

1.19. Option means a stock option that entitles the holder to purchase from the Company a stated number of shares of Common Stock at the price set forth in an Agreement.

1.20. Option Price means the price per share for Common Stock purchased on the exercise of an Option as provided in Article VI.

1.21. Participant means an officer, director or employee of the Company or of a Subsidiary who satisfies the requirements of Article IV and is selected by the Committee to receive a Grant or an Award.

1.22. Phantom Stock means a bookkeeping entry on behalf of a Participant by which his account is credited (but not funded) as though Common Stock had been transferred to such account.

1.23. Plan means the Universal Corporation 2002 Executive Stock Plan, as amended.

1.24. Prior Plans mean, collectively, the Universal Corporation 1997 Executive Stock Plan and the Universal Corporation 1989 Executive Stock Plan.

1.25. Restricted Stock means shares of Common Stock awarded to a Participant under Article IX. Shares of Common Stock shall cease to be Restricted Stock when, in accordance with the terms of the applicable Agreement, they become transferable and free of substantial risks of forfeiture.

1.26. Rule 16b-3 means Rule 16b-3, as promulgated by the Commission under Section 16(b) of the Exchange Act, as amended from time to time.

1.27. SAR means a stock appreciation right granted pursuant to this Plan that entitles the holder to receive, with respect to each share of Common Stock encompassed by the exercise of such SAR, the excess of the Fair Market Value at the time of exercise over the Initial Value of the SAR; provided, that any limited stock appreciation right granted by the Committee and exercisable upon a Change of Control shall entitle the holder to receive, with respect to each share of Common Stock encompassed by the exercise of such SAR, the higher of (x) the highest sales price of a share of Common Stock as reported on the New York Stock Exchange composite tape during the 60-day period prior to and including the Change of Control Date, or (y) the highest price per share paid in a Change of Control transaction, over the Initial Value of such SAR, except that in the case of SARs related to Incentive Stock Options, such price shall be based only on the Fair Market Value of the Common Stock on the date that the Incentive Stock Option is exercised.

1.28. Securities Broker means the registered securities broker acceptable to the Company who agrees to effect the cashless exercise of an Option pursuant to Section 8.4 hereof.

1.29. Subsidiary means any corporation, partnership, joint venture or other entity during any period in which at least a 50% voting or profits interest is owned, directly or indirectly, by the Company (or by any entity that is a successor to the Company), and any other business venture designated by the Committee in which the Company (or an entity that is a successor to the Company) has a significant interest, as determined in the discretion of the Committee.

## Article II

### PURPOSES

The Plan is intended to assist the Company in recruiting and retaining officers, directors and key employees with ability and initiative by enabling such persons who contribute significantly to the Company or an Affiliate to participate in its future success and to associate their interests with those of the Company and its shareholders. The Plan is intended to permit the award of Common Stock, Restricted Stock and Phantom Stock, and the issuance of Options qualifying as Incentive Stock Options or Non-Qualified Stock Options as designated by the Committee at time of grant, and SARs. No Option that is intended to be an Incentive Stock Option, however, shall be invalid for failure to qualify as an Incentive Stock Option under Section 422 of the Code but shall be treated as a Non-Qualified Stock Option.

## Article III

### ADMINISTRATION

The Plan shall be administered by the Committee. No Person shall be appointed to or serve as a member of the Committee unless at the time of such appointment and service he shall be a "non-employee director" as defined in Rule 16b-3, an "outside director" within the meaning of Section 162(m) of the Code, and an "independent director" within the meaning of any applicable listing requirement of the New York Stock Exchange applicable to the Committee. The Committee shall have authority to issue Grants and Awards upon such terms (not inconsistent with the provisions of this Plan) as the Committee may consider appropriate. The terms of such Grants and Awards may include conditions (in addition to those contained in this Plan) on (i) the exercisability of all or any part of an Option or SAR and (ii) the transferability or forfeitability of Restricted Stock or Phantom Stock. In addition, the Committee shall have complete authority to interpret all provisions of this Plan; to prescribe the form of Agreements; to adopt, amend, and rescind rules and regulations pertaining to the administration of the Plan; and to make all other determinations necessary or advisable for the administration of this Plan. To fulfill the purposes of the Plan without amending the Plan, the Committee may also modify any Grants or Awards issued to Participants who are nonresident aliens or employed outside of the United States to recognize differences in local law, tax policy or custom.



The express grant in the Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. Any decision made, or action taken, by the Committee or in connection with the administration of this Plan shall be final and conclusive. All expenses of administering this Plan shall be borne by the Company.

#### Article IV

#### ELIGIBILITY

4.1. General. Any officer, director or employee of the Company or of any Subsidiary (including any corporation that becomes a Subsidiary after the adoption of this Plan) who, in the judgment of the Committee, has contributed significantly or can be expected to contribute significantly to the profits or growth of the Company or a Subsidiary may receive one or more Awards or Grants, or any combination or type thereof. Employee and non-employee directors of the Company are eligible to participate in this Plan.

4.2. Grants and Awards. The Committee will designate individuals to whom Grants and/or Awards are to be issued and will specify the number of shares of Common Stock subject to each such Grant or Award. An Option may be granted alone or in addition to other Grants and/or Awards under the Plan. The Committee shall have the authority to grant any Participant Incentive Stock Options, Non-Qualified Stock Options or both types of Options (in each case with or without a related SAR); provided, however, that Incentive Stock Options may be granted only to employees of the Company and its subsidiaries (within the meaning of Section 424(f) of the Code). An SAR may be granted with or without a related Option. All Grants or Awards issued under this Plan shall be evidenced by Agreements, which shall be subject to applicable provisions of this Plan and to such other provisions as the Committee may determine. No Participant may be granted Options that are Incentive Stock Options, or related SARs (under all Incentive Stock Option plans of the Company and Affiliates) which are first exercisable in any calendar year for stock having an aggregate Fair Market Value (determined as of the date an Option is granted) exceeding \$100,000. A Participant may not receive Grants and Awards under this Plan with respect to more than 200,000 shares of Common Stock during any calendar year.

4.3. Reload Options. The Committee shall have the authority to specify at the time of Grant that an optionee shall be granted the right to a further Non-Qualified Stock Option (a "Reload Option") in the event such optionee exercises all or a part of an Option, including a Reload Option (an "Original Option"), by surrendering in accordance with Section 8.2 hereof already owned shares of Common Stock in full or partial payment of the Option Price under such Original Option. Each Reload Option shall be granted on the date of exercise of the Original Option, shall cover a number of shares of Common Stock not exceeding the whole number of shares of Common Stock surrendered in payment of the Option Price under such Original Option, shall have an Option Price equal to the Fair Market Value on the date of Grant of such Reload Option, shall expire on the stated expiration date of the Original Option and shall be subject to such other terms and conditions as the Committee may determine.

4.4. Designation of Option as an Incentive Stock Option or a Non-Qualified Stock Option. The Committee will designate at the time an Option is granted whether the Option is to be treated as an Incentive Stock Option or a Non-Qualified Stock Option. In the absence, however, of any such designation, such Option shall be treated as a Non-Qualified Stock Option.

4.5. Qualification of Incentive Stock Option under Section 422 of the Code. Anything in the Plan to the contrary notwithstanding, no term of the Plan relating to Incentive Stock Options shall be interpreted, amended or altered nor shall any discretion or authority granted under the Plan be exercised so as to disqualify the Plan under Section 422 of the Code or, without the consent of the optionee affected, to disqualify any Incentive Stock Option under such Section 422. No Option that is intended to be an Incentive Stock Option, however, shall be invalid for failure to qualify as an Incentive Stock Option under Section 422 of the Code but shall be treated as a Non-Qualified Stock Option.

#### Article V

##### STOCK SUBJECT TO PLAN

5.1. Maximum Number of Shares to be Issued. Subject to the adjustment provisions of Article XI and the provisions of (a) through (c) of this Article V, up to 2,000,000 shares of Common Stock may be issued under the Plan. In addition to such authorization, the following shares of Common Stock may be issued under the Plan:

(a) Shares of Common Stock that are forfeited under the Prior Plans and shares of Common Stock that are not issued under the Prior Plans because of a payment of cash in lieu of shares of Common Stock, the cancellation, termination or expiration of Grants and Awards, and/or other similar events under the Prior Plans shall be available for issuance under this Plan.

(b) If a Participant tenders, or has withheld, shares of Common Stock in payment of all or part of the Option Price under an Option granted under the Plan, or in satisfaction of withholding tax obligations thereunder, the shares of Common Stock so tendered by the Participant or so withheld shall become available for issuance under the Plan.

(c) If shares of Common Stock that are issued under the Plan are subsequently forfeited in accordance with the terms of the Grant or Award, the forfeited shares of Common Stock shall become available for issuance under the Plan.

Notwithstanding (a) above, any shares of Common Stock that are authorized to be issued under the Prior Plans prior to the expiration of its term, but that are not issued or covered by Grants or Awards under the Prior Plans, shall not be available for issuance under this Plan.

Subject to the adjustment provisions of Article XI, not more than 500,000 shares of Common Stock shall be issued under this Plan pursuant to Awards of Common Stock, Restricted Stock and/or Phantom Stock.

Subject to the foregoing provisions of this Article V, if a Grant or an Award may be paid only in shares of Common Stock, or in either cash or shares of Common Stock, the shares of Common Stock shall be deemed to be issued hereunder only when and to the extent that payment is actually made in shares of Common Stock. However, the Committee may authorize a cash payment under a Grant or an Award in lieu of shares of Common Stock if there are insufficient shares of Common Stock available for issuance under the Plan.

5.2. Independent SARs. Upon the exercise of an SAR granted independently of an Option, the Company may deliver to the Participant authorized but previously unissued Common Stock, cash, or a combination thereof as provided in Section 8.6. The maximum aggregate number of shares of Common Stock that may be issued pursuant to SARs that are granted independently of Options is subject to the provisions of Section 5.1. hereof.

#### Article VI

##### OPTION PRICE

The price per share for Common Stock purchased on the exercise of an Option shall be fixed by the Committee, but shall not be less than the Fair Market Value on the date of grant.

#### Article VII

##### EXERCISE OF OPTIONS AND SARs

7.1. Maximum Option Period or SAR Period. The period in which an Option or SAR may be exercised shall be determined by the Committee on the date of grant; provided, however that an Incentive Stock Option shall not be exercisable after the expiration of 10 years from the date the Incentive Stock Option was granted and any SAR related to an Incentive Stock Option may not be exercised after the expiration of the underlying Incentive Stock Option.

7.2. Non-Transferability of Options and SARs. Non-Qualified Stock Options and SARs may be transferable by a Participant and exercisable by a person other than a Participant, but only to the extent specifically provided in an Option or SAR Agreement. Incentive Stock Options and any related SARs, by their terms, shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable, during the Participant's lifetime, only by the Participant. No right or interest of a Participant in any Option or SAR shall be liable for, or subject to, any lien, obligation or liability of such Participant.

7.3. Employee Status. For purposes of determining the applicability of Section 422 of the Code (relating to Incentive Stock Options), or in the event that the terms of any Grant provide that it may be exercised only during employment or within a specified period of time after termination of employment, the Committee may decide to what extent leaves of absence for governmental or military service, illness, temporary Disability, or other reasons shall not be deemed interruptions of continuous employment.

## Article VIII

### METHOD OF EXERCISE

8.1. Exercise. Subject to the provisions of Articles VII and XII, an Option or SAR may be exercised in whole at any time or in part from time to time at such times and in compliance with such requirements as the Committee shall determine; provided, however, that an SAR that is related to an Incentive Stock Option may be exercised only to the extent that the related Option is exercisable and when the Fair Market Value exceeds the Option Price of the related Option. An Option or SAR granted under this Plan may be exercised with respect to any number of whole shares less than the full number for which the Option or SAR could be exercised. Such partial exercise of an Option or SAR shall not affect the right to exercise the Option or SAR from time to time in accordance with this Plan with respect to remaining shares subject to the Option or SAR. The exercise of an Option shall result in the termination of any related SAR to the extent of the number of shares with respect to which the Option is exercised.

8.2. Payment. Unless otherwise provided by the Agreement, payment of the Option Price shall be made in cash. If the Agreement provides, payment of all or part of the Option Price may be made by surrendering (by either actual delivery or attestation) already owned shares of Common Stock to the Company and the payment of applicable withholding taxes may be made by the Company withholding shares of Common Stock from the Participant upon exercise, provided the shares surrendered or withheld have a Fair Market Value (determined as of the day preceding the date of exercise) that is not less than such price or part thereof and any such withholding taxes. In addition, the Committee may establish such payment or other terms as it may deem to be appropriate and consistent with these purposes.

8.3. Shareholder Rights. No Participant shall have any rights as a shareholder with respect to shares subject to his Option or SAR until the date he exercises such Option or SAR.

8.4. Cashless Exercise. To the extent permitted under the applicable laws and regulations, at the request of the Participant and with the consent of the Committee, the Company agrees to cooperate in a "cashless exercise" of the Option. The cashless exercise shall be effected by the Participant delivering to the Securities Broker instructions to exercise all or part of the Option, including instructions to sell a sufficient number of shares of Common Stock to cover the costs and expenses associated therewith. The Committee may permit a Participant to elect to pay any applicable withholding taxes by requesting that the Company withhold the number of shares of Common Stock equivalent at current Fair Market Value to the withholding taxes due.

8.5. Cashing Out of Option. The Committee may elect to cash out all or part of the portion of any Option to be exercised by paying the optionee an amount, in cash or Common Stock, equal to the excess of the Fair Market Value of the Common Stock that is the subject of the portion of the Option to be exercised over the Option Price times the number of shares of Common Stock subject to the portion of the Option to be exercised on the effective date of such cash out.

8.6. Determination of Payment of Cash and/or Common Stock Upon Exercise of SAR. At the Committee's discretion, the amount payable as a result of the exercise of an SAR may be settled in cash, Common Stock, or a combination of cash and Common Stock. No fractional shares shall be delivered upon the exercise of an SAR but a cash payment will be made in lieu thereof.

#### Article IX

##### COMMON STOCK AND RESTRICTED STOCK

9.1. Award. In accordance with the provisions of Article IV, the Committee will designate persons to whom an Award of Common Stock and/or Restricted Stock is to be made and will specify the number of shares of Common Stock covered by such Award or Awards.

9.2. Vesting. In the case of Restricted Stock, on the date of the Award, the Committee may prescribe that the Participant's rights in the Restricted Stock shall be forfeitable or otherwise restricted. Subject to the provisions of Article XII hereof, the Committee may award Common Stock to a Participant which is not forfeitable and is free of any restrictions on transferability.

9.3. Shareholder Rights. Prior to their forfeiture in accordance with the terms of the Agreement and while the shares are Restricted Stock, a Participant will have all rights of a shareholder with respect to Restricted Stock, including the right to receive dividends and vote the shares; provided, however, that (i) a Participant may not sell, transfer, pledge, exchange, hypothecate, or otherwise dispose of Restricted Stock, (ii) the Company shall retain custody of the certificates evidencing shares of Restricted Stock, and (iii) the Participant will deliver to the Company a stock power, endorsed in blank, with respect to each award of Restricted Stock.

#### Article X

##### PHANTOM STOCK

10.1 Award. Pursuant to this Plan or an Agreement establishing additional terms and conditions, the Committee may designate employees to whom Awards of Phantom Stock may be made and will specify the number of shares of Common Stock covered by the Award.

10.2 Vesting. On the date of the Award, the Committee may prescribe that the Participant's right to receive payment for Phantom Stock shall be forfeitable or otherwise restricted in any manner in the discretion of the Committee for such period of time set forth in the Agreement.

10.3 Shareholder Rights. A Participant for whom Phantom Stock has been credited generally shall have none of the rights of a shareholder with respect to such Phantom Stock. However, a plan or Agreement for the use of Phantom Stock may provide for the crediting of a

Participant's Phantom Stock account with cash or stock dividends declared with respect to Common Stock represented by such Phantom Stock.

10.4 Payment. At the Committee's discretion, the amount payable to a Participant for Phantom Stock credited to his account shall be made in cash, Common Stock or a combination of cash and Common Stock.

10.5 Transferability of Phantom Stock. Phantom Stock may be transferable by a Participant, but only to the extent specifically provided in the Agreement. No right or interest of a Participant in any Phantom Stock shall be liable for, or subject to, any lien, obligation or liability of such Participant.

#### Article XI

##### ADJUSTMENT UPON CHANGE IN COMMON STOCK

Should the Company effect one or more (x) stock dividends, stock split-ups, subdivisions or consolidations of shares or other similar changes in capitalization; (y) spin-offs, spin-outs, split-ups, split-offs, or other such distribution of assets to shareholders; or (z) direct or indirect assumptions and/or conversions of outstanding Options due to an acquisition of the Company, then the maximum number of shares as to which Grants and Awards may be issued under this Plan shall be proportionately adjusted and their terms shall be adjusted as the Committee shall determine to be equitably required, provided that the number of shares subject to any Grant or Award shall always be a whole number. Any determination made under this Article XI by the Committee shall be final and conclusive.

The issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to any Grant or Award.

#### Article XII

##### COMPLIANCE WITH LAW AND APPROVAL OF REGULATORY BODIES

No Grant shall be exercisable, no Common Stock shall be issued, no certificates for shares of Common Stock shall be delivered, and no payment shall be made under this Plan except in compliance with all applicable federal and state laws and regulations (including, without limitation, withholding tax requirements) and the rules of all domestic stock exchanges on which the Company's shares may be listed. The Company may rely on an opinion of its counsel as to such compliance. Any share certificate issued to evidence Common Stock for which a Grant is exercised or an Award is issued may bear such legends and statements as the Committee may deem advisable to assure compliance with federal and state laws and regulations. No Grant shall be exercisable, no Common Stock shall be issued, no certificate for shares shall

be delivered, and no payment shall be made under this Plan until the Company has obtained such consent or approval as the Committee may deem advisable from regulatory bodies having jurisdiction over such matters.

#### Article XIII

##### GENERAL PROVISIONS

13.1 Effect on Employment. Neither the adoption of this Plan, its operation, nor any documents describing or referring to this Plan (or any part thereof) shall confer upon any employee any right to continue in the employ of the Company or a Subsidiary or in any way affect any right and power of the Company or a Subsidiary to terminate the employment of any employee at any time with or without assigning a reason therefor.

13.2 Unfunded Plan. The Plan, insofar as it provides for a Grant or an Award of Phantom Stock, is not required to be funded, and the Company shall not be required to segregate any assets that may at any time be represented by a Grant or an Award of Phantom Stock under this Plan.

13.3 Change of Control. Notwithstanding any other provision of the Plan to the contrary, in the event of a Change of Control:

(a) Unless otherwise provided by the Committee in an Agreement, any outstanding Option or SAR (including any limited SAR) or Phantom Stock which is not presently exercisable and vested as of a Change of Control Date shall become fully exercisable and vested to the full extent of the original Grant upon such Change of Control Date.

(b) Unless otherwise provided by the Committee in an Agreement, the restrictions applicable to any outstanding Restricted Stock shall lapse, and such Restricted Stock shall become free of all restrictions and become fully vested, nonforfeitable and transferable to the full extent of the original Award. The Committee may also provide in an Agreement that a Participant may elect, by written notice to the Company within 60 days after a Change of Control Date, to receive, in exchange for shares that were Restricted Stock immediately before the Change of Control Date, a cash payment equal to the Fair Market Value of the shares surrendered on the last business day the Common Stock is traded on the New York Stock Exchange prior to receipt by the Company of such written notice.

(c) The Committee may, in its complete discretion, cause the acceleration or release of any and all restrictions or conditions related to a Grant or Award, in such manner, in the case of officers and directors of the Company who are subject to Section 16(b) of the Exchange Act, as to conform to the provisions of Rule 16b-3.

13.4 Rules of Construction. Headings are given to the articles and sections of this Plan solely for ease of reference and are not to be considered in construing the terms and

conditions of the Plan. The reference to any statute, regulation, or other provision of law shall be construed to refer to any amendment to or successor of such provision of law.

13.5 Rule 16b-3 Requirements. Notwithstanding any other provisions of the Plan, the Committee may impose such conditions on any Grant or Award, and the Board may amend the Plan in any such respects, as they may determine, on the advice of counsel, are necessary or desirable to satisfy the provisions of Rule 16b-3. Any provision of the Plan to the contrary notwithstanding, and except to the extent that the Committee determines otherwise: (a) transactions by and with respect to officers and directors of the Company who are subject to Section 16(b) of the Exchange Act shall comply with any applicable conditions of Rule 16b-3; and (b) every provision of the Plan shall be administered, interpreted, and construed to carry out the foregoing provisions of this sentence.

13.6 Amendment, Modification, and Termination. At any time and from time to time, the Board may terminate, amend, or modify the Plan. Such amendment or modification may be without shareholder approval except to the extent that such approval is required by the Code, pursuant to the rules under Section 16 of the Exchange Act, by any national securities exchange or system on which the Common Stock is then listed or reported, by any regulatory body having jurisdiction with respect thereto, or under any other applicable laws, rules, or regulations. No termination, amendment, or modification of the Plan, other than pursuant to Section 13.5 herein, shall in any manner adversely affect any Grant or Award theretofore issued under the Plan, without the written consent of the Participant. The Committee may amend the terms of any Grant or Award theretofore issued under this Plan, prospectively or retrospectively, but no such amendment shall impair the rights of any Participant without the Participant's written consent except an amendment provided for or contemplated in the terms of the Grant or Award, an amendment made to cause the Plan, or Grant or Award, to qualify for the exemption provided by Rule 16b-3, or an amendment to make an adjustment under Article XI. Except as provided in Article XI, the Option Price of any outstanding Option may not be adjusted or amended, whether through amendment, cancellation or replacement, unless such adjustment or amendment is approved by the shareholders of the Company.

13.7 Governing Law. The validity, construction and effect of the Plan and any actions taken or related to the Plan shall be determined in accordance with the laws of the Commonwealth of Virginia and applicable federal law.

13.8 Successors and Assigns. All obligations of the Company under the Plan, with respect to Grants and Awards issued hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company. The Plan shall be binding on all successors and permitted assigns of a Participant, including, but not limited to, the estate of such Participant and the executor, administrator or trustee of such estate, and the guardians or legal representative of the Participant.

13.9 Effect on Prior Plans and Other Compensation Arrangements. The adoption of this Plan shall have no effect on Grants and Awards made or to be made pursuant to the Prior



Plans and the Company's other compensation arrangements. Nothing contained in this Plan shall prevent the Company from adopting other or additional compensation plans or arrangements for its officers, directors or employees.

13.10 Limitation of Implied Rights. Neither a Participant nor any other person shall, by reason of participation in the Plan, acquire any right in or title to any assets, funds or property of the Company or any Subsidiary whatsoever, including, without limitation, any specific funds, assets, or other property which the Company or any Subsidiary, in its sole discretion, may set aside in anticipation of a liability under the Plan. Except for those rights in Restricted Stock specifically set forth in subsection 9.3 hereof, a Participant shall have only a contractual right to the Stock or amounts if any, payable under the Plan, unsecured by any assets of the Company or any Subsidiary, and nothing contained in the Plan shall constitute a guarantee that the assets of the Company or any Subsidiary shall be sufficient to pay any benefits to any person. The Plan does not constitute a contract of employment, and selection as a Participant will not give any participating employee the right to be retained in the employ of the Company or any Subsidiary, nor any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan. Except as otherwise provided in the Plan, no Award or Grant under the Plan shall confer upon the holder thereof any rights as a shareholder of the Company prior to the date on which the individual fulfills all conditions for receipt of such rights.

13.11 Duration of Plan. No Grant or Award may be issued under this Plan before July 1, 2002, or after June 30, 2012; provided, however, a Grant of a Reload Option may be issued after June 30, 2012, upon the exercise of an Original Option as provided in Section 4.3 hereof. Grants and Awards issued on or after July 1, 2002, but on or before June 30, 2012, and Grants of Reload Options issued after June 30, 2012 upon the exercise of an Original Option as provided in Section 4.3 hereof, shall remain valid in accordance with their terms.

13.12 Effective Date. This Plan has been approved by the Board, effective as of July 1, 2002, and by the shareholders of the Company entitled to vote at the 2002 Annual Meeting of the Shareholders. Amendments to the Plan were approved by the Executive Committee of the Board, effective as of January 14, 2003, and such action of the Executive Committee was approved and ratified by the Board on February 6, 2003. Amendments to the Plan were approved by the Board of Directors of the Company effective as of August 7, 2003.

UNIVERSAL CORPORATION

2002 STOCK OPTION AND EQUITY ACCUMULATION AGREEMENT

THIS AGREEMENT, dated this 5/th/ day of December 2002, between Universal Corporation, a Virginia corporation (the "Company") and \_\_\_\_\_ (the "Optionee"), is made pursuant and subject to the provisions of the Company's 2002 Executive Stock Plan, which is incorporated herein by reference, and any future amendments thereto (the "Plan"). All terms used herein that are defined in the Plan shall have the same meanings given them in the Plan.

1. Grant of Long Term Option and Reload Options. Pursuant to the Plan, and upon action taken on December 5, 2002, by the Executive Compensation and Nominating Committee (the "Committee") of the Board of Directors of the Company effective as of December 5, 2002, the Company grants to the Optionee, subject to the terms and conditions of the Plan and subject further to the terms and conditions set forth herein, the right and option to purchase \_\_\_\_\_ shares of Common Stock (the "Long Term Option") and the Reload Options as described in subparagraph 5E. The Long Term Option and Reload Options are non-qualified stock options. The option price of the Long Term Option shall be the Fair Market Value of Common Stock at the close of business on December 5, 2002, or \$35.67 per share.

2. Expiration Date. The expiration date of the Long Term Option and any Reload Options granted hereunder shall be December 5, 2012 (the "Expiration Date").

3. Date Options Become Exercisable. Except as provided in subparagraph 6A, any Option granted hereunder may not be exercised until at least six (6) months after the date of grant thereof.

4. Eligibility to Participate. In order to participate and receive the Options granted under this Agreement, the Optionee must sign and return a copy of this Agreement by January 31, 2003.

5. Automatic Exercise Program.

A. Method of Automatic Exercise. Until the Automatic Exercise Program terminates as provided in subparagraph 5G, the Optionee authorizes the Company on any Automatic Exercise Date (as hereinafter defined), including the Initial Exercise Date (as hereinafter defined), automatically to exercise the lowest price Long Term or Reload Options granted the Optionee under this Program only by means of a stock-for-stock swap using shares of Common Stock then credited to the Optionee's Account. On the Initial Exercise Date, such Options shall be automatically exercised to purchase the number of shares of Common Stock which can be purchased from shares of Common Stock credited to the Optionee's Account. With respect to subsequent Automatic Exercise Dates, the Optionee authorizes the Company to automatically exercise such Options for the amount of shares of Common Stock which can be purchased from shares of Common Stock held in the Optionee's Account received on previous Automatic Exercise Dates and shares of Common Stock, if any, contributed to the Optionee's Account pursuant to subparagraph 5D, less the number of shares sold for payment of taxes under subparagraph 5F of this Agreement. The automatic exercise shall only occur if the Fair Market Value on the Automatic Exercise Date exceeds by one percent (1%) or more the exercise price of the lowest priced Option held by the Optionee under this Program (the "Automatic Exercise Criterion"). The Optionee grants the Company or any of its officers the power of attorney to endorse and transfer the share certificates credited to the Optionee's Account in accordance with the Automatic Exercise Program.

The power of attorney shall cease upon the termination of the Optionee's participation in the Automatic Exercise Program.

B. Other Options Granted by Universal to the Optionee. Options granted to the Optionee under agreements other than this Agreement, the Universal Corporation 1999 Stock Option and Equity Accumulation Agreement, as amended (the "1999 Agreement"), Universal Corporation 1997 Stock Option and Equity Accumulation Agreement, as amended (the "1997 Agreement"), the Universal Corporation 1994 Stock Option and Equity Accumulation Agreement, as amended (the "1994 Agreement") or the Universal Corporation 1991 Stock Option and Equity Accumulation Agreement, as amended (the "1991 Agreement") are not eligible to be included in the Automatic Exercise Program under this Agreement, the 1999 Agreement, the 1997 Agreement, the 1994 Agreement and the 1991 Agreement.

C. Automatic Exercise Dates; Amendment of 1999 Agreement, 1997 Agreement, 1994 Agreement and 1991 Agreement. The initial automatic exercise date under the Automatic Exercise Program for Options granted under this Agreement shall be June 5, 2003, or the first business day thereafter on which the Automatic Exercise Criterion is met (the "Initial Exercise Date"), and subsequent automatic exercise dates for such Options shall occur upon the first business day on which the New York Stock Exchange trades stock which occurs after a six month interval has elapsed since the last automatic exercise date, or the first business day thereafter on which the Automatic Exercise Criterion is met (the "Automatic Exercise Date(s)"); provided, however, that any Automatic Exercise Date for Options granted under this Agreement, the 1999 Agreement, the 1997 Agreement, the 1994 Agreement or the 1991 Agreement shall be at least six

months after the last Automatic Exercise Date for any such Options. Subparagraph 5C of the 1999 Agreement is amended to read as follows:

C. The initial automatic exercise date under the Automatic Exercise Program for Options granted under this Agreement shall be June 2, 2000, or the first business day thereafter on which the Automatic Exercise Criterion is met (the "Initial Exercise Date"), and subsequent automatic exercise dates for such Options shall occur upon the first business day on which the New York Stock Exchange trades stock which occurs after a six month interval has elapsed since the last such automatic exercise date, or the first business day thereafter on which the Automatic Exercise Criterion is met (the "Automatic Exercise Date(s)"); provided, however, that any Automatic Exercise Date for Options granted under this Agreement, the Universal Corporation 2002 Stock Option and Equity Accumulation Agreement, the Universal Corporation 1997 Stock Option and Equity Accumulation Agreement, the Universal Corporation 1994 Stock Option and Equity Accumulation Agreement, or the Universal Corporation 1991 Stock Option and Equity Accumulation Agreement shall be at least six months after the last Automatic Exercise Date for any such Options.

Subparagraph 5C of the 1997 Agreement is amended to read as follows:

C. The initial automatic exercise date under the Automatic Exercise Program for Options granted under this Agreement shall be June 15, 1998, or the first business day thereafter on which the Automatic Exercise Criterion is met (the "Initial Exercise Date"), and subsequent automatic exercise dates for such Options shall occur upon the first business day on which the New York Stock Exchange trades stock which occurs after a six month interval has elapsed since the last such automatic exercise date, or the first business day thereafter on which the Automatic Exercise Criterion is met (the "Automatic Exercise Date(s)"); provided, however, that any Automatic Exercise Date for Options granted under this Agreement, the Universal Corporation 2002 Stock Option and Equity Accumulation Agreement, the Universal Corporation 1999 Stock Option and Equity Accumulation Agreement, the Universal Corporation 1994 Stock Option and Equity Accumulation Agreement, or the Universal Corporation 1991 Stock Option and Equity Accumulation Agreement shall be at least six months after the last Automatic Exercise Date for any such Options.

Subparagraph 5C of the 1994 Agreement is amended to read as follows:

C. The initial automatic exercise date under the Automatic Exercise Program for Options granted under this Agreement shall be June 1, 1995, or the first business day thereafter on which the Automatic Exercise Criterion is met (the "Initial Exercise Date"), and subsequent automatic exercise dates for such Options

shall occur upon the first business day on which the New York Stock Exchange trades stock which occurs after a six month interval has elapsed since the last such automatic exercise date, or the first business day thereafter on which the Automatic Exercise Criterion is met (the "Automatic Exercise Date(s)"); provided, however, that any Automatic Exercise Date for Options granted under this Agreement, the Universal Corporation 2002 Stock Option and Equity Accumulation Agreement, the Universal Corporation 1999 Stock Option and Equity Accumulation Agreement, the Universal Corporation 1997 Stock Option and Equity Accumulation Agreement, or the Universal Corporation 1991 Stock Option and Equity Accumulation Agreement shall be at least six months after the last Automatic Exercise Date for any such Options.

Subparagraph 5C of the 1991 Agreement is amended to read as follows:

C. The initial automatic exercise date under the Automatic Exercise Program shall be November 1, 1992, or the first business day thereafter on which the Automatic Exercise Criterion is met (the "Initial Exercise Date"), and subsequent automatic exercise dates shall occur upon the first business day on which the New York Stock Exchange trades stock which occurs after a six month interval has elapsed since the last automatic exercise date, or the first business day thereafter on which the Automatic Exercise Criterion is met (the "Automatic Exercise Date(s)"); provided, however, that any Automatic Exercise Date for Options granted under this Agreement, the Universal Corporation 2002 Stock Option and Equity Accumulation Agreement, the Universal Corporation 1999 Stock Option and Equity Accumulation Agreement, the Universal Corporation 1997 Stock Option and Equity Accumulation Agreement, or the Universal Corporation 1994 Stock Option and Equity Accumulation Agreement shall be at least six months after the last Automatic Exercise Date for any such Options.

D. Method of Payment Under Automatic Exercise Program; Amendment of 1999 Agreement, 1997 Agreement, 1994 Agreement and 1991 Agreement. Other than the payment on the Initial Exercise Date from shares of Common Stock then credited to the Optionee's Account pursuant to the 1999 Agreement, the 1997 Agreement, the 1994 Agreement, the 1991 Agreement and the Universal Corporation 1997 Restricted Stock Agreement (the "1997 Restricted Stock Agreement"), payment by the Optionee under the Automatic Exercise Program shall be only from shares of Common Stock received from the previous exercise under the Program and from

additional shares of Common Stock delivered to the Optionee's Account as provided in this subparagraph 5D.

Prior to termination of the Automatic Exercise Program as provided in subparagraph 5G, the Committee may permit the Optionee to deliver additional shares of Common Stock to the Company for credit to the Optionee's Account for inclusion in the Program. The Committee may limit the total number of such additional shares that may be contributed by the Optionee. Such additional shares may be delivered from time-to-time during the term of the Program. However, for purposes of the Program, the delivery of shares shall be made at least six (6) months prior to the Automatic Exercise Date on which such shares shall be used for a stock swap pursuant to the Program.

E. Reload Options. Only participants in the Automatic Exercise Program will be eligible to receive Reload Options. A Reload Option is an automatic grant of a new Option each time the Company executes an automatic stock-for-stock swap exercise. The number of shares granted in the Reload Option shall equal the number of shares exchanged in payment of the exercise price on an Automatic Exercise Date. The Reload Options will be fully vested six (6) months from the date of grant and will have a term that expires on the same date as the automatically exercised Option. The exercise price for a Reload Option shall be the Fair Market Value on the date of the Reload Option grant.

The grant of a Reload Option shall be subject to there being sufficient shares available for such grants under the Plan, the Company's 1997 Executive Stock Plan, as amended and the Company's 1989 Executive Stock Plan, as amended. If there are not sufficient shares available to fully meet the obligation of the Automatic Exercise Program as described above, then the

Committee will, in its sole discretion, allocate the available shares to participants. In addition, should the Committee, in its sole discretion, determine that continuing to grant Reload Options is no longer in the best interest of the Company, it may, by means of written notice to participants, cause the discontinuance of the granting of Reload Options.

F. Payment of Taxes Under the Automatic Exercise Program. Unless at least six (6) months prior to an Automatic Exercise Date the Optionee gives written notice to the Company, directed to the attention of its Secretary, that he or she will pay the Company, on a timely basis, cash for the payment of withholding taxes on the gain realized from the exercise of an Option under the Automatic Exercise Program, the Company shall (i) withhold from the shares of Common Stock issuable to the Optionee upon such exercise only the number of whole shares of Common Stock which on such exercise date best approximates but does not exceed the minimum statutory amount of taxes required to be withheld by the Company and (ii) immediately after such exercise deliver from the Optionee's account to the broker hereinafter designated by the Optionee, free of all restrictions, the number of whole shares of Common Stock which best approximates the amount of taxes to be withheld in excess of the minimum statutory amount required to be withheld by the Company. For purposes of the preceding sentence, the Optionee designates Legg Mason Wood Walker, Inc., Riverfront Plaza, Suite 810, 951 East Byrd Street, Richmond, Virginia 23219-4027, Account No. \_\_\_\_\_, as his or her broker and authorizes and directs the Company to deliver such shares to said broker and authorizes and directs the broker to sell the shares and remit the proceeds to the Company for the payment of withholding taxes.

G. Termination of the Automatic Exercise Program. The Automatic Exercise Program shall terminate upon the earlier of (i) the date on which the Optionee gives written notice



to the Company that he or she irrevocably elects to terminate participation in such Program, provided that such notice may not be given before the second business day after the Initial Exercise Date; or (ii) the date the Optionee's employment with the Company is terminated; or (iii) the failure by the Company to be in a position to grant Reload Options on any Automatic Exercise Date pursuant to subparagraph 5E in which case the Company shall promptly notify the Optionee.

H. Restriction on Sales and Encumbrance of Shares. During the Optionee's participation in the Automatic Exercise Program, the Optionee agrees that unless otherwise permitted by the Committee in its sole discretion, (i) shares of Common Stock contributed to or received by and on behalf of the Optionee pursuant to the Program and (ii) shares of Common Stock representing the after-tax gain on each automatic exercise, rounded to the nearest whole share, shall be held in the Optionee's Account and shall not be available for sale, transfer, pledge, hypothecation or other disposition except for payment of tax obligations as provided in subparagraph 5F of this Agreement, and stock-for-stock Option exercises pursuant to paragraph 5 of this Agreement. All shares of Common Stock held in the Optionee's Account shall be owned by and registered in the name of the Optionee, and the Optionee shall have all rights of ownership with respect thereto, including voting rights and the right to receive dividends. Such shares shall be held by the Company and a legend on the stock certificate(s) shall note the restrictions. The restrictions on the shares of Common Stock held in the Optionee's Account shall lapse upon termination of the Automatic Exercise Program as provided in subparagraph 5G.

I. Maintenance of Shares. The Company shall establish and maintain an individual account in the Optionee's name (the "Optionee's Account") to hold shares of Common Stock registered in the Optionee's name contributed to or obtained through the Automatic Exercise

Program under this Agreement, the 1999 Agreement, the 1997 Agreement, the 1994 Agreement, the 1991 Agreement and the 1997 Restricted Stock Agreement. The Company shall deliver a written report to the Optionee on the status of the Optionee's Account following each Automatic Exercise Date. Upon termination of the Automatic Exercise Program as provided in subparagraph 5G, all shares of Common Stock held in the Optionee's Account shall be delivered to the Optionee free of all restrictions.

6. Nonautomatic Exercises by the Optionee.

A. Subject to Automatic Exercise Program Termination. Except for exercises under the Automatic Exercise Program as provided in paragraph 5, the Optionee shall not be able to exercise the Long Term and Reload Options until the earlier of (i) the date the Program terminates as provided in subparagraph 5G or (ii) the date one (1) year prior to the Expiration Date. On such date, such Options that have vested pursuant to paragraph 3 and that have not been previously exercised under the Automatic Exercise Program may be exercised in the manner provided in this paragraph 6. During the one (1) year period prior to the Expiration Date, such Options that have not vested pursuant to paragraph 3 and that have not been previously exercised under the Automatic Exercise Program may only be exercised in the manner provided in this paragraph 6.

B. Nonautomatic Exercises. After termination of the Automatic Exercise Program in accordance with subparagraphs 5G(ii) or (iii), or on the date one (1) year prior to the Expiration Date, all vested and unexercised Long Term and Reload options shall continue to be exercisable by the Optionee until the earlier of the termination of the Optionee's rights hereunder pursuant to subparagraphs 6E and 6F, or the Expiration Date. A partial exercise of such Options pursuant to subparagraphs 6E or 6F shall not affect Optionee's right to exercise such Options with

respect to the remaining shares, subject to the six month vesting period set forth in paragraph 3 and the conditions of the Plan and this Agreement. If the Optionee terminates the Automatic Exercise Program pursuant to subparagraph 5G(i), such Options may only be exercised in the manner provided in subparagraph 6H.

C. Method of Exercising and Payment for Shares. An Option exercised pursuant to this paragraph 6 shall be exercised by written notice of the Optionee delivered to the attention of the Company's Secretary at the Company's principal office in Richmond, Virginia. The written notice shall specify the number of shares being acquired pursuant to the exercise of the Option when such Option is being exercised in part pursuant to subparagraphs 6E or 6F. The exercise date shall be the date specified in such notice or, if no date is specified, the date such notice is otherwise received by the Company. Such notice shall provide for or be accompanied by payment in full of the Option Price for each share of Common Stock being acquired pursuant to such exercise, in cash or cash equivalent acceptable to the Committee, by the surrender (by physical delivery or attestation) to the Company of mature shares of Common Stock (shares held by the Optionee for at least six months or as otherwise required by applicable laws and regulations) with a Fair Market Value at the time of exercise equal to the Option Price, or by any combination of cash or acceptable cash equivalent and Common Stock having an aggregate Fair Market Value equal to the Option Price.

D. Cashless Exercise. To the extent permitted under the applicable laws and regulations, at the request of the Optionee, the Company agrees to cooperate in a "cashless exercise" of a Long Term or Reload Option pursuant to this paragraph 6. The cashless exercise shall be effected by the Optionee delivering to the Securities Broker instructions to exercise all or

part of the Option, including instructions to sell a sufficient number of shares of Common Stock to cover the costs and expenses associated therewith.

E. Exercise During Employment. Subject to (i) the provisions of subparagraph 6F which shall apply to exercise in the event of retirement, death, disability or Committee approval, and (ii) the provisions of subparagraph 6H which shall apply to exercise in the event Optionee terminates his or her participation in the Automatic Exercise Program as provided in subparagraph 5G(i), all vested and unexercised Long Term and Reload Options may be exercised in whole or in part during Optionee's employment with the Company or an Affiliate from the date such Options are exercisable pursuant to subparagraph 6B until the earlier of the expiration of ninety (90) days from the date the Optionee's employment with the Company or an Affiliate is terminated or the Expiration Date; provided, however, that the Optionee's right to exercise the Options shall terminate immediately in the event the Optionee's employment with the Company or an Affiliate is terminated for cause as hereinafter defined or the Optionee is in violation of the provisions of paragraph 7 hereof. For purposes of the preceding sentence, the Optionee's employment shall be deemed to have been terminated for cause if the Optionee's employment is terminated as result of fraud, dishonesty or embezzlement from the Company or an Affiliate.

F. Exercise in the Event of Retirement, Death, or Disability or Approval by the Committee. Subject to the provisions of subparagraph 6H which shall apply to exercise in the event the Optionee terminates his or her participation in the Automatic Exercise Program as provided in subparagraph 5G(i), all unexercised Long Term and Reload Options that have vested pursuant to paragraph 3 shall be exercisable in whole or in part in the event that prior to the Expiration Date (i) the Optionee retires (early, after age 55, normal, at age 65, or delayed) or, (ii)

the Optionee dies or becomes permanently and totally disabled (as defined in the Disability Benefits Plan of Universal Leaf Tobacco Company, Incorporated and Domestic Subsidiaries) while employed by the Company or an Affiliate or (iii) for any reason approved by the Committee in its absolute discretion. In the event of death, such Options may be exercised by the Optionee's estate, or the person or persons to whom his or her rights under this Agreement shall pass by will or the laws of descent and distribution. Options that become exercisable pursuant to this subparagraph 6F will continue to be exercisable for the remainder of the period proceeding the Expiration Date.

G. Exercise in the Event of Liquidation or Reorganization. In the event of a dissolution or liquidation of the Company or a merger or consolidation in which the Company is not the surviving corporation, the Optionee shall have the right immediately prior to such dissolution or liquidation, or merger or consolidation, to exercise all unexercised Long Term and Reload Options in full.

H. Exercise in the Event the Optionee Terminates Automatic Exercise Program. In the event the Optionee irrevocably elects to terminate his or her participation in the Automatic Exercise Program as provided in subparagraph 5G(i), the Optionee may (i) exercise all, but not a part, of all unexercised Long Term and Reload Options which have vested pursuant to paragraph 3 for a period of thirty (30) days from the date the Optionee gives written notice as provided in subparagraph 5G(i), (ii) exercise unexercised Reload Options which have not vested pursuant to paragraph 3 for a period of thirty (30) days from the date each such Option vests, (iii) exercise all vested and unexercised Long Term and Reload Options in whole or in part during the one (1) year period prior to the Expiration Date, and (iv) exercise all vested and unexercised Long Term and Reload Options in whole or in part pursuant to subparagraph 6F. An exercise pursuant to

subparagraph 6H(iii) may only be made during the Optionee's employment with the Company or an Affiliate.

I. Payment of Withholding Taxes. Unless the Optionee pays to the Company in cash (or provides for the payment of) the withholding taxes on the gain realized from the exercise of the Option prior to or at the time of the date of exercise, the Company shall (i) withhold from the shares of Common Stock issuable to the Optionee upon such exercise only the number of whole shares of Common Stock which on such exercise date best approximates but does not exceed the minimum statutory amount of taxes required to be withheld by the Company and (ii) immediately after such exercise deliver to the Securities Broker, free of all restrictions, the number of whole shares of Common Stock, from the shares issued upon exercise, which best approximates the amount of taxes to be withheld in excess of the minimum statutory amount required to be withheld by the Company. The Optionee authorizes and directs the Company to deliver such shares to the Securities Broker and authorizes and directs the Securities Broker to sell the shares and remit the proceeds to the Company for the payment of withholding taxes.

7. Optionee Covenants. The Optionee recognizes that over a period of many years the Company and its Affiliates (including any predecessors or entities from which it might have acquired goodwill) have developed, at considerable expense, relationships with customers and prospective customers which constitute a major part of the value of the goodwill of the Company and the Affiliates. During the course of his or her employment by the Company, the Optionee will have substantial contact with these customers and prospective customers. In order to protect the goodwill of the Company's and the Affiliates' businesses, the Optionee covenants and agrees that, in the event of the termination of his or her employment, whether voluntary or involuntary, he or

she shall forfeit the Options granted under this Agreement if he or she directly or indirectly as an owner, shareholder, director, employee, partner, agent, broker, consultant or other participant, for the period during which such Options are exercisable:

- (a) calls upon or causes to be called upon, or solicits or assists in the solicitation of any person, firm, association, or corporation, listed as a customer of the Company or any Affiliate on the date of termination of the Optionee's employment, for the purpose of selling, renting or supplying any product or service competitive with the products or services of the Company or any Affiliate; or
- (b) performs or contracts to perform for a competitor of the Company or any Affiliate the same or similar services he or she performed for the Company or such Affiliate.

Subparagraphs (a) and (b) of this paragraph 7 are separate and divisible covenants; if for any reason any one covenant is held to be invalid or unenforceable, in whole or in part, the same shall not be held to affect the validity or enforceability of the others, or of any other provision of this Agreement. The period and scope of the restrictions set forth in this paragraph 7 shall be reduced to the maximum permitted by the law actually applied to determine the validity of each subparagraph.

8. Fractional Shares. Fractional shares shall not be issuable hereunder, and when any provision hereof may entitle the Optionee to a fractional share such fraction shall be disregarded.

9. No Right to Continued Employment. This Agreement does not confer upon the Optionee any right with respect to continuance of employment by the Company or an Affiliate, nor

shall it interfere in any way with the right of the Company or an Affiliate to terminate his or her employment at any time.

10. Investment Representation. The Optionee agrees that unless such shares previously have been registered under the Securities Act of 1933 (i) any shares of Common Stock purchased by him or her hereunder will be purchased for investment and not with a view to distribution or resale and (ii) until such registration, certificates representing such shares may bear an appropriate legend to assure compliance with such Act. This investment representation shall terminate when such shares have been registered under the Securities Act of 1933.

11. Administration and Interpretation. The Plan Administrator shall be the Company; however, this Agreement shall be operated under the supervision and authority of the Committee. The Committee shall have the authority to terminate the Automatic Exercise Program and the issuance of any Reload Options. Also, the Committee may issue additional Reload Options and Long Term Options under this Agreement if authorized by the Plans or any amendment thereto, or any successor plan. Any interpretation of this Agreement shall be made by the Committee. Any amendment to this Agreement must be authorized by the Committee.

12. Change in Capital Structure. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by the Long Term and Reload Options, and the price per share thereof, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock of the Company resulting from a subdivision or consolidation of shares or the payment of a stock dividend (but only on the Common Stock), a stock split-up or any other increase or decrease in the number of such shares effected without receipt of cash or property or labor or services by the Company.



Subject to any required action by the shareholders of the Company, if the Company shall be the surviving corporation in any merger or consolidation, the Long Term and Reload Options shall pertain to and apply to the securities to which a holder of the number of shares of Common Stock subject to such Options would have been entitled. A dissolution or liquidation of the Company or a merger or consolidation in which the Company is not the surviving corporation, shall cause such Options to terminate, provided that the Optionee shall, in such event, have the right immediately prior to such dissolution or liquidation, or merger or consolidation in which the Company is not the surviving corporation, to exercise such Options.

In the event of a change in the Common Stock of the Company as presently constituted, which is limited to a change of all of its authorized shares without par value into the same number of shares with a different par value, the shares resulting from any such change shall be deemed to be the Common Stock within the meaning of the Plan.

To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive.

Except as hereinbefore expressly provided in this paragraph 12, the Optionee shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger, or consolidation or spin-off of assets or stock of another corporation, and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof

shall be made with respect to, the number or price of shares of Common Stock subject to the Options granted under this Agreement.

The grant of the Long Term and Reload Options pursuant to this Agreement shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

13. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Virginia, except to the extent that federal law shall be deemed to apply.

14. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the date hereof and the provisions of this Agreement, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

15. Optionee Bound by Plan. The Optionee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof.

16. Binding Effect. Subject to the limitations stated herein and in the Plan, this Agreement shall be binding upon and inure to the benefit of the legatees, distributees, and personal representatives of the Optionee and the successors of the Company.

17. Nontransferability. The Long Term Option and Reload Options granted under this Agreement shall be nontransferable except by will or by the laws of descent and distribution; provided, however, that the Optionee shall be entitled, in the manner provided in paragraph 18 hereof, to designate a beneficiary to exercise his or her rights, and to receive any shares of Common Stock issuable, with respect to such Options upon the death of the Optionee. The Long Term

Option and Reload Options may be exercised during the lifetime of the Optionee only by the Optionee or, if permitted by applicable law, the Optionee's guardian or legal representative.

18. Designation of Beneficiary. The Optionee may designate a beneficiary by completing a beneficiary designation form approved by the Committee and delivering the completed designation form to the Human Resources Department of the Company. The person who is the Optionee's named beneficiary at the time of his or her death (herein referred to as the "Beneficiary") shall be entitled to exercise the Option, to the extent it is exercisable, after the death of the Optionee. The Optionee may from time to time revoke or change his or her Beneficiary without the consent of any prior Beneficiary by filing a new designation with the Human Resources Department of the Company. The last such designation received by the Company shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Company prior to the Optionee's death, and in no event shall any designation be effective as of a date prior to such receipt. If the Committee is in doubt as to the right of any person to exercise the Long Term Option and Reload Options, the Company may refuse to recognize such exercise, without liability for any interest or dividends thereon, until the Committee determines the person entitled to exercise such Options, which determination shall be final and conclusive.

IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by a duly authorized officer, and the Optionee has affixed his or her signature hereto.

UNIVERSAL CORPORATION

OPTIONEE

By: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
[Name]

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UNIVERSAL CORPORATION

Schedule of Grants to Executive Officers

Optionees -----	Options Awarded -----
A. B. King	225,000
W. L. Taylor	105,000
H. H. Roper	105,000
J. H. Starkey	67,500
G. C. Freeman	48,000

UNIVERSAL CORPORATION  
2002 NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT dated as of December 5, 2002, between Universal Corporation, a corporation organized under the laws of Virginia (the "Company"), and \_\_\_\_\_ (the "Optionee"), is made pursuant and subject to the provisions of the Company's 2002 Executive Stock Plan, which is incorporated herein by reference, and any future amendments thereto (the "Plan"). Capitalized terms not otherwise defined herein have the meanings given them in the Plan.

1. Grant of Option. Pursuant to the Plan, the Company, on December 5, 2002, granted to the Optionee, subject to the terms and conditions of the Plan and subject further to the terms and conditions herein set forth, the right and option to purchase from the Company all or any part of an aggregate of \_\_\_\_\_ shares of common stock of the Company ("Common Stock") at the option price of \$35.67 per share. Such option will be exercisable as hereinafter provided.

2. Terms and Conditions. This option is subject to the following terms and conditions:

- (a) Expiration Date. The Expiration Date of this option is December 5, 2012.
- (b) Exercise of Option. Except as provided in paragraphs 4 and 5, this option shall be exercisable, with respect to one-third (1/3) of the total number of shares of Common Stock covered by this option, as set forth in paragraph 1 above, for each full 12 month period after the date hereof and each anniversary of such date, up to a total of three (3) such periods, that the Optionee continues to be employed by the Company or an Affiliate after the date of the granting of this option. Once this option has become exercisable with respect to a particular number of shares in accordance with the preceding sentence, it shall continue to be exercisable with

respect to such shares until the earlier of (i) termination of the Optionee's rights hereunder pursuant to paragraph 3 or (ii) the Expiration Date. A partial exercise of this option shall not affect the Optionee's right to exercise this option subsequently with respect to the remaining shares that are exercisable subject to the conditions of the Plan and this Agreement.

- (c) Method of Exercising and Payment for Shares. This option shall be exercised by written notice delivered to the attention of the Company's Secretary at the Company's principal office in Richmond, Virginia. The written notice shall specify the number of shares being acquired pursuant to the exercise of the option when such option is being exercised in part in accordance with subparagraph 2(b) hereof. The exercise date shall be the date specified in such notice or, if no date is specified, the date such notice is otherwise received by the Company. Such notice shall provide for or be accompanied by payment of the option price in full for each share of Common Stock being acquired pursuant to such exercise, in cash or cash equivalent acceptable to the Committee, by the surrender (by physical delivery or attestation) of mature shares of Common Stock (shares held by the Optionee for at least six months or as otherwise required by applicable laws and regulations) with a Fair Market Value at the time of exercise equal to the option price or by any combination of cash or acceptable cash equivalent and Common Stock having an aggregate Fair Market Value equal to the option price.
- (d) Cashless Exercise. To the extent permitted under the applicable laws and regulations, at the request of the Optionee, the Company agrees to cooperate in a "cashless exercise" of the option pursuant to this paragraph 2. The cashless exercise shall be effected by the Optionee delivering to the Securities Broker instructions to exercise all or part of the option, including

instructions to sell a sufficient number of shares of Common Stock to cover the costs and expenses associated therewith.

- (e) Payment of Withholding Taxes. Unless the Optionee pays to the Company in cash (or provides for the payment of) the withholding taxes on the gain realized from the exercise of the Option prior to or at the time of the date of exercise, the Company shall (i) withhold from the shares of Common Stock issuable to the Optionee upon such exercise only the number of whole shares of Common Stock which on such exercise date best approximates but does not exceed the minimum statutory amount of taxes required to be withheld by the Company and (ii) immediately after such exercise deliver to the Securities Broker, free of all restrictions, the number of whole shares of Common Stock, from the shares issued upon exercise, which best approximates the amount of taxes to be withheld in excess of the minimum statutory amount required to be withheld by the Company. The Optionee authorizes and directs the Company to deliver such shares to the Securities Broker and authorizes and directs the Securities Broker to sell the shares and remit the proceeds to the Company for the payment of withholding taxes.
- (f) Nontransferability. The Option granted under this Agreement shall be nontransferable except by will or by the laws of descent and distribution; provided, however, that the Optionee shall be entitled, in the manner provided in subparagraph 2(f) hereof, to designate a beneficiary to exercise his or her rights, and to receive any shares of Common Stock issuable, with respect to such Option upon the death of the Optionee. The Option may be exercised during the lifetime of the Optionee only by the Optionee or, if permitted by applicable law, the Optionee's guardian or legal representative.
- (g) Designation of Beneficiary. The Optionee may designate a beneficiary by completing a beneficiary designation form approved by the Committee and

delivering the completed designation form to the Human Resources Department of the Company. The person who is the Optionee's named beneficiary at the time of his or her death (herein referred to as the "Beneficiary") shall be entitled to exercise the Option, to the extent it is exercisable, after the death of the Optionee. The Optionee may from time to time revoke or change his or her Beneficiary without the consent of any prior Beneficiary by filing a new designation with the Human Resources Department of the Company. The last such designation received by the Company shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Company prior to the Optionee's death, and in no event shall any designation be effective as of a date prior to such receipt. If the Committee is in doubt as to the right of any person to exercise the Option, the Company may refuse to recognize such exercise, without liability for any interest or dividends thereon, until the Committee determines the person entitled to exercise such Option, which determination shall be final and conclusive.

3. Exercise During Employment. Subject to the vesting periods set forth in subparagraph 2(b), this option may not be exercised in whole or in part after the earlier of (i) the date ninety days after the date the Optionee terminates his or her employment with the Company or an Affiliate or (ii) the Expiration Date; provided, however, that the Optionee's right to exercise this option shall terminate immediately in the event the Optionee's employment with the Company or an Affiliate is terminated for cause as hereinafter defined or the Optionee is in violation of paragraph 6 hereof. For purposes of the preceding sentence, the Optionee's



employment shall be deemed to have been terminated for cause if the Optionee's employment is terminated as a result of fraud, dishonesty or embezzlement from the Company or an Affiliate.

4. Exercise in the Event of Retirement, Death, Disability. Notwithstanding the vesting requirement set forth in subparagraph 2(b), this option shall become exercisable in full in the event that prior to the Expiration Date of this option the Optionee (i) retires (early, after age 55, normal, at age 65, or delayed retirement) or for any reason approved by the Committee in its absolute discretion or, (ii) dies or becomes totally and permanently disabled (as defined below) while employed by the Company or an Affiliate. In the event of death this option may be exercised by the Optionee's estate, or the person or persons to whom his or her rights under this option shall pass by will or the laws of descent and distribution. For purposes of this Agreement, "totally and permanently disabled" shall mean the incapacity of the Optionee by reason of bodily injury or disease which prevents the Optionee from performing the customary duties of his or her position with the Company or an Affiliate, provided such disability can be expected to continue for a lifetime. Options that become exercisable pursuant to this paragraph 4 will continue to be exercisable for the remainder of the period preceding the Expiration Date.

5. Exercise in the Event of Liquidation or Reorganization. In the event of a dissolution or liquidation of the Company or a merger or consolidation in which the Company is not the surviving corporation, the Optionee shall have the right immediately prior to such dissolution or liquidation, or merger or consolidation, to exercise his or her option in full.

6. Optionee Covenants. The Optionee recognizes that over a period of many years the Company and its Affiliates (including any predecessors or entities from which they might have acquired goodwill) have developed, at considerable expense, relationships with customers and prospective customers which constitute a major part of the value of the goodwill of the Company and its Affiliates. During the course of his or her employment by the Company, the

Optionee will have substantial contact with these customers and prospective customers. In order to protect the goodwill of the Company's and the Affiliate's businesses, the Optionee covenants and agrees that, in the event of the termination of his or her employment, whether voluntary or involuntary, he shall forfeit the option if he directly or indirectly as an owner, shareholder, director, employee, partner, agent, broker, consultant or other participant, for the period during which the option is exercisable:

(a) calls upon or causes to be called upon, or solicits or assists in the solicitation of any person, firm, association, or corporation, listed as a customer of the Company or any of its Affiliates on the date of termination of the Optionee's employment, for the purpose of selling, renting or supplying any product or service competitive with the products or services of the Company or any of its Affiliates; or

(b) performs for a competitor of the Company the same or similar services he or she performed for the Company.

Subparagraphs (a) and (b) are separate and divisible covenants; if for any reason any one covenant is held to be invalid or unenforceable, in whole or in part, the same shall not be held to affect the validity or enforceability of the others, or of any provision of this Agreement. The period and scope of the restrictions set forth in this paragraph shall be reduced to the maximum permitted by the law actually applied to determine the validity of each subparagraph.

7. Fractional Shares. Fractional shares shall not be issuable hereunder, and when any provision hereof may entitle the Optionee to a fractional share such fraction shall be disregarded.

8. No Right to Continued Employment. This option does not confer upon the Optionee any right with respect to continuance of employment by the Company or an Affiliate, nor shall it interfere in any way with the right of the Company or an Affiliate to terminate his or her employment at any time.

9. Investment Representation. The Optionee agrees that unless such shares previously have been registered under the Securities Act of 1933 (i) any shares purchased by him hereunder will be purchased for investment and not with a view to distribution or resale and (ii) until such registration, certificates representing such shares may bear an appropriate legend to assure compliance with such Act. This investment representation shall terminate when such shares have been registered under the Securities Act of 1933.

10. Change in Capital Structure. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by this option, and the price per share thereof, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock of the Company resulting from a subdivision or consolidation of shares or the payment of a stock dividend (but only on the Common Stock), a stock split-up or any other increase or decrease in the number of such shares effected without receipt of cash or property or labor or services by the Company.

Subject to any required action by the shareholders of the Company, if the Company shall be the surviving corporation in any merger or consolidation, this option shall pertain to and apply to the securities to which a holder of the number of shares of Common Stock subject to this option would have been entitled. A dissolution or liquidation of the Company or a merger or consolidation in which the Company is not the surviving corporation, shall cause this option to terminate, provided that the Optionee shall, in such event, have the right immediately prior to such dissolution or liquidation, or merger or consolidation in which the Company is not the surviving corporation, to exercise this option.

In the event of a change in the Common Stock of the Company as presently constituted, which is limited to a change of all of its authorized shares with par value into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the Common Stock within the meaning of the Plan.

To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive.

Except as hereinbefore expressly provided in this paragraph 10, the Optionee shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger, or consolidation or spin-off of assets or stock of another corporation, and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to this option.

The grant of the option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

11. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of Virginia.

12. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the date hereof and the provisions of this Agreement, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

13. Optionee Bound by Plan. The Optionee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof.

14. Binding Effect. Subject to the limitations stated above and in the Plan, this Agreement shall be binding upon and inure to the benefit of the legatees, distributees, and personal representatives of the Optionee and the successors of the Company.

IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by a duly authorized officer, and the Optionee has affixed his or her signature hereto.

UNIVERSAL CORPORATION

OPTIONEE

By: \_\_\_\_\_  
Title: \_\_\_\_\_ [Name] \_\_\_\_\_

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UNIVERSAL CORPORATION

Schedule of Grants to Executive Officers

Optionees -----	Options Awarded -----
J. M. M. van de Winkel	52,500
J. A. Huffman	19,500

Mr. van de Winkel's options expire five years from the date of grant (instead of 10 years) and are exercisable immediately after grant (instead of three-year ratable vesting).

Mr. Huffman's options vest ratably over three years unless such options are to be exercised in connection with his entrance into the Registrant's Career Equity Ownership Program.

## UNIVERSAL CORPORATION AND SUBSIDIARIES

## RATIO OF EARNINGS TO FIXED CHARGES

	For the years ended June 30,				
	2003	2002	2001	2000	1999
Pretax income from continuing operations	\$162,545	\$152,676	\$ 177,206	\$ 177,055	\$ 197,719
Distribution of earnings from unconsolidated affiliates	7,088	639	527	4,220	840
Fixed charges	49,416	50,459	64,553	57,907	57,744
Earnings	219,049	203,774	\$ 242,286	\$ 239,182	\$ 256,303
Interest	\$ 45,270	\$ 47,831	\$ 61,576	\$ 56,869	56,837
Interest Capitalized	1,957	610			
Amortization of premiums and other	2,189	2,628	2,977	1,038	907
Fixed Charges	\$ 49,416	\$ 51,069	\$ 64,553	\$ 57,907	\$ 57,744
Ratio of Earnings to Fixed Charges	4.43	3.99	3.75	4.13	4.44

EXHIBIT 21  
SUBSIDIARIES OF THE REGISTRANT

-----  
Organized under law of  
-----

UNIVERSAL CORPORATION	Virginia
Astrimex B.V.	Netherlands
Beleggings-en Beheermaatschappij B. V.	Netherlands
Blending Services International, Inc.	Virginia
Casa Export, Limited	Virginia
Casalee-Transtobac (Pvt) Ltd.	Zimbabwe
Continental Tobacco S.A.	Switzerland
Corrie MacColl & Son Ltd.	United Kingdom
Crailo B.V.	Netherlands
Deli Services B.V.	Netherlands
Deli Universal, Inc.	Virginia
Deli-HTL Tabak Maatschappij B. V.	Netherlands
Deli-Mij Holdings Ltd.	United Kingdom
Deltafina, S.p.A.	Italy
Ermor Tabarama-Tabacos do Brasil Ltda.	Brazil
European Tobacco Company B. V.	Netherlands
Gebroeder Kulenkampff AG	Germany
Global Laboratory Services, Inc.	Virginia
Gouderak Holding B.V.	Netherlands
Handelmaatschappij Steffex B. V.	Netherlands
Harkema Services, Inc.	Virginia
Heuvelman Holding B.V.	Netherlands
Heuvelman Hout Beheer B.V.	Netherlands
Hungaropro Kft.	Hungary
Imperial Commodities Corporation	California
Indoco International B.V.	Netherlands
Industria AG	Switzerland
Itofina, S.A.	Switzerland
Jongeneel B.V.	Netherlands
Jongeneel Holding B.V.	Netherlands
L'Agricola, S.r.L.	Italy
Lancaster Leaf Tobacco Company of Pennsylvania, Inc.	Virginia
Lancaster Philippines, Incorporated	Philippines
Latin America Tobacco Company	Virginia
Limbe Leaf Tobacco Company Limited	Malawi
Lytton Tobacco Company (Malawi) Limited	Malawi
Lytton Tobacco Company (Private), Limited	Zimbabwe
N.V. Deli Universal	Netherlands
Outdoor Life Products B.V.	Netherlands
Red River Commodities, Inc.	North Dakota
Red River Foods, Inc.	Virginia
Simcoe Leaf Tobacco Company Limited	Canada
Steffex Beheer B.V.	Netherlands

Tabacos Del Pacifico Norte, S.A. De C.V.	Mexico
Tabacos Espanoles S. A.	Spain
Tanzania Leaf Tobacco Co., Ltd	Tanzania
Tanzania Tobacco Processors Ltd.	Tanzania
T. B. & Z. Holding B. V.	Netherlands
Timmerfabriek Bouter en Zonen B. V.	Netherlands
Tobacco Trading International, Inc.	British Virgin Isles
Toutiana, S.A.	Switzerland
Ultoco, S.A.	Switzerland
Universal Eastern Europe Limited	United Kingdom
Universal Leaf (Asia) Pte Ltd.	Singapore
Universal Leaf (UK) Limited	USA/United Kingdom
Universal Leaf International, S.A.	Switzerland
Universal Leaf North America U. S., Inc.	North Carolina
Universal Leaf Services International Limited	United Kingdom
Universal Leaf Tabacos Ltda.	Brazil
Universal Leaf Tabacos S. A.	Argentina
Universal Leaf Tobacco Company, Inc.	Virginia
Universal Leaf Tobacco Hungary Limited	Hungary
Universal Leaf Tobacco Poland Sp. z o.o.	Poland
Van Rees B.V.	Netherlands
Van Rees Ceylon B.V.	Netherlands
Van Rees Ltd.	United Kingdom
Willemstein's Industriële Ondernemingen B.V.	Netherlands
Zimbabwe Leaf Tobacco Company (Private) Limited	Zimbabwe
Zimleaf Holdings (Private) Limited	Zimbabwe



## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following Registration Statements of our report dated August 7, 2003, with respect to the consolidated financial statements of Universal Corporation and subsidiaries included in the Annual Report (Form 10-K) for the year ended June 30, 2003.

Registration Statement Number	Description
33-55140	Form S-8
33-38148	Form S-8
33-56719	Form S-8
333-39297	Form S-8
333-45497	Form S-8
333-43522	Form S-3
333-103155	Form S-3
333-101825	Form S-8

/s/ ERNST & YOUNG LLP

Richmond, Virginia  
September 12, 2003

CERTIFICATION

I, Allen B. King, President and Chief Executive Officer of Universal Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Universal Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (c) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 12, 2003

/s/ Allen B. King

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Allen B. King  
President and Chief Executive Officer

CERTIFICATION

I, Hartwell H. Roper, Vice President and Chief Financial Officer of Universal Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Universal Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (c) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 12, 2003

/s/ Hartwell H. Roper

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Hartwell H. Roper  
Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Universal Corporation (the "Company") on Form 10-K for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report") and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Allen B. King, President and Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, that

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 12, 2003

/s/ Allen B. King

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Allen B. King  
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Universal Corporation (the "Company") on Form 10-K for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report") and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Hartwell H. Roper, Vice President and Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, that

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 12, 2003

/s/ Hartwell H. Roper

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Hartwell H. Roper  
Vice President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.