UNIVERSAL CORP /VA/
Form 10-K
May 23, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED MARCH 31, 2014
OR
o 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: 001-00652
UNIVERSAL CORPORATION
(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	54-0414210 (I.R.S. Employer Identification Number)
9201 Forest Hill Avenue, Richmond, Virginia (Address of principal executive offices)	23235 (Zip Code)

Registrant's telephone number, including area code: 804-359-9311
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act.
Yes o No þ
Indicate by check 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 þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o
Indicate by check 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. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates, based upon the closing sales price on the New York Stock Exchange of the registrant's common stock on September 30, 2013, the last day of the registrant's most recently completed second fiscal quarter, was approximately $948 million.
As of May 20, 2014, the total number of shares of common stock outstanding was 23,223,810.
DOCUMENTS INCORPORATED BY REFERENCE
Certain information contained in the 2014 Proxy Statement for the Annual Meeting of Shareholders of the registrant is incorporated by reference into Part III hereof.

UNIVERSAL CORPORATION
FORM 10-K
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General

This Annual Report on Form 10-K, which we refer to herein as our Annual Report, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Among other things, these statements relate to Universal Corporation’s financial condition, results of operations and future business plans, operations, opportunities, and prospects. In addition, Universal Corporation and its representatives may make written or oral forward-looking statements from time to time, including statements contained in other filings with the Securities and Exchange Commission (the “SEC”) and in reports to shareholders. These forward-looking statements are generally identified by the use of words such as we “expect,” “believe,” “anticipate,” “could,” “should,” “may,” “plan,” “will,” “predict,” “estimate,” a expressions or words of similar import. These forward-looking statements are based upon management’s current knowledge and assumptions about future events and involve risks and uncertainties that could cause actual results, performance, or achievements to be materially different from any anticipated results, prospects, performance, or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to: anticipated levels of demand for and supply of our products and services; costs incurred in providing these products and services; timing of shipments to customers; changes in market structure; government regulation; product taxation; industry consolidation and evolution; changes in exchange rates; and general economic, political, market, and weather conditions. For a description of factors that may cause actual results to differ materially from such forward-looking statements, see Item 1A, “Risk Factors.” We caution investors not to place undue reliance on any forward-looking statements as these statements speak only as of the date when made, and we undertake no obligation to update any forward-looking statements made in this report. In addition, the discussion of the impact of current trends on our business in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Other Information Regarding Trends and Management’s Actions” in Item 7 should be read carefully in connection with evaluating our business and the forward-looking statements contained in this Annual Report.

This Annual Report uses the terms “Universal,” “the Company,” “we,” “us,” and “our” to refer to Universal Corporation and it subsidiaries when it is not necessary to distinguish among Universal Corporation and its various operating subsidiaries or when any distinction is clear from the context in which it is used.

PART I

Item 1. Business

A. The Company

Overview

We are the leading global leaf tobacco supplier. We operate in over 30 countries on five continents. Tobacco has been our principal focus since our founding in 1918. The largest portion of our business involves procuring and processing flue-cured and burley leaf tobacco for manufacturers of consumer tobacco products. Our reportable segments for our flue-cured and burley tobacco operations are North America and Other Regions. We also have a third reportable segment, Other Tobacco Operations, which comprises our dark tobacco business, our oriental tobacco joint venture, and certain tobacco-related services. We generated approximately $2.5 billion in consolidated revenues and earned $175.2 million in total segment operating income in fiscal year 2014. Universal Corporation is a holding company that operates through numerous directly and indirectly owned subsidiaries. Universal Corporation’s primary subsidiary is Universal Leaf Tobacco Company, Incorporated. See Exhibit 21, “Subsidiaries of the Registrant,” for additional subsidiary information.

Key Operating Principles

We believe that by following several key operating principles we can continue to produce good financial returns from our business and enhance shareholder value. These key operating principles are:

- Strategic market position. We work closely with both our customers and suppliers to ensure that we deliver a product that meets our customers' needs and promotes a strong sustainable supplier base. We believe that developing and maintaining these relationships is particularly valuable in the leaf tobacco industry where delivering quality, compliant tobacco at an appropriate price is a key factor in long-term profitability. Balancing these relationships allows us to optimize our inventory levels to reduce risk during market downturns by enabling us to target our tobacco production contracts against customer purchase indications. We work to adapt our business model to meet our customers' evolving needs while providing the compliant products, stability of supply, and the high level of service that distinguishes our company.
- Strong local management. We operate with strong local management. We believe that having strong local management in each leaf tobacco origin helps us better identify and adjust to constantly changing market conditions and provides us with specific market knowledge quickly. We believe that this, coupled with effective global coordination, is a key factor in our ability to continue to deliver the high quality, competitively-priced products that our customers expect.
- Compliant products. We focus on sourcing a compliant product that meets customer requirements in a competitive, yet sustainable manner. We sponsor programs to educate farmers in good agricultural practices, the reduction of non-tobacco related materials, product traceability, elimination of child labor, environmental sustainability, and social responsibility, among others.
- Diversified sources. We strive to maintain diversified sources of leaf tobacco to minimize reliance on any one sourcing area. We operate in over 30 countries on five continents and maintain a presence in all major flue-cured, burley, oriental, and dark air-cured tobacco growing regions in the world. Our global reach allows us to meet our customers' diverse and dynamic leaf requirements and helps minimize the impact of crop failures or other localized supply interruptions.
- Financial strength. We believe that our financial strength is important, because it enables us to fund our business efficiently and make investments in our business when appropriate opportunities are identified. We believe that lower interest and capital costs give us a competitive advantage. Our financial strength also affords us financial flexibility in dealing with customer requirements and market changes. We continually work to improve our financial condition and creditworthiness.

Additional Information

Our website address is www.universalcorp.com. We post regulatory filings on this website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. These filings include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 reports on Forms 3, 4, and 5, and any amendments to those reports filed with or furnished to the SEC. Access to these filings on our website is available free of charge. Copies are also available, without charge, from Universal Corporation Investor Relations, 9201 Forest Hill Avenue, Richmond, VA 23235. Reports filed with the SEC may be viewed at www.sec.gov or obtained at the SEC Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. We also post our press releases on our website. Information on our website is not deemed to be incorporated by reference into this Annual Report.

In addition, our Corporate Governance Guidelines, Code of Conduct, and charters for the Audit Committee, the Executive Committee, the Executive Compensation, Nominating and Corporate Governance Committee, the Pension Investment Committee, and the Finance Committee are available free of charge to shareholders and the public through the “Corporate Governance” section of our website. Printed copies of the foregoing are available to any shareholder upon written request to our Treasurer at the address set forth on the cover of this Annual Report or may be requested through our website, www.universalcorp.com.

B. Description of Business

General

Our primary business is procuring, financing, processing, packing, storing, and shipping leaf tobacco for sale to, or for the account of, manufacturers of consumer tobacco products throughout the world. Procuring leaf tobacco involves contracting with, providing agronomy support to, and financing farmers in many origins. We do not manufacture cigarettes or other consumer tobacco products. Through various operating subsidiaries and unconsolidated affiliates located in tobacco-growing countries around the world, we contract, purchase, process, and sell flue-cured and burley tobaccos, as well as dark air-cured and oriental tobaccos. Flue-cured, burley, and oriental tobaccos are used principally in the manufacture of cigarettes, and dark air-cured tobaccos are used mainly in the manufacture of cigars, pipe tobacco, and smokeless tobacco products. We also provide value-added services to our customers, including blending, chemical and physical testing of tobacco, service cutting for select manufacturers, manufacturing reconstituted leaf tobacco, and managing just-in-time inventory. Recently, we formed a joint venture to supply liquid nicotine to the e-cigarette industry and a new business to produce high-quality dehydrated and juiced fruit and vegetable products.
We generate our revenues from product sales, processing fees, and fees for other services. Sales to our five largest customers, with whom we have longstanding relationships, have accounted for more than 60% of our consolidated revenues for each of the past three fiscal years. Our sales consist primarily of flue-cured and burley tobaccos. For the fiscal year ended March 31, 2014, our flue-cured and burley operations accounted for 90% of our revenues and 89% of our segment operating income.
We conduct our business in varying degrees in a number of countries, including Argentina, Bangladesh, Brazil, the Dominican Republic, Germany, Guatemala, Hungary, India, Indonesia, Italy, Malawi, Mexico, Mozambique, the Netherlands, Nicaragua, Paraguay, the People’s Republic of China, the Philippines, Poland, Russia, Singapore, South Africa, Spain, Switzerland, Tanzania, the United States, Zambia, and Zimbabwe. In addition, Socotab, L.L.C. has oriental tobacco operations in Bulgaria, Greece, Macedonia, and Turkey.
Because unprocessed, or “green,” tobacco is a perishable product, processing of leaf tobacco is an essential service to our customers. Our processing of leaf tobacco includes grading in the factories, blending, removal of non-tobacco material, separation of leaf from the stems, drying, packing to precise moisture targets for proper aging, as well as temporary storage. Accomplishing these tasks generally requires investments in factories and machinery in areas where the tobacco is grown. Processed tobacco that has been properly packed can be stored by customers for a number of years prior to use, but most processed tobacco is used within two to three years.
We are a major purchaser and processor in the chief exporting regions for flue-cured and burley tobacco throughout the world. We estimate that we have historically handled, through leaf sales and processing, between 35% and 45% of the annual production of such tobaccos in Africa and between 15% and 25% in Brazil. These percentages can change from year to year based on the size, price, and quality of the crops. Recently, as tobacco growing regions have expanded in Africa, we have handled a larger proportion of the crops there. We also handled between 25% and 35% of the flue-cured and burley tobacco produced in North America in fiscal year 2014. The majority of this tobacco was sourced in the United States, where we sell processed U.S. tobacco to cigarette manufacturers and process U.S. flue-cured and burley tobacco on a fee basis. We participate in the procurement, processing, storage, and sale of oriental tobacco through ownership of a 49% equity interest in Socotab, L.L.C., a leading processor and supplier of oriental tobaccos. In addition, we maintain a presence, and in certain cases, a leading presence, in virtually all other major tobacco growing regions in the world. We believe that our leading position in the leaf tobacco industry is based on our operating presence in all of the major sourcing areas, our ability to meet customer style, volume, and quality requirements, our expertise in dealing with large numbers of farmers, our long-standing relationships with customers, our development of processing equipment and technologies, and our financial position.
We also have a leading position in worldwide dark tobacco markets. Our dark tobacco operations are located in most of the major producing countries and in other smaller markets. We operate in major dark tobacco producing countries, including the United States, the Dominican Republic, Indonesia, Paraguay, the Philippines, Nicaragua, and Brazil. Dark tobaccos are typically used in the manufacture of cigars, pipe tobacco, and smokeless tobacco products, and as components of certain “roll-your-own” cigarette products.
Sales are made by our sales force and, to a much smaller degree, through the use of commissioned agents. Most customers are long-established tobacco product manufacturers. Customer contract arrangements vary around the

world and may include fixed pricing or cost plus arrangements. Discussions of a customer's longer-term needs may begin as early as one to two years in advance of a particular crop purchase. These discussions are key to our future crop production planning. Prior to planting each year, we use early customer indications for type, style, processing, and volume requirements from the upcoming season's crop to help us determine our farmer contracting and grower input needs in our origins. We work with our farmers and customers continually throughout the crop season. As crops progress, a customer's early indications may be refined based upon emerging crop qualities and quantities and market pricing expectations. Ultimately, purchase agreements specifying quantity, quality, grade and price are executed, leading to committed inventory allocations of harvested green or processed leaf that we already have acquired.

In the majority of the countries where we operate, we contract directly with tobacco farmers or tobacco farmer cooperatives, in most cases before harvest, and thereby take the risk that the delivered quality and quantity may not meet market requirements. In many countries outside the United States, we also provide agronomy services and crop advances of, or for, seed, fertilizer, and other supplies. Agronomy services include programs to educate farmers in good agricultural practices, the reduction of non-tobacco related materials, product traceability, elimination of child labor, environmental sustainability, and social responsibility. In Malawi, Zambia, and Zimbabwe, we also purchase some tobacco under auction systems.

Our 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, we advance funds, guarantee local loans, or do both, each in substantial amounts, for the eventual purchase of tobacco. The majority of these seasonal advances and loan guarantees mature in one year or less upon the farmers' delivery of contracted tobaccos. Most advances to farmers are denominated in local currency, which is a source of foreign currency exchange rate risk. Most tobacco sales are denominated in U.S. dollars, which reduces our foreign currency exchange risk after the tobacco has been purchased. See Item 1A, "Risk Factors" for more information about our foreign currency exchange and other risks.

For a discussion of recent developments and trends in our business, along with factors that may affect our business, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 1A, "Risk Factors."

Seasonality

Our operations are seasonal in nature. Tobacco in Brazil is usually purchased from January through July, while buying in Malawi, Mozambique, and other African countries typically begins around April and continues through November. Farmers begin to sell U.S. flue-cured tobacco in late July, and the marketing season lasts for approximately four months. These overlapping marketing periods tend to minimize the overall effects of seasonality on our financial performance in most fiscal years.

We normally operate each of our processing plants for seven to nine months of the year. During this period for each region, inventories of green tobacco, inventories of processed tobacco, and trade accounts receivable normally reach peak levels in succession. We normally finance this expansion of current assets with cash, short-term borrowings from banks, and customer advances, and these funding sources normally reach their peak usage in each region during its respective purchasing or processing period. Our balance sheet at our fiscal year end reflects seasonal expansions in working capital in South America and Central America.

Customers

A material part of our business is dependent upon a few customers. Our five largest customers are Philip Morris International, Inc., Imperial Tobacco Group, PLC, British American Tobacco, PLC, China Tobacco International, Inc., and Japan Tobacco, Inc. In the aggregate, these customers have accounted for more than 60% of our consolidated revenues for each of the past three fiscal years. For the fiscal year ended March 31, 2014, each of Philip Morris International, Inc. and Imperial Tobacco Group, PLC, including their respective affiliates, accounted for 10% or more of our revenues, while British American Tobacco, PLC and China Tobacco International, Inc. each accounted for between 8% and 10% of our revenues. The loss of, or substantial reduction in business from, any of these customers could have a material adverse effect on our results. We have longstanding relationships with all of these customers.

We had commitments from customers for approximately $468 million of the tobacco in our inventories at March 31, 2014. Based upon historical experience, we expect that at least 80% of such orders will be delivered during fiscal year 2015. Most of our product requires shipment via trucks and oceangoing vessels to reach customer destinations. Delays in the delivery of orders can result from such factors as truck and container availability, port access and capacity, vessel scheduling, and changing customer requirements for shipment.

As more fully described in Note 1 to the consolidated financial statements in Item 8 of this Annual Report, we recognize sales revenue at the time that title to the tobacco and risk of loss passes to our customer. Individual shipments may be large, and since the customer typically specifies shipping dates, our financial results may vary significantly between reporting periods due to timing of sales. In some markets, including the United States, Italy, and Brazil, we process tobacco that is owned by our customers, and we recognize the revenue for that service when the processing is completed.

Competition

The leaf tobacco industry is highly competitive. Competition among leaf tobacco merchants is based on the ability to meet customer specifications in the growing, buying, processing, and financing of tobacco, and on the price charged for products and services. Competition varies depending on the market or country involved. The number of competitors varies from country to country, but there is competition in most areas to buy and sell the available tobacco. Our principal competitor is Alliance One International, Inc. ("Alliance One"). Alliance One operates in most of the countries where we operate. Based on our estimates, we do not believe that worldwide market shares differ substantially between the two companies. Most of our major customers are partially vertically integrated, and thus also compete with us for the purchase of leaf tobacco in several of the major markets.

In most major markets, smaller competitors are very active. These competitors typically have lower overhead requirements and provide less support to customers and farmers. Due to their lower cost structures, they can often offer a price on products that is lower than our price. However, we believe that we provide quality controls and farm programs that add value for our customers in an increasingly regulated world and make our products highly desirable. For example, we have established worldwide farm programs designed to prevent non-tobacco related materials from being introduced into the green tobacco delivered to our factories. In addition, we have established programs for good agricultural practices and have been active in social responsibility endeavors such as the elimination of child labor in many of the developing countries in which we do business. We believe that our major customers value these services and that our programs increase the quality of the products and services we offer. We also believe that our customers value the security of supply that we are able to provide due to our strong relationships with our farmer base.

Reportable Segments

We evaluate the performance of our business by geographic region, although the dark air-cured and oriental tobacco businesses are each evaluated on the basis of their worldwide operations. Performance of the oriental tobacco operations is evaluated based on our equity in the pretax earnings of our affiliate. Under this structure, we have the following primary operating segments: North America, South America, Africa, Europe, Asia, Dark Air-Cured, Oriental, and Special Services. North America, South America, Africa, Europe, and Asia are primarily involved in flue-cured and burley leaf tobacco operations for supply to cigarette manufacturers. Our Dark Air-Cured group supplies dark air-cured tobacco principally to manufacturers of cigars, pipe tobacco, and smokeless tobacco products, and our Oriental business supplies oriental tobacco to cigarette manufacturers. Our Special Services group primarily provides laboratory services, including physical and chemical product testing, e-cigarette and e-liquid testing, and smoke testing for customers. Our liquid nicotine joint venture and our fruit and vegetable ingredients business are included in the Special Services group.

The five regional operating segments serving our cigarette manufacturer customers share similar characteristics in the nature of their products and services, production processes, class of customer, product distribution methods, and regulatory environment. Based on the applicable accounting guidance, four of the regions – South America, Africa, Europe, and Asia – are aggregated into a single reporting segment, Other Regions, because they also have similar economic characteristics. North America is reported as an individual operating segment, because its economic characteristics differ from the other regions, generally because its operations require lower working capital investments for crop financing and inventory. The Dark Air-Cured, Oriental, and Special Services segments, which have differing characteristics in some of the categories mentioned above, are reported together as Other Tobacco Operations, because each is below the measurement threshold for separate reporting.

Financial Information about Segments

Our North America and Other Regions reportable segments, which represent our flue-cured and burley tobacco operations, accounted for 14% and 76% of our revenues and 13% and 76% of our segment operating income, respectively, in fiscal year 2014. Our Other Tobacco Operations reportable segment accounted for 10% of our revenues and 11% of our segment operating income in fiscal year 2014. Sales and other operating revenues and operating income attributable to our reportable segments for each of the last three fiscal years, along with segment assets for each reportable segment at March 31, 2014, 2013, and 2012, are set forth in Note 15 to the consolidated financial statements, which are included in Item 8 of this Annual Report. Information with respect to the geographic distribution of our revenues and long-lived assets is also set forth in Note 15 to the consolidated financial statements.

C. Employees

We employed over 26,000 employees throughout the world during the fiscal year ended March 31, 2014. We estimated this figure because the majority of our personnel are seasonal employees.

D. Research and Development

We did not expend material amounts for research and development during the fiscal years ended March 31, 2014, 2013, or 2012.

E. Patents, etc.

We hold no material patents, licenses, franchises, or concessions.

F. Government Regulation, Environmental Matters, and Other Matters

Our business is subject to general governmental regulation in the United States and in foreign jurisdictions where we conduct 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 our capital expenditures, earnings, or competitive position. See Item 1A, “Risk Factors” for a discussion of government regulations and other factors that may affect our business.

Item 1A. Risk Factors

Operating Factors

In areas where we purchase leaf tobacco directly from farmers, we bear the risk that the tobacco we receive will not meet quality and quantity requirements.

When we contract directly with tobacco farmers or tobacco farmer cooperatives, which is the method we use to purchase tobacco in most countries, we bear the risk that the tobacco delivered may not meet customer quality and quantity requirements. If the tobacco does not meet such market requirements, we may not be able to fill all of our customers' orders, and such failure would have an adverse effect on profitability and results of operations. Because in a contract market our obligation is to purchase the entire tobacco plant, which encompasses many leaf styles, we also have a risk that not all of that production will be readily marketable at prices which support acceptable margins. In addition, in many foreign countries where we purchase tobacco directly from farmers, we provide them with financing. Unless we receive marketable tobacco that meets the quality and quantity specifications of our customers, we bear the risk that we will not be able to fully recover our crop advances or recover them in a reasonable period of time.

The leaf tobacco industry is highly competitive, and we are heavily reliant on a few large customers.

We are one of two major independent global competitors in the highly competitive leaf tobacco industry, both of whom are reliant upon a few large customers. The loss of one of those large customers or a significant decrease in their demand for our products or services could significantly decrease our sales of products or services, which would have a material adverse effect on our results of operations. The competition among leaf tobacco suppliers and dealers is based on the ability to meet customer requirements in the buying, processing, and financing of tobacco, and on the price charged for products and services. We believe that we consistently meet our customers' requirements and charge competitive prices. Because we rely upon a few significant customers, the consolidation or failure of any of these large customers, or a significant increase in their vertical integration, could contribute to a significant decrease in our sales of products and services.

We compete for both the purchase and sale of leaf with smaller leaf tobacco suppliers in some of the markets where we conduct business. Some of these smaller leaf tobacco suppliers operate in more than one country. Since they typically provide little or no support to farmers, these leaf tobacco merchants typically have lower overhead requirements than we do. Due to their lower cost structures, they often can offer prices on products and services that are lower than our prices. Our customers also directly source leaf tobacco from farmers to meet some of their raw material needs. Direct sourcing provides our customers with some qualities and quantities of tobacco that they prefer not to use in their existing blends and that may be offered for sale. This competition for both the sale and purchase of leaf could reduce the volume of the leaf we handle and could negatively impact our financial results.

Our financial results can be significantly affected by changes in the balance of supply and demand for leaf tobacco.

As a leaf tobacco supplier, our 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 requirements, can change from time to time depending upon factors affecting the demand for their products. Our customers' expectations and their demand for leaf tobacco are influenced by a number of factors, including:

- trends in the global consumption of cigarettes,
- trends in consumption of cigars and other tobacco products,
- trends in consumption of alternative tobacco products, such as e-cigarettes, and
- levels of competition among our customers.

The world supply of leaf tobacco at any given time is a function of current tobacco production, inventories held by manufacturers, and the uncommitted stocks of leaf tobacco held by leaf tobacco suppliers. Production of tobacco in a given year may be significantly affected by such factors as:

- demographic shifts that change the number of farmers or the amount of land available to grow tobacco,
- decisions by farmers to grow crops other than tobacco,
- elimination of government subsidies to farmers,
- volume of annual tobacco plantings and yields realized by farmers,
- availability of crop inputs,

- weather and natural disasters, including any adverse weather conditions that may result from climate change, and
- crop infestation and disease.

Any significant change in these factors could cause a material imbalance in the supply of and demand for tobacco, which would affect our results of operations.

Our financial results will vary according to tobacco growing conditions, customer requirements, and other factors. These factors may also limit the ability to accurately forecast our future performance and increase the risk of an investment in our common stock or other securities.

Our financial results, particularly our year-over-year quarterly comparisons, may be significantly affected by variations in tobacco growing seasons and fluctuations in crop sizes. The timing of the cultivation and delivery of tobacco is dependent upon a number of factors, including weather and other natural events, and our processing schedules and results of operations can be significantly altered by these factors. In addition, the potential impact of climate change is uncertain and may vary by geographic region. The possible effects, as described in various public accounts, could include changes in rainfall patterns, water shortages, changing storm patterns and intensities, and changing temperature levels that could adversely impact our costs and business operations and the supply and demand for leaf tobacco. Our operations also rely on dependable and efficient transportation services. A disruption in transportation services, as a result of climate change or otherwise, may also significantly impact our results of operations.

Further, the timing and unpredictability of customer orders and shipments may require us to keep tobacco in inventory and may also result in variations in quarterly and annual financial results. We base sales recognition on the passage of ownership. Since individual shipments may represent significant amounts of revenue, our quarterly and annual financial results may vary significantly depending on the needs and shipping instructions of our customers and the availability of transportation services. These fluctuations result in varying volumes and sales in given periods, which also reduce the comparability of financial results.

Major shifts in customer requirements for tobacco supply may significantly affect our operating results.

If our customers significantly alter their requirements for tobacco volumes from certain regions, we may have to change our production facilities and alter our fixed asset base in certain origins. Permanent or long-term reduction in demand for tobacco from origins where we have operations may trigger restructuring and impairment charges. We may also need to make significant capital investments in other regions to develop the needed infrastructure to meet customer supply requirements.

Weather and other conditions can affect the marketability of our products.

Tobacco crops are subject to vagaries of 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 our ability to acquire the quantity of tobacco required by our customers. In addition, other factors can affect the marketability of tobacco, including, among other things, the presence of excess residues of crop protection agents or non-tobacco related materials. A significant event impacting the condition or quality of a large amount of any of the crops that we buy could make it difficult for us to sell these products or to fill customers' orders.

Regulatory and Governmental Factors

Government efforts to regulate the production and consumption of tobacco products could have a significant impact on the businesses of our customers, which would, in turn, affect our 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 our products and services. These activities have included:

- restrictions on the use of tobacco products in public places and places of employment,
- legislation authorizing the U.S. Food and Drug Administration (the "FDA") to regulate the manufacturing and marketing of tobacco products,
- increases in the federal, state, and local excise taxes on cigarettes and other tobacco products, 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. About 5% of cigarettes manufactured worldwide are consumed in the United States.

A number of foreign governments and global non-government organizations also have taken or proposed steps to restrict or prohibit tobacco product advertising and promotion, to increase taxes on tobacco products, to indirectly

limit the use of certain types of tobacco, and to discourage tobacco product consumption. A number of such measures are included in the Framework Convention on Tobacco Control (“FCTC”), which was negotiated and promoted globally under the auspices of the World Health Organization (“WHO”). We cannot predict the extent to which the efforts of governments or non-governmental agencies to reduce tobacco consumption might affect the business of our primary customers. However, a significant decrease in worldwide tobacco consumption brought about by existing or future governmental laws and regulations would reduce demand for tobacco products and services and could have a material adverse effect on our results of operations.

Government actions can have a significant effect on the sourcing of tobacco. If some of the current efforts are successful, we could have difficulty obtaining sufficient tobacco to meet our customers' requirements, which could have an adverse effect on our performance and results of operations.
The WHO, through the FCTC, has created a formal study group to identify and assess crop diversification initiatives and alternatives to growing leaf tobacco in countries whose economies depend upon tobacco production. The study group began its work in February 2007. If certain countries were to partner with the FCTC study group and seek to eliminate or significantly reduce leaf tobacco production, we could encounter difficulty in sourcing leaf tobacco to fill customer requirements, which could have an adverse effect on our results of operations.
Certain recommendations by the WHO, through the FCTC, may cause shifts in customer usage of certain styles of tobacco. As seen in countries like Canada and Brazil and in the European Union, efforts have been taken to eliminate ingredients from the manufacturing process for tobacco products. Such decisions could cause a change in requirements for certain styles of tobacco in particular countries. Shifts in customer demand from one type of tobacco to another could create sourcing challenges as requirements move from one origin to another.
In addition, continued government and public emphasis on environmental issues, including climate change, conservation, and natural resource management, could result in new or more stringent forms of regulatory oversight of industry activities, which may lead to increased levels of expenditures for environmental controls, land use restrictions affecting us or our suppliers, and other conditions that could have a material adverse effect on our business, financial condition, and results of operations. For example, certain aspects of our business generate carbon emissions. Regulatory restrictions on greenhouse gas emissions have been proposed. These may include limitations on such emissions, taxes or emission allowance fees on such emissions, various restrictions on industrial operations, and other measures that could affect land-use decisions, the cost of agricultural production, and the cost and means of processing and transporting our products. These actions could adversely affect our business, financial condition, and results of operations.
Because we conduct a significant portion of our operations internationally, political and economic uncertainties in certain countries could have an adverse effect on our performance and results of operations.
Our 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 also to the effects of changes in the trade policies and economic regulations of foreign governments. These uncertainties and risks, which include undeveloped or antiquated commercial law, the expropriation, indigenization, or nationalization of assets, and the authority to revoke or refuse to renew business licenses and work permits, may adversely impact our ability to effectively manage our operations in those countries. We have substantial capital investments in South America and Africa, and the performance of our operations in those regions can materially affect our earnings. If the political situation in any of the countries where we conduct business were to deteriorate significantly, our ability to recover assets located there could be impaired. To the extent that we do not replace any lost volumes of tobacco with tobacco from other sources, or we incur increased costs related to such replacement, our financial condition or results of operations, or both, would suffer.
Changes in tax laws in the countries where we do business may adversely affect our results of operations.
Through our subsidiaries, we are subject to the tax laws of many jurisdictions. Changes in tax laws or the interpretation of tax laws can affect our earnings, as can the resolution of various pending and contested tax issues. In most jurisdictions, we regularly have audits and examinations by the designated tax authorities, and additional tax assessments are common. We believe that we routinely comply with applicable tax laws in the jurisdictions where we operate, and we vigorously contest all significant tax assessments where we believe we are in compliance with the tax laws.
Financial Factors
Failure of our customers or suppliers to repay extensions of credit could materially impact our results of operations.
We extend credit to both suppliers and customers. A significant bad debt provision related to amounts due could adversely affect our 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, delivery failure, or permanent reductions in crop sizes, full recovery of advances may never be realized, or otherwise could be delayed until future crops are delivered. See Notes 1 and 14 to the consolidated financial statements in Item 8 for more information on these extensions of

credit.

Fluctuations in foreign currency exchange rates may affect our results of operations.
We account for most of our tobacco operations using the U.S. dollar as the functional currency. The international tobacco trade generally is conducted in U.S. dollars, and we finance most of our tobacco operations in U.S. dollars. Although this generally limits foreign exchange risk to the economic risk that is related to leaf purchase and production costs, overhead, and income taxes in the source country, significant currency movements could materially impact our results of operations. Changes in exchange rates can make a particular crop more or less expensive in U.S. dollar terms. If a particular crop is viewed as expensive in U.S. dollar terms, it may be less attractive in the world market. This could negatively affect the profitability of that crop and our results of operations. In certain tobacco markets that are primarily domestic, the local currency is the functional currency. Examples of these markets are Hungary, Poland, and the Philippines. Similarly, the local currency is the functional currency in other markets, such as Western Europe, where export sales have been denominated primarily in local currencies. In these markets, reported earnings are affected by the translation of the local currency into the U.S. dollar. See Item 7A, “Qualitative and Quantitative Disclosure About Market Risk” for additional discussion related to foreign currency exchange risk.
Our purchases of tobacco are generally made in local currency, and we also provide farmer advances that are denominated in the local currency. We account for currency remeasurement gains or losses on those advances as period costs, and they are usually accompanied by offsetting increases or decreases in the purchase cost of tobacco, which is priced in the local currency. The effect of differences in the cost of tobacco is generally not realized in our earnings until the tobacco is sold, which often occurs in a quarter or fiscal year subsequent to the recognition of the related remeasurement gains or losses. The difference in timing could affect our profitability in a given quarter or fiscal year.
We have used currency hedging strategies to reduce our foreign currency exchange rate risks in some markets. In addition, where we source tobacco in countries with illiquid or nonexistent forward foreign exchange markets, we often manage our foreign exchange risk by matching funding for inventory purchases with the currency of sale and by minimizing our net investment in these countries. To the extent that we have net monetary assets or liabilities in local currency, and those balances are not hedged, we may have currency remeasurement gains or losses that will affect our results of operations.
Changes in interest rates may affect our results of operations.
In our business, customers may either pre-finance purchases or pay market rates of interest for inventory purchased on order. From time to time, we borrow long-term debt at fixed rates. Through hedging agreements, we may swap the interest rates on our existing fixed-rate debt to floating market interest rates to better match the interest rates that we charge our customers. To the extent we are unable to match these interest rates, a decrease in short-term interest rates could increase our net financing costs. In addition, at times we may have significant amounts of cash invested. Decreases in short-term interest rates reduce the income we derive from those investments. Changes in interest rates also affect expense related to our defined benefit pension plan, as described below.
Low investment performance by our defined benefit pension plan assets and changes in pension plan valuation assumptions may increase our pension expense and may require us to fund a larger portion of our pension obligations, thus, diverting funds from other potential uses.
We sponsor domestic defined benefit pension plans that cover certain eligible employees. Our results of operations may be positively or negatively affected by the amount of expense we record for these plans. U.S. generally accepted accounting principles (“GAAP”) require that we calculate expense for the plans using actuarial valuations. These valuations reflect assumptions about financial market and other economic conditions that may change based on changes in key economic indicators. The most significant year-end assumptions we used to estimate pension expense for fiscal year 2014 were the discount rate and the expected long-term rate of return on plan assets. In addition, we are required to make an annual measurement of plan assets and liabilities, which may result in a significant change to shareholders’ equity through a reduction or increase to the “Pension and other postretirement benefits plan” component of Accumulated Other Comprehensive Loss. At the end of fiscal year 2014, the projected benefit obligation of our U.S. pension plan was $208 million and plan assets were $194 million. For a discussion regarding how our financial statements can be affected by pension plan valuation assumptions, see “Critical Accounting Estimates – Pension and Other Postretirement Benefit Plans” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and in Note 11 to the consolidated financial statements in Item 8. Although GAAP expense and

pension funding contributions are not directly related, key economic factors that affect GAAP expense can also affect the amount of cash we are required to contribute to our pension plans under requirements of the Employee Retirement Income Security Act ("ERISA"). Failure to achieve expected returns on plan assets could also result in an increase to the amount of cash we would be required to contribute to our pension plans. In order to maintain or improve the funded status of our plans, we may also choose to contribute more cash to our plans than required by ERISA regulations.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We own the following significant properties (greater than 500,000 square feet):

Location	Principal Use	Building Area (Square Feet)
Flue-Cured and Burley Leaf Tobacco Operations:		
North America:		
United States		
Nash County, North Carolina	Factory and storages	1,312,000
Other Regions:		
Brazil		
Santa Cruz	Factory and storages	2,386,000
Malawi		
Lilongwe	Factory and storages	942,000
Mozambique		
Tete	Factory and storages	748,000
Philippines		
Agoo, La Union	Factory and storages	770,000
Tanzania		
Morogoro	Factory and storages	803,000
Zimbabwe		
Harare [1]	Factory and storages	1,445,000
Other Tobacco Operations:		
United States		
Lancaster, Pennsylvania	Factory and storages	793,000

[1] Owned by an unconsolidated subsidiary.

We lease headquarters office space of about 50,000 square feet at 9201 Forest Hill Avenue in Richmond, Virginia, which we believe is adequate for our current needs.

Our business involves, among other things, storing and processing green tobacco and storing processed tobacco. We operate processing facilities in major tobacco growing areas. In addition, we require tobacco storage facilities that are in close proximity to the processing facilities. We own most of the tobacco storage facilities, but we lease additional space as needs arise, and expenses related to such leases are not material. We believe that the properties currently utilized in our tobacco operations are maintained in good operating condition and are suitable and adequate for our purposes at our current volumes.

In addition to our significant properties listed above, we own other processing facilities in the following countries: Germany, Hungary, Italy, the Netherlands, Poland, and the United States. In addition, we have ownership interests in processing plants in Guatemala and Mexico and have access to processing facilities in other areas, such as Argentina, India, the People's Republic of China, South Africa, and Zambia. Socotab L.L.C., an oriental tobacco joint venture in which we own a noncontrolling interest, owns tobacco processing plants in Turkey, Macedonia, and Bulgaria.

Except for the Lancaster, Pennsylvania facility, the facilities described above are engaged primarily in processing tobaccos used by manufacturers in the production of cigarettes. The Lancaster facility, as well as facilities in Brazil, the Dominican Republic, Indonesia, and Paraguay, process tobaccos used in making cigar, pipe, and smokeless products, as well as components of certain "roll-your-own" products.

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Item 3. Legal Proceedings

European Commission Fines in Italy

In 2002, we reported that we were aware that the European Commission (the "Commission") was investigating certain aspects of the leaf tobacco markets in Italy. One of our subsidiaries, Deltafina S.p.A. ("Deltafina"), buys and processes tobacco in Italy. We reported that we did not believe that the Commission investigation in Italy would result in penalties being assessed against us or our subsidiaries that would be material to our earnings. The reason we held this belief was that we had received conditional immunity from the Commission because Deltafina had voluntarily informed the Commission of the activities that were the basis of the investigation.

On December 28, 2004, we received a preliminary indication that the Commission intended to revoke Deltafina's immunity for disclosing in April 2002 that it had applied for immunity. Neither the Commission's Leniency Notice of February 19, 2002, nor Deltafina's letter of provisional immunity, contains a specific requirement of confidentiality. The potential for such disclosure was discussed with the Commission in March 2002, and the Commission never told Deltafina that the disclosure would affect Deltafina's immunity. On November 15, 2005, we received notification from the Commission that the Commission had imposed fines totaling €30 million on Deltafina and Universal Corporation jointly for infringing European Union antitrust law in connection with the purchase and processing of tobacco in the Italian raw tobacco market. In January 2006, Universal Corporation and Deltafina each filed appeals in the General Court of the European Union ("General Court"). Deltafina's appeal was held on September 28, 2010. For strategic reasons related to the defense of the Deltafina appeal, we withdrew our appeal. On September 9, 2011, the General Court issued its decision, in which it rejected Deltafina's application to reinstate immunity. Deltafina appealed the decision of the General Court to the European Court of Justice, and a hearing was held in November 2012. Effective with the September 9, 2011 General Court decision, we recorded a charge for the full amount of the fine (€30 million) plus accumulated interest (€5.9 million). The charge totaled $49.1 million at the exchange rate in effect on the date of the General Court decision. Deltafina maintains a bank guarantee in favor of the Commission in the amount of the fine plus accumulated interest in order to stay execution during the appeals process. Any fine and interest Deltafina may ultimately be required to pay would not be due until the European Court of Justice issues its decision. We have been notified by the Court that its decision on the appeal will be issued on June 12, 2014.

Other Legal Matters

In addition to the above-mentioned matter, some of our subsidiaries are involved in other litigation or legal matters incidental to their business activities. While the outcome of these matters cannot be predicted with certainty, we are vigorously defending the matters and do not currently expect that any of them will have a material adverse effect on our business or financial position. However, should one or more of these matters be resolved in a manner adverse to our current expectation, the effect on our results of operations for a particular fiscal reporting period could be material.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Equity

Our 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.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal Year Ended March 31, 2014				
Cash dividends declared	$0.50	$0.50	$0.51	$0.51
Market price range:				
High	61.46	63.36	54.60	58.99
Low	54.45	48.43	50.06	49.84
Fiscal Year Ended March 31, 2013				
Cash dividends declared	$0.49	$0.49	$0.50	$0.50
Market price range:				
High	47.40	51.10	52.25	58.36
Low	44.08	44.03	45.62	51.29

Our current dividend policy anticipates the payment of quarterly dividends in the future. However, the declaration and payment of dividends to holders of common stock is at the discretion of the Board of Directors and will be dependent upon our future earnings, financial condition, and capital requirements. Under the terms of our Series B 6.75% Convertible Perpetual Preferred Stock (the "Preferred Stock"), we may not declare or pay dividends on our common stock unless dividends on the Preferred Stock for the four most recent consecutive dividend periods have been declared and paid. The Preferred Stock contains provisions that prohibit the payment of cash dividends if certain income and shareholders' equity levels are not met. Under certain of our credit facilities, we must meet financial covenants relating to minimum tangible net worth and maximum levels of debt. If we were not in compliance with them, these financial covenants could restrict our ability to pay dividends. We were in compliance with all such covenants at March 31, 2014. At May 20, 2014, there were 1,286 holders of record of our common stock. See Notes 6 and 12 to the consolidated financial statements in Item 8 for more information on debt covenants and equity securities.

Purchases of Equity Securities

The following table summarizes our repurchases of our common stock during the three-month period ended March 31, 2014:

Period [(1)]	Total Number of Shares Repurchased	Average Price Paid Per Share [(2)]	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs [(3)]	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [(3)]
January 1, 2014 to January 31, 2014	—	$—	—	$100,000,000
February 1, 2014 to February 28, 2014	—	—	—	100,000,000
March 1, 2014 to March 31, 2014	—	—	—	100,000,000
Total	—	$—	—	

(1) Repurchases are based on the date the shares were traded. This presentation differs from the consolidated statement of cash flows, where the cost of share repurchases is based on the date the transactions were settled.

(2) Amounts listed for average price paid per share include broker commissions paid in the transactions.

(3)

A stock repurchase plan, which was authorized by our Board of Directors, became effective and was publicly announced on November 5, 2013. This stock repurchase plan authorizes the purchase of up to $100 million in common stock in open market or privately negotiated transactions, subject to market conditions and other factors. This stock repurchase program will expire on the earlier of November 15, 2015, or when we have exhausted the funds authorized for the program.

Item 6. Selected Financial Data

	Fiscal Year Ended March 31,				
	2014	2013	2012	2011	2010
	(in thousands, except per share data, ratios, and number of shareholders)				
Summary of Operations					
Sales and other operating revenues	$2,542,115	$2,461,699	$2,446,877	$2,571,527	$2,491,738
Segment operating income [1]	$175,175	$232,757	$223,548	$257,925	$279,585
Operating income	$246,151	$223,009	$180,304	$254,600	$257,209
Net income	$155,155	$140,919	$100,819	$164,550	$170,345
Net income attributable to Universal Corporation [2]	$149,009	$132,750	$92,057	$156,565	$168,397
Earnings available to Universal Corporation common shareholders	$134,159	$117,900	$77,207	$141,715	$153,547
Return on beginning common shareholders' equity	12.8 %	12.1 %	7.9 %	15.6 %	18.8 %
Earnings per share attributable to Universal Corporation common shareholders:					
Basic	$5.77	$5.05	$3.32	$5.94	$6.21
Diluted	$5.25	$4.66	$3.25	$5.42	$5.68
Financial Position at Year End					
Current ratio	3.68	2.80	4.31	3.08	2.75
Total assets	$2,270,907	$2,306,155	$2,266,919	$2,227,867	$2,371,040
Long-term obligations	$240,000	$181,250	$392,500	$320,193	$414,764
Working capital	$1,218,270	$1,123,376	$1,297,921	$1,065,883	$1,078,077
Total Universal Corporation shareholders' equity	$1,378,230	$1,258,571	$1,183,451	$1,185,606	$1,122,570
General					
Ratio of earnings to fixed charges	10.73	8.87	7.53	9.41	9.43
Ratio of earnings to combined fixed charges and preference dividends	5.49	4.69	4.07	5.17	5.29
Number of common shareholders	1,295	1,354	1,408	1,447	1,518
Weighted average common shares outstanding:					
Basic	23,239	23,355	23,228	23,859	24,732
Diluted	28,392	28,478	28,339	28,888	29,662
Dividends per share of convertible perpetual preferred stock (annual)	$67.50	$67.50	$67.50	$67.50	$67.50
Dividends per share of common stock (annual)	$2.02	$1.98	$1.94	$1.90	$1.86
Book value per common share	$50.19	$44.79	$41.73	$41.85	$37.39

[1] The Company evaluates the performance of its segments based on operating income after allocated overhead expenses (excluding significant charges or credits), plus equity in the pretax earnings of unconsolidated affiliates. See Note 15 to the consolidated financial statements in Item 8 of this Annual Report.

[2] We hold less than a 100% financial interest in certain consolidated subsidiaries, and a portion of net income is attributable to the noncontrolling interests in those subsidiaries.

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The calculations of the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preference dividends are shown in Exhibit 12. Fixed charges primarily represent interest expense we incurred during the designated fiscal year, and preference dividends represent the pre-tax equivalent of dividends on preferred stock.
Significant items included in the operating results in the above table are as follows:

- Fiscal Year 2014 – an $81.6 million gain resulting from the favorable outcome of litigation by the Company’s operating subsidiary in Brazil related to previous years’ excise tax credits. The effect of the gain was an increase in net income of $53.1 million, or $1.87 per diluted share. In addition to the gain, we recorded restructuring costs of $6.7 million, primarily related to the closure of a tobacco processing facility in Brazil and the consolidation of these operations into our main processing facility there. The restructuring costs reduced net income by $4.4 million and diluted earnings per share by $0.15.
- Fiscal Year 2013 – $4.1 million in restructuring costs, primarily related to workforce reductions in Africa. The effect of these charges was a reduction in net income of $1.8 million, or $0.06 per diluted share.
- Fiscal Year 2012 – a $49.1 million charge to accrue a fine and accumulated interest imposed jointly on the Company and Deltafina, S.p.A. (“Deltafina”), an Italian subsidiary, by the European Commission related to tobacco buying practices in Italy. The charge reflected a September 2011 appeals court decision rejecting Deltafina's application to reinstate its immunity in the case. No income tax benefit was recorded on the non-deductible fine portion of the charge. In addition to that charge, we recorded restructuring costs of $11.7 million, including approximately $8.6 million for employee termination benefits, primarily related to our operations in the U.S. and South America, and $3.1 million for costs to exit a supplier arrangement in Europe. Results for the year also included a gain of $11.1 million on the sale of land and buildings in Brazil that were most recently used for storage activities and a $9.6 million gain on insurance settlement proceeds to replace factory and equipment lost in a fire at a plant in Europe. On a combined basis, the net effect of these items decreased income before income taxes by $40.0 million and net income by $40.3 million, or $1.42 per diluted share.
- Fiscal Year 2011 – a $7.4 million reversal of a portion of a charge recorded in fiscal year 2005 to accrue a fine imposed by the European Commission on Deltafina, S.p.A., our subsidiary in Italy, related to tobacco buying practices in Spain. The reversal reflected a favorable European Union’s General Court decision in Deltafina’s appeal of the fine. We also recorded a $19.4 million gain on the assignment of farmer contracts and sale of related assets in Brazil to an operating subsidiary of a major customer. In addition to those items, which benefited fiscal year 2011 earnings, we recorded $21.5 million in restructuring and impairment costs during the year. A significant portion of those costs related to our decision to close our leaf tobacco processing operations in Canada and sell the assets of those operations. Restructuring charges were also recorded to recognize costs associated with voluntary early retirement offers in our U.S. operations and additional voluntary and involuntary separations in various other locations. On a combined basis, the net effect of these items increased income before income taxes by $5.3 million, and increased net income by $3.3 million, or about $0.12 per diluted share.

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

The following discussion and analysis of financial condition and results of operations is provided to enhance the understanding of, and should be read in conjunction with, Part I, Item 1, "Business" and Item 8, "Financial Statements and Supplementary Data." For information on risks and uncertainties related to our business that may make past performance not indicative of future results, or cause actual results to differ materially from any forward-looking statements, see "General," and Part I, Item 1A, "Risk Factors."

OVERVIEW

We are the leading global leaf tobacco supplier. We derive most of our revenues from sales of processed tobacco to manufacturers of tobacco products throughout the world and from fees and commissions for specific services. We hold a strategic position in the world leaf markets where we work closely with both our customers and farmers to ensure that we deliver a compliant product that meets our customers' needs while promoting a strong supplier base. We adapt to meet changes in customer requirements as well as broader changes in the leaf markets while continuing to provide the stability of supply and high level of service that distinguishes us in the marketplace. We believe that we have successfully met the needs of both our customers and suppliers while adapting to changes in leaf markets. Consequently, we have delivered strong results to our shareholders. Over the last three fiscal years, we have strengthened our balance sheet by repaying $128 million in debt, generated over $430 million in net cash flow from operations, and returned almost $209 million to our shareholders through a combination of dividends and share repurchases.

In fiscal year 2012, we had a slow start to the tobacco buying season, which is typical in a cycle of oversupply as both customers and farmers delayed action to evaluate market development. However, selling activity increased after prices declined at both the farm and the supplier and dealer levels. We experienced lower margins as a result of the oversupplied market conditions. In Brazil, we also saw the effect in our first quarter of reduced sales of leaf due to the assignment of some of our farmer contracts to a subsidiary of Philip Morris International during fiscal year 2011. Processing volumes in North America decreased due to processing contracts that expired in 2011. We continued to make progress on our restructuring programs in several regions, to further reduce operating cost structures where necessary. Earnings were negatively impacted by a charge related to the rejection of our European Commission fine appeal.

Despite smaller crops, rising leaf production costs, and margin pressures in most regions, we delivered better performance in fiscal year 2013 than we had anticipated at the beginning of the fiscal year. Some of this success was attributable to the sale of previously uncommitted inventories and carryover shipments of the prior year's large African and South American crops. In addition, we benefited from lower selling, general, and administrative costs. Certain of these costs reductions were unpredictable - such as currency remeasurement and exchange gains - and may not be recurring, while others were a result of our targeted cost reduction and efficiency improvement efforts.

We performed well in the face of a challenging environment in fiscal year 2014, and our underlying business and customer relationships remain strong. Given the larger crops this year, shipping volumes in the second half of fiscal year 2014 exceeded those in the comparable period last year. These increased volumes partially offset lower levels of carryover volumes in the first half of the year, weaker margins in Brazil, and negative foreign currency remeasurement and exchange loss comparisons this year. Our higher working capital cash requirements this year were a sharp contrast to the returns of working capital seen in fiscal year 2013, when we had the advantage of sales of uncommitted inventory and large carryover crops that bolstered cash flows. In fiscal year 2014, purchases of larger crops, tighter margins in Brazil from higher green leaf costs, and investments in production growth in Africa utilized much of the substantial levels of cash flow from the previous fiscal year. Despite these requirements, we maintained our strong financial position this year reducing debt by $80 million, and we continued to reward our shareholders with more than $75 million in dividends and share repurchases.

Margins in fiscal year 2014 were affected by volatile Brazilian leaf markets, but this has not been a factor in the current crop season. Moving into fiscal year 2015, the Brazilian season has begun slowly, with delayed sales and purchases as farmers and customers monitor market developments. Production volumes there are similar to last year's crop, and the flue-cured crop quality is lower than average. Our uncommitted inventories were higher at March 31, 2014, due in part to the slow start to the selling season in Brazil. In Africa, the markets have opened at a normal pace, and there are production volume increases in certain origins. At the same time, due to declines in the U.S. and

Western European retail cigarette sales, we may see some reductions in purchases of certain styles of tobacco, as customers adjust their inventory durations. Given the increased production and potential customer inventory adjustments, we expect an oversupply of tobacco in fiscal year 2015, which may lead to lower leaf prices that typify such cycles.

Our strategy remains focused on efficiently managing our business, meeting our customers' and suppliers' evolving needs, and returning value to our shareholders. We continue to invest in opportunities to improve our business and to promote sustainable, compliant leaf production. Our long-term outlook for Africa remains strong, consistent with our ongoing investments to both expand production this year in Mozambique to serve our customers' requirements and to enhance production efficiency in several other African origins. We also continue to seek out growth opportunities that enhance our value and help to sustain tobacco growers. Last month, we announced our new food ingredient business which we believe is not only an attractive business opportunity, but provides tobacco growers with a new market for sweet potatoes, which are often grown in rotation with tobacco. We are excited about our

future and believe that we are well positioned to manage the cycles inherent in our industry while successfully executing on our strategy.

RESULTS OF OPERATIONS

Amounts described as net income and earnings per diluted share in the following discussion are attributable to Universal Corporation and exclude earnings related to non-controlling interests in subsidiaries. The total for segment operating income referred to in the discussion below is a non-GAAP financial measure. This measure is not a financial measure calculated in accordance with GAAP and should not be considered as a substitute for net income, operating income, cash from operating activities or any other operating performance measure calculated in accordance with GAAP, and it may not be comparable to similarly titled measures reported by other companies. We have provided a reconciliation of the total for segment operating income to consolidated operating income in Note 15. "Operating Segments" to the consolidated financial statements in Item 8. We evaluate our segment performance excluding certain significant charges or credits. We believe this measure, which excludes these items that we believe are not indicative of our core operating results, provides investors with important information that is useful in understanding our business results and trends.

Fiscal Year Ended March 31, 2014, Compared to the Fiscal Year Ended March 31, 2013

Net income for the fiscal year ended March 31, 2014, was $149.0 million, or $5.25 per diluted share, compared with last year's net income of $132.8 million, or $4.66 per diluted share. The current year's results included a gain in the first fiscal quarter of $81.6 million before tax ($53.1 million after tax, or $1.87 per diluted share), from the favorable outcome of litigation in Brazil related to previous years' excise tax credits. The annual results also included pretax restructuring costs of $6.7 million ($0.15 per share) and $4.1 million ($0.06 per share) for fiscal years 2014 and 2013, respectively. Segment operating income, which excludes those items, was $175.2 million for fiscal year 2014, a decrease of $57.6 million from the prior year. That reduction was primarily attributable to weaker margins in Brazil from higher green leaf costs, increased currency remeasurement and exchange costs, and the higher sales of carryover and uncommitted inventories in fiscal year 2013. Revenues of $2.5 billion for fiscal year 2014 were up 3.3% compared with the previous year, as slightly lower volumes were offset by higher prices.

Flue-cured and Burley Leaf Tobacco Operations

Within our flue-cured and burley leaf tobacco operations, operating income for our Other Regions segment for the fiscal year ended March 31, 2014, declined by 31% to $133.4 million compared with the prior year. The reduction was driven primarily by results in South America, on lower volumes from fewer carryover shipments and weaker margins from higher green leaf prices. Africa results were negatively impacted by a less favorable product mix despite increased shipment volumes from larger current crops. The weaker results in those regions were partly mitigated by improved results in Europe as well as in Asia, where trading volumes were higher. Selling, general, and administrative expenses for the segment were significantly higher for the year, mostly due to unfavorable net foreign currency remeasurement and exchange comparisons, as current year losses compared to gains in fiscal year 2013, mostly in Africa, South America, and Asia. Revenues for this segment for the year increased by about 3% to $1.9 billion compared with the previous year, reflecting modestly reduced volumes and higher green leaf prices.

Operating income for our North America segment for fiscal year 2014 was $23.2 million, up $3.5 million compared with the previous year, on a more favorable product mix and lower overheads, including postretirement benefit costs. Revenues for this segment increased 4% to $348.6 million on a combination of reduced volumes, higher green leaf costs, and improved product mix.

Other Tobacco Operations

In our Other Tobacco Operations segment, operating income was down $2.0 million to $18.5 million for the fiscal year, compared with the comparable period of the prior year, primarily due to lower results for the oriental joint venture. In fiscal 2014, the oriental business achieved higher revenues and reduced operating expenses which were more than offset by large currency remeasurement and exchange losses from the devaluation of the Turkish lira. Our dark tobacco operations saw earnings improvements from a better product mix for fiscal year 2014, although these benefits were nearly offset by higher foreign currency remeasurement and exchange losses, mainly from the Indonesian rupiah.

Revenues for this segment increased by about 2% to $261.3 million for fiscal year 2014. Higher volumes attributable to the timing of shipments of oriental tobaccos into the United States, combined with lower volumes in the dark

tobacco operations, drove the revenue change.

Other Items

Cost of goods sold increased by about 5% to $2.1 billion for the fiscal year ended March 31, 2014, reflecting higher green leaf costs compared with the same period in the previous year. Selling, general, and administrative costs increased by $26.7 million for fiscal year 2014, compared with the respective prior period. The large increase for the year was primarily related to unfavorable comparisons from currency remeasurement and exchange losses, which amounted to $20.3 million compared with gains of $9.6 million in the prior fiscal year.

Interest expense of $20.3 million for fiscal year 2014 declined by about 8%, compared to the prior fiscal year. The reduction was mostly due to lower average debt levels and interest rates during the period. The consolidated effective income tax rates on pretax earnings were approximately 33% and 32% for the fiscal years ended March 31, 2014 and 2013, respectively. The rates for both periods were lower than the 35% federal statutory rate mainly because of the effect of changes in exchange rates on deferred income tax assets and liabilities, as well as lower effective rates on dividend income from certain foreign subsidiaries.

In the first fiscal quarter of 2014, we recorded an $81.6 million gain resulting from the favorable conclusion during the quarter of a longstanding lawsuit challenging the Brazilian government's denial of our rights to claim certain excise tax credits generated in previous years. The outcome of the case entitles us to the previously denied excise tax credits, as well as additional credits for interest from the dates the tax credits should have been available (approximately $104 million at the date the lawsuit was concluded). All avenues of appeal by either party were exhausted, and we are now permitted to utilize the total amount of the credits to offset future federal tax obligations for a period of up to five years. The amount of the gain, which is reported in Other Income, reflects our current estimate of the actual tax credits that are likely to be realized before they expire.

On October 15, 2013, we repaid at maturity $200 million principal amount of 5.2% medium term notes. Subsequently, we entered into a $175 million senior term loan agreement with a group of banks. The loan is unsecured and matures in five years. Loans outstanding under the agreement currently bear interest at LIBOR plus 1.50% and may be prepaid at any time without premium or penalty. The financial covenants under the new term loan agreement are substantially similar to those of our $450 million senior unsecured committed revolving credit facility, including maintaining a minimum level of tangible net worth and observing limits on debt levels.

Fiscal Year Ended March 31, 2013, Compared to the Fiscal Year Ended March 31, 2012

Net income for the fiscal year ended March 31, 2013, was $132.8 million, or $4.66 per diluted share, compared with net income of $92.1 million, or $3.25 per diluted share, for the fiscal year ended March 31, 2012. The comparison of fiscal year 2013 to fiscal year 2012 was affected by several unusual items, which are described below, amounting to net pretax charges of $4.1 million ($0.06 per diluted share), and $40.1 million ($1.42 per diluted share) for fiscal years 2013 and 2012, respectively. Segment operating income for fiscal year 2013, which excludes those unusual items, was $232.8 million, up $9.2 million compared with fiscal year 2012, as improved performance in our Other Regions and Other Tobacco Operations segments was partially offset by a decline in our North America segment. Revenues for fiscal year 2013 of $2.5 billion were relatively flat compared with fiscal year 2012, on lower volumes at higher average prices.

The following table sets forth the unusual items included in the annual results, none of which are included in segment results:

	Fiscal Year Ended March 31,	
(in millions of dollars, except per share amounts)	2013	2012
(Charges) and gains		
(Charge for) reversal of European Commission fines in Italy [1]	$—	$(49.1)
Restructuring costs [2]	(4.1)	(11.7)
Gain on fire loss insurance settlement in Europe [3]	—	9.6
Gain on sale of facility in Brazil [4]	—	11.1
Total effect on operating income	$(4.1)	$(40.1)
Total effect on net income	$(1.8)	$(40.3)
Total effect on diluted earnings per share	$(0.06)	$(1.42)

[1] Fines and accumulated interest from the September 9, 2011, decision by the General Court of the European Union rejecting an Italian subsidiary's application to reinstate immunity related to infringements of European Union antitrust law in the Italian raw tobacco market.

[2] Restructuring charges, primarily related to workforce reductions in the United States, South America, Europe, and Africa.

[3] The fire loss insurance settlement related to a plant fire in Europe in 2010. The operating assets were replaced.

[4] Sale of land and storage buildings in Brazil in November 2011.

Flue-cured and Burley Leaf Tobacco Operations

For the fiscal year ended March 31, 2013, operating income for our flue-cured and burley leaf tobacco operations, which includes our North America and Other Regions segments, of $212.3 million, was nearly flat compared to fiscal year 2012's results of $210.7 million. The slight increase reflected improved operating results for the year in our Other Regions segment, which was mostly offset by reduced earnings in our North America segment. Sales volumes for fiscal year 2013 reflected the smaller current crops, as well as additional volumes from carryover shipments from last year's large crops. Those carryover crops, mainly from South America and Africa, primarily were shipped in the first half of fiscal year 2013. Revenues for the group were flat compared with fiscal year 2012, at $2.2 billion.

Operating income for our Other Regions segment of $192.6 million was up 7%, compared to $180.7 million for fiscal year 2012. Benefits from significant reductions in selling, general, and administrative expenses outweighed the effects of lower volumes and margins in most origins. The selling, general, and administrative expense reductions were largely attributable to a decline in provisions for farmer bad debts, net currency remeasurement and exchange benefits in Africa, South America and Asia, and lower customer claims in comparison with fiscal year 2012. Revenues for the segment of $1.9 billion were relatively flat, on lower overall volumes at higher average prices mostly due to higher green leaf costs.

Operating income for our North America segment declined by $10.3 million to $19.7 million for fiscal year 2013, compared with fiscal year 2012. Despite higher overall sales volumes and increased processing business, the earnings decline was influenced by lower margins on higher green leaf costs and higher overhead allocations. Revenues for the segment of $334.7 million were up 7% on those higher sales and processing volumes.

Other Tobacco Operations

In our Other Tobacco Operations segment, operating income for fiscal year 2013 improved by $7.6 million to $20.5 million, on a favorable product mix due in part to stronger wrapper sales in our dark tobacco operations from recovery of the Indonesian crop shortages. The results for our oriental joint venture also improved on better margins, as well as lower operating expenses due to a stronger U.S. dollar and overhead cost reductions. Revenues for this segment for fiscal year 2013 increased by about 7%, to $255.1 million, mainly due to increased wrapper volume in our dark tobacco operations.

Other Items

Cost of goods sold of $2.0 billion was up about 1% for the year ended March 31, 2013, compared with fiscal year 2012. The change reflected higher green leaf costs and was consistent with comparable changes in sales revenues for the relevant period. Selling, general, and administrative costs declined by $16.3 million compared to fiscal year 2012. The decline was driven mainly by benefits from currency remeasurement and exchange gains in our Other Regions segment, a reduction in provisions for farmer bad debts, and lower customer claims.

Interest expense was down $0.8 million to $22.0 million compared with fiscal year 2012, primarily due to lower average borrowing levels as a result of reduced working capital requirements in fiscal year 2013. The consolidated effective income tax rate on pretax earnings was approximately 32% and 38% for the fiscal years ended March 31, 2013 and 2012, respectively. Fiscal year 2012's rate was higher because we did not record an income tax benefit on the non-deductible fine portion of the charge for the European Commission fine and interest in Italy. Without that item, the effective income tax rate would have been approximately 29%. The rates in both years, excluding adjustments, were lower than the 35% federal statutory rate because of the effect of changes in exchange rates on deferred income tax assets and liabilities, as well as lower effective rates on income from certain foreign subsidiaries.

Accounting Pronouncements

We adopted Financial Accounting Standards Board Accounting Standards Update 2013-02, “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,” effective at the beginning of the fiscal year. The new guidance requires companies to report the effect of significant reclassifications out of accumulated other comprehensive income (loss) on the respective line items in net income unless the amounts are not reclassified in their entirety to net income. For amounts that are not reclassified in their entirety to net income in the same reporting period, companies are required to cross-reference other disclosures that provide additional detail about those amounts. Since the new guidance requires additional disclosures only, it did not have any impact on our results of operations, cash flows, or financial position. The required disclosures are provided in Note 16 to the consolidated financial statements in Item 8.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

During the fiscal year ended March 31, 2014, our seasonal working capital requirements were significantly higher due to larger crops and higher green prices for tobacco in many origins. We also experienced challenging market conditions, particularly in Brazil, which pressured margins and reduced cash flow from operations. We used $3.5 million in net cash flows to fund our operating activities during the fiscal year. We also entered fiscal year 2014 with substantial cash balances and used this cash to both fund operations and to pay down approximately $36 million of our long-term debt, ending the year with cash balances of $163.5 million, a decrease of $204.3 million from the prior year levels. Our liquidity was sufficient to meet our needs. We also continued our conservative financial policies, maintained our discipline on using our free cash flow, and reduced our debt levels while returning funds to shareholders.

Our liquidity and capital resource requirements are predominately short-term in nature and primarily relate to working capital required for tobacco crop purchases. Working capital needs are seasonal within each geographic region. The geographic dispersion and the timing of working capital needs permit us to predict our general level of cash requirements, although crop sizes, prices paid to farmers, shipment and delivery timing, and currency fluctuations affect requirements each year. Peak working capital requirements are generally reached during the first and second fiscal quarters. Each geographic area follows a cycle of buying, processing, and shipping tobacco, and in many regions we also provide agricultural materials to farmers during the growing season. The timing of the elements of each cycle is influenced by such factors as local weather conditions and individual customer shipping requirements, which may change the level or the duration of crop financing. Despite a predominance of short-term needs, we maintain a portion of our total debt as long-term to reduce liquidity risk. We also periodically have large cash balances that we utilize to meet our working capital requirements.

We believe that our financial resources are adequate to support our capital needs for at least the next twelve months. Our seasonal borrowing requirements primarily relate to purchasing crops in South America and Africa and can increase from March to September by more than $300 million. The funding required can vary significantly depending upon such factors as crop sizes, the price of leaf, the relative strength of the U.S. dollar, and the timing of shipments and customer payments. We deal with this uncertainty by maintaining substantial credit lines and cash balances. In addition to our operating requirements for working capital, we have $116.3 million of long-term debt maturing in fiscal year 2015, and we expect to provide around $65 million for capital expenditures, primarily in Africa, $15 million related to the start-up of our food ingredient business, and $7 million in funding to our pension plans. While available capital resources from our cash balances, a committed revolving credit facility, and uncommitted credit lines exceed these anticipated needs, we may explore refinancing long-term debt in order to better manage long-term liquidity risk. After balancing our capital structure, any excess cash flow from operations after dividends and capital expenditures will be available to fund expansion, purchase our stock, or otherwise enhance shareholder value.

Cash Flow

Our operations used about $3.5 million in operating cash flows in fiscal year 2014, and we reduced our cash balances by $204.3 million. We spent $45.8 million on capital projects, returned $75.7 million to shareholders in the form of dividends and repurchases of our common stock, and reduced our total debt by $80.0 million. At March 31, 2014, cash balances totaled $163.5 million.

Working Capital

Working capital at March 31, 2014, was about $1.2 billion, up $94.9 million from last year's level. The $204.3 million decline in cash and cash equivalents was partially offset by higher accounts receivable from larger crops as well as higher inventories, up $66.3 million and $25.9 million, respectively. Current liabilities declined by $167.6 million, largely due to lower current maturities of long-term obligations and decreased notes payable and overdrafts, down $95.0 million and $42.4 million, respectively.

Tobacco inventories at March 31, 2014, were up $16.4 million. The slight increase was largely due to a slow start to the buying and selling season in Brazil. We usually finance inventory with a mix of cash, notes payable, and customer deposits, depending on our borrowing capabilities, interest rates, and exchange rates, as well as those of our customers. We generally do not purchase material quantities of tobacco on a speculative basis. However, when we contract directly with farmers, we are often obligated to buy all stalk positions, which may contain less marketable

leaf styles. Our uncommitted tobacco inventories increased by approximately $54.4 million to $171.4 million, or about 27% of tobacco inventory, at March 31, 2014. Uncommitted inventories at March 31, 2013, were $117.0 million, which represented 19% of tobacco inventory. The level of these uncommitted inventories is influenced by timing of farmer deliveries of new crops, as well as the timing of customer purchases. We expect the uncommitted inventory balances to decline in the second half of fiscal year 2015 as the selling season in Brazil progresses.

Share Repurchase Activity

In November 2011, our Board of Directors approved a $100 million share repurchase program that was replaced in November 2013. The new program, which was approved and announced on November 5, 2013, provides authorization for the purchase of up to $100 million of equity securities through November 15, 2015. The purchases may be carried out from time to time on the open market or in privately negotiated transactions at prices not exceeding prevailing market rates. During fiscal year 2014, we purchased 238,486 shares of common stock at an aggregate cost of $14.1 million (average price per share of $59.31), based on trading dates. In determining our level of common share repurchase activity, our intent is to use only cash available after meeting our capital investment, dividend, and working capital requirements. Repurchases of shares under the repurchase program may vary based on management discretion, as well as changes in cash flow generation and availability. At March 31, 2014, our available authorization under our current share repurchase program was $100 million, and approximately 23.2 million common shares were outstanding.

Capital Spending

Our capital expenditures are generally limited to those that add value, replace or maintain equipment, increase efficiency, or position us for future growth. Our capital expenditures totaled $45.8 million in fiscal year 2014, $30.8 million in fiscal year 2013, and $38.2 million in fiscal year 2012. Increased capital spending in fiscal year 2014 is attributable mainly to production expansion projects in Africa. Depreciation expense was approximately $37.3 million, $43.4 million, and $42.2 million, respectively, in each of fiscal years 2014, 2013, and 2012. Generally, our routine capital spending is at a level below depreciation expense in order to maintain strong cash flow. However, from time to time, we may undertake projects that increase spending beyond those limits. We currently have $80 million of total capital expenditures planned in fiscal year 2015, largely related to the African expansion projects as well as construction of a new manufacturing facility for our food ingredient business.

Outstanding Debt and Other Financing Arrangements

We consider the sum of notes payable and overdrafts, long-term debt (including the current portion), and customer advances and deposits, less cash, cash equivalents, and short-term investments on our balance sheet to be our net debt. We also consider our net debt plus shareholders' equity to be our total capitalization. Net debt increased by $116.6 million to $271.5 million during the fiscal year ended March 31, 2014. The increase primarily reflects lower cash balances partially offset by lower debt levels. Net debt as a percentage of capitalization was approximately 16% at March 31, 2014, up from 11% at March 31, 2013, and it remains lower than our target range for peak borrowings of 35% to 45% of total capitalization.

We have a committed revolving credit facility of $450 million and a funded five-year amortizing term loan facility. Both facilities will mature in November 2016. As of March 31, 2014, we had no borrowings under the revolving credit facility. Under the terms of the facilities, we must maintain a minimum level of tangible net worth and observe limits on debt levels. In October 2013, we repaid our $200 million 5.2% medium term notes at maturity, and we entered into a new bank credit agreement that established a funded $175 million five-year unsecured term loan facility. The new facility matures in October 2018. Loans outstanding under the new facility bear interest at LIBOR plus 1.50% (1.6875% at March 31, 2014) and may be prepaid at any time without premium or penalty. The financial covenants under the new facility are substantially similar to those of our committed revolving credit facility and require that we maintain a minimum level of tangible net worth and observe limits on debt levels. As of March 31, 2014, we were in compliance with all covenants of our debt agreements.

As of March 31, 2014, we, together with our consolidated affiliates, had approximately $405 million in uncommitted lines of credit, of which approximately $342 million were unused and available to support seasonal working capital needs. We also have an active, undenominated universal shelf registration filed with the SEC in November 2011, which provides for future issuance of additional debt or equity securities. We have $116.3 million of long-term debt maturing in fiscal year 2015. Although available capital resources from our cash balances, committed credit facility, and uncommitted credit lines exceed the amount of the maturing debt, we may explore refinancing long-term debt in order to better control long-term liquidity risk.

Derivatives

From time to time, we use interest rate swap agreements to manage our exposure to changes in interest rates. At March 31, 2014, the fair value of our outstanding interest rate swap agreements was a liability of about $0.9 million,

and the notional amount swapped was approximately $81.3 million. These agreements were entered into to eliminate the variability of cash flows in the interest payments on our variable rate amortizing term loan. Under the swap agreements, we receive variable rate interest and pay fixed rate interest. The swaps are accounted for as cash flow hedges.

We also enter forward contracts from time to time to hedge certain foreign currency exposures, primarily related to forecast purchases of tobacco and related processing costs in Brazil, as well as our net monetary asset exposure in local currency there. We generally account for our hedges of forecast tobacco purchases as cash flow hedges. At March 31, 2014, the fair value of our open contracts was a net asset of approximately $1.7 million. We also had other forward contracts outstanding that were not designated as hedges, and the fair value of those contracts was a net liability of approximately $3.6 million at March 31, 2014. For additional information, see Note 9 to the consolidated financial statements in Item 8.

Pension Funding

During fiscal year 2014, we made changes to certain of our U.S. defined benefit plans which reduced our benefit obligations for service after January 1, 2014. Our remeasurement of the plans' assets and liabilities reflects these changes, as well as updated actuarial assumptions including an increase in the discount rate. The actuarial valuation of the plans as of March 31, 2014, reflected a reduction of their aggregate underfunded status of approximately $47 million compared to March 31, 2013.

Funds supporting our ERISA-regulated U.S. defined benefit pension plan increased by $6 million during fiscal year 2014 to $194 million, as contributions and asset returns exceeded benefit payments. Following the changes to the plan benefit formula effective January 1, 2014, the accumulated benefit obligation ("ABO") and the projected benefit obligation ("PBO") were both approximately $208 million as of March 31, 2014. The ABO and PBO are calculated on the basis of certain assumptions that are outlined in Note 11 to the consolidated financial statements in Item 8. We expect to make contributions of about $7 million to our pension plans, including $6 million to our ERISA-regulated plan, during the next year. It is our policy to regularly monitor the performance of the funds and to review the adequacy of our funding and plan contributions.

Contractual Obligations

Our contractual obligations as of March 31, 2014, were as follows:

(in thousands of dollars)	Total	2015	2016-2017	2018-2019	After 2019
Notes payable and long-term debt [1]	$444,838	$191,875	$73,287	$179,676	$—
Operating lease obligations	38,286	12,122	14,407	7,251	4,506
Inventory purchase obligations:					
Tobacco	815,470	661,495	153,975	—	—
Agricultural materials	61,813	61,813	—	—	—
Other purchase obligations	12,022	12,022	—	—	—
Total	$1,372,429	$939,327	$241,669	$186,927	$4,506

(1) Includes interest payments. Interest payments on $237.9 million of variable rate debt were estimated based on rates as of March 31, 2014. The Company has entered interest rate swaps that effectively convert the interest payments on the $81.3 million outstanding balance of its amortizing bank term loan from variable to fixed. The fixed rate has been used to determine the contractual interest payments for all periods.

In addition to principal and interest payments on notes payable and long-term debt, our contractual obligations include operating lease payments, inventory purchase commitments, and capital expenditure commitments. Operating lease obligations represent minimum payments due under leases for various production, storage, distribution, and other facilities, as well as vehicles and equipment. Tobacco inventory purchase obligations primarily represent contracts to purchase tobacco from farmers. The amounts shown above are estimates since actual quantities purchased will depend on crop yield, and prices will depend on the quality of the tobacco delivered. About 55% of our crop year contracts to purchase tobacco are with farmers in Brazil. We have partially funded our tobacco purchases in Brazil and in other regions with advances to farmers and other suppliers, which totaled approximately $135 million, net of allowances, at March 31, 2014. In addition, we have guaranteed bank loans to farmers in Brazil that relate to a portion of our tobacco purchase obligations there. At March 31, 2014, we were contingently liable under those guarantees for outstanding balances of approximately $22 million (including accrued interest), and we had recorded a liability of approximately $2 million for the fair value of those guarantees. As tobacco is purchased and the related bank loans are repaid, our contingent liability is reduced.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing the financial statements in accordance with GAAP, we are required to make estimates and assumptions that have an impact on the assets, liabilities, revenue, and expense amounts reported. These estimates can also affect our supplemental information disclosures, including information about contingencies, risks, and financial condition. We believe, given current facts and circumstances, that our 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. Our critical accounting estimates and assumptions are in the following areas:

Inventories

Inventories of tobacco are valued at the lower of cost or market with cost determined under the specific cost method. Raw materials are clearly identified at the time of purchase. We track the costs associated with raw materials in the final product lots, and maintain this identification through the time of sale. We also capitalize 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. We write down inventory for changes in market value based upon assumptions related to future demand and market conditions if the indicated market value is below cost. 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. We experience inventory write-downs routinely. Inventory write-downs in fiscal years 2014, 2013, and 2012 were $7.6 million, $1.5 million, and $8.3 million, respectively.

Advances to Suppliers and Guarantees of Bank Loans to Suppliers

In many sourcing origins, we provide tobacco growers with agronomy services and seasonal crop advances of, or for, seed, fertilizer, and other supplies. These advances are short term in nature and are customarily repaid upon delivery of tobacco to us. In several origins, we have also made long-term advances to tobacco farmers to finance curing barns and other farm infrastructure. In Brazil, we also guarantee loans made to farmers for the same purposes. In some years, due to low crop yields and other factors, individual farmers may not deliver sufficient volumes of tobacco to repay maturing advances. In those cases, we may extend repayment of the advances into the following crop year or satisfy the guarantee by acquiring the loan from the bank. In either situation, we will incur losses whenever we are unable to recover the full amount of the loans and advances. At each reporting period, we must make estimates and assumptions in determining the valuation allowance for advances to farmers and the liability to accrue for our obligations under bank loan guarantees. At March 31, 2014, the gross balance of advances to suppliers totaled approximately $190 million, and the related valuation allowance totaled approximately $46 million. The fair value of the loan guarantees for farmers in Brazil was a liability of approximately $2 million at March 31, 2014.

Recoverable Value-Added Tax Credits

In many foreign countries, we pay significant amounts of value-added tax (“VAT”) on purchases of unprocessed and processed tobacco, crop inputs, packing materials, and various other goods and services. In some countries, VAT is a national tax, and in other countries it is assessed at the state level. Items subject to VAT vary from jurisdiction to jurisdiction, as do the rates at which the tax is assessed. When we sell tobacco to customers in the country of origin, we generally collect VAT on those sales. We are normally permitted to offset our VAT payments against those collections and remit only the incremental VAT collections to the tax authorities. When tobacco is sold for export, VAT is normally not assessed. In countries where our tobacco sales are predominately for export markets, we often do not generate enough VAT collections on downstream sales to fully offset our VAT payments. In those situations, we can accumulate unused VAT credits. Some jurisdictions have procedures that allow companies to apply for refunds of unused VAT credits from the tax authorities, but the refund process often takes an extended period of time and it is not uncommon for refund applications to be challenged or rejected in part on technical grounds. Other jurisdictions may permit companies to sell or transfer unused VAT credits to third parties in private transactions, although approval for such transactions must normally be obtained from the tax authorities, limits on the amounts that can be transferred are usually imposed, and the proceeds realized may be heavily discounted from the face value of the credits. Due to these factors, in some countries we can accumulate significant balances of VAT credits over time. We review these balances on a regular basis, and we record valuation allowances on the credits to reflect amounts that we do not expect to recover, as well as discounts anticipated on credits we expect to sell or transfer. In determining the appropriate

valuation allowance to record in a given jurisdiction, we must make various estimates and assumptions about factors affecting the ultimate recovery of the VAT credits. At March 31, 2014, the gross balance of recoverable tax credits (primarily VAT) totaled approximately $66 million, and the related valuation allowance totaled approximately $30 million.

Goodwill

We review the carrying value of goodwill for potential impairment on an annual basis and at any time that events or business conditions indicate that it may be impaired. Although permitted under Accounting Standards Codification Topic 350 (“ASC 350”), through March 31, 2014, we have not elected to base our initial assessment of potential impairment on qualitative factors. We follow the guidance in ASC 350 in determining the fair value of goodwill, which normally involves the use of discounted cash flow models (Level 3 of the fair value hierarchy under GAAP). The calculations in these models are normally not based on observable market data from independent sources and therefore require significant management judgment with respect to operating earnings growth rates and the selection of an appropriate discount rate. 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. Over 90% of our goodwill balance relates to our reporting unit in Brazil.

Fair Value Measurements

We hold various financial assets and financial liabilities that are required to be measured and reported at fair value in our financial statements, including money market funds, trading securities associated with deferred compensation plans, interest rate swaps, forward foreign currency exchange contracts, and guarantees of bank loans to tobacco growers. We follow the relevant accounting guidance in determining the fair values of these financial assets and liabilities. Quoted market prices (Level 1 of the fair value hierarchy) are used in most cases to determine the fair values of trading securities. Money market funds are valued based on net asset value (“NAV”), which is computed based on amortized cost (Level 2 of the fair value hierarchy). Interest rate swaps, and forward foreign currency exchange contracts are valued based on dealer quotes using discounted cash flow models matched to the contractual terms of each instrument (Level 2 of the fair value hierarchy). The fair value of the guarantees of bank loans to tobacco growers, which was approximately $2 million at March 31, 2014, is derived using an internally-developed discounted cash flow model. The model requires various inputs, including historical loss percentages for comparable loans and a risk-adjusted interest rate. Because significant management judgment is required in determining and applying these inputs to the valuation model, our process for determining the fair value of these guarantees is classified as Level 3 of the fair value hierarchy. At March 31, 2014, a 1% increase in the expected loss percentage for all guaranteed farmer loans would not have had a material effect on the fair value of the guarantee obligation. In addition, a 1% change in the risk-adjusted interest rate would not have had a material effect on the fair value of the guarantee obligation. We incorporate credit risk in determining the fair values of our financial assets and financial liabilities, but that risk did not materially affect the fair values of any of those assets or liabilities at March 31, 2014.

Income Taxes

Our consolidated effective income tax rate is based on our expected taxable income, tax laws and statutory tax rates, and tax planning opportunities in the various jurisdictions in which we operate. Significant judgment is required in determining the effective tax rate and evaluating our tax position. We are 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 adjustments to tax expense in future periods. In the event that there is a significant, unusual, or one-time item recognized in our results, the tax attributed to that discrete item would be recorded at the same time as the item. We have no undistributed earnings of consolidated foreign subsidiaries that are classified as permanently reinvested.

Our accounting for uncertain tax positions requires that we review all significant tax positions taken, or expected to be taken, in income tax returns for all jurisdictions in which we operate. In this review, we must assume that all tax positions will ultimately be audited, and either accepted or rejected based on the applicable tax regulations by the tax authorities for those jurisdictions. We must recognize in our financial statements only the tax benefits associated with tax positions that are “more likely than not” to be accepted upon audit, at the greatest amount that is considered “more likely than not” to be accepted. These determinations require significant management judgment, and changes in any given quarterly or annual reporting period could affect our consolidated income 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, our effective tax rate reflected in the financial statements is different than that reported in our 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 liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred or income taxes related to expenses that have not yet been recognized in the financial statements, but have been deducted in our tax return. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future tax returns for which we have already recorded the tax benefit in our financial statements. We record valuation allowances for deferred tax assets when the amount of estimated future taxable income is not likely to support the use of the deduction or credit. Determining the amount of such valuation allowances requires significant management judgment, including estimates of future taxable income in multiple tax jurisdictions where we operate. Based on our periodic earnings forecasts, we project the upcoming year's taxable income to help us evaluate our ability to realize deferred tax assets.

The functional currency in most of our significant foreign operations is the U.S. dollar, as export tobacco sales are generally made in dollars. Purchasing and processing costs are usually incurred in local currency. When the U.S. dollar is weakening relative to the local currency, purchasing and processing costs increase in dollar terms, resulting in higher cost inventory. The sale of that inventory in dollars generates less taxable income in local currency, which results in lower income taxes owed when translated into U.S. dollars. This causes the effective income tax rate on dollar income to be lower than the statutory rate in the local country. The reverse can occur when the local currency is weakening relative to the U.S. dollar, thereby causing the effective income tax rate on dollar earnings to be above the statutory rate. This impact on our effective income tax rate in a country can be significant during a normal crop cycle. A prolonged period of strengthening or weakening over more than one crop may increase the impact if we sell material quantities of old crop inventories. Lower-taxed foreign source income increases our ability to use foreign tax credits. Higher-taxed foreign source income has the reverse effect. When these changes occur in our larger operations, such as our operations in Brazil, they can have a material impact on our overall tax position.

For additional disclosures on income taxes, see Notes 1 and 5 to the consolidated financial statements in Item 8.

Pension and Other Postretirement Benefit Plans

The measurement of our pension and other postretirement obligations and costs at the end of each fiscal year requires that we make various assumptions that are used by our actuaries in estimating the present value of projected future benefit payments to all plan participants. Those assumptions take into consideration the likelihood of potential future events such as salary increases and demographic experience. The assumptions we use may have an effect on the amount and timing of future contributions to our plans. The plan trustee conducts an independent valuation of the fair value of pension plan assets. The significant assumptions used in the calculation of our pension and postretirement obligations are:

- Discount rate – The discount rate is based on investment yields on a hypothetical portfolio of actual long-term corporate bonds rated AA that align with the cash flows for our benefit obligations.
- Salary scale – The salary scale assumption is based on our long-term actual experience for salary increases, the near-term outlook, and expected inflation.
- Expected long-term return on plan assets – The expected long-term return on plan assets reflects asset allocations and investment strategy adopted by the Pension Investment Committee of the Board of Directors.
- Retirement and mortality rates – Retirement rates are based on actual plan experience along with our near-term outlook. Early retirement assumptions are based on our actual experience. Mortality rates are based on standard group annuity (RP-2000) mortality tables which have been updated to reflect improvements in life expectancy projected to 2021.
- Healthcare cost trend rates – For postretirement medical plan obligations and costs, we make assumptions on future inflationary increases in medical costs. These assumptions are based on our actual experience, along with third-party forecasts of long-term medical cost trends.

From one fiscal year to the next, the rates we use for each of the above assumptions may change based on market developments and other factors. In addition, actual returns on plan assets and other data affecting our benefit obligations will differ from the assumptions used to actuarially measure those obligations. The effects of these changes and differences increase or decrease the obligation we record for our pension and other postretirement benefit plans, and they also create gains and losses that are accumulated and amortized over future periods, thus affecting the expense we recognize for these plans over those periods. These effects may be significant. For example, between fiscal year 2009 and fiscal year 2013, the discount rates used to measure the obligations for our domestic benefit plans declined by more than 3.50%, reflecting the significant decline in interest rates and bond yields in the U.S. market. Over this period, our related benefit obligation increased by more than $100 million (approximately 50%) and our annual expense increased by more than $4 million (more than 40%). The reduction in discount rates accounted for a large portion of the increase in the benefit obligation and annual expense. In fiscal year 2014, the discount rates used to determine the benefit obligations and related expense increased slightly, reversing a portion of the effects seen from fiscal years 2009 through 2013.

As of March 31, 2014, the effect of the indicated increase or decrease in the selected pension and other postretirement benefit valuation assumptions is shown below. The effect assumes no change in benefit levels.

(in thousands of dollars)	Effect on 2014 Projected Benefit Obligation Increase (Decrease)	Effect on 2015 Annual Expense Increase (Decrease)
Changes in Assumptions for Pension Benefits		
Discount Rate:		
1% increase	$(25,407)	$(2,154)
1% decrease	30,580	2,536
Salary Scale:		
1% increase	24	216
1% decrease	(42)	(206)
Long-Term Rate of Return on Assets:		
1% increase	—	(1,820)
1% decrease	—	1,819
Changes in Assumptions for Other Postretirement Benefits		
Discount Rate:		
1% increase	(3,733)	(447)
1% decrease	4,446	468
Healthcare Cost Trend Rate:		
1% increase	1,493	68
1% decrease	(1,394)	(61)

See Note 11 to the consolidated financial statements in Item 8 for additional information on pension and postretirement benefit plans.

Other Estimates and Assumptions

Other management estimates and assumptions are routinely required in preparing our financial statements, including the determination of valuation allowances on accounts receivable and the fair value of long-lived assets. Changes in market and economic conditions, local tax laws, and other related factors are considered each reporting period, and adjustments to the accounts are made based on management’s best judgment.

OTHER INFORMATION REGARDING TRENDS
AND MANAGEMENT'S ACTIONS

Our financial performance depends on our ability to obtain an appropriate price for our products and services, to secure the tobacco volumes and quality desired by our customers, and to maintain efficient, competitive operations. We continually monitor issues and opportunities that may impact the supply of and demand for leaf tobacco, the volumes of leaf tobacco that we handle, and the services we provide.

Supply

Crops sold in fiscal year 2014 were larger than in the prior fiscal year in many of our key sourcing areas for flue-cured and burley tobacco. Burley production, in particular, was up approximately 22% in fiscal year 2014. The larger crops followed smaller crops and strong sales of uncommitted tobacco inventories in fiscal year 2013. We entered fiscal year 2014 with very low uncommitted inventories available for sale and fewer shipments of prior year crop carrying into our first and second fiscal quarters. Crop sizes for flue-cured, burley and oriental tobaccos available for export are expected to increase again in fiscal year 2015. Given this strong production, we expect an oversupply of tobacco in fiscal year 2015.

Production

Worldwide flue-cured tobacco production outside of China increased by about 2% in fiscal year 2014 to 2.0 billion kilos. China is an extremely large market that is predominately domestic. Because very little of that tobacco is available outside of that country to trade, we generally exclude Chinese crops when we consider worldwide production Burley crops increased sharply, by about 22%, in fiscal year 2014. The increases in both flue-cured and burley crop tobacco production replenished industry uncommitted tobacco inventories which were at extremely low levels following smaller crops in fiscal year 2013. We estimate that at March 31, 2014, industry uncommitted flue-cured and burley inventories totaled about 47.3 million kilos, an increase of about 65% from March 31, 2013 levels.

We believe flue-cured production (excluding China) will increase by about 6%, to about 2.1 billion kilos, in fiscal year 2015. Burley production is forecast to increase by about 12%, with a large part of this increase coming from expanded tobacco production in Africa. We also believe that certain varieties of oriental tobacco have moved to an oversupply position. We forecast that dark air-cured production will remain flat in fiscal year 2015.

Looking forward, we believe that global tobacco production will continue to increase slightly to meet continued slow but steady growth in total demand. South America, Asia, Africa, and North America will remain key sourcing regions for flue-cured and burley tobaccos. Over the last decade, Africa has experienced growth in flue-cured and burley tobacco production of over 200 million kilos. We expect Africa to continue to be an important tobacco source and to lead tobacco production growth outside of China.

Pricing

Factors that affect green tobacco prices include global supply and demand, market conditions, production costs, foreign exchange rates, and competition from other crops. We work with farmers to maintain tobacco production and to secure product at price levels that are attractive to both the farmers and our customers. Our objective is to secure compliant tobacco that is produced in a cost-effective manner under a sustainable business model with the desired quality for our customers. In some areas, tobacco competes with agricultural commodity products for farmer production. If prices for soybeans, wheat, rice, and seed oils rise in certain origins, green tobacco prices may have to rise to maintain tobacco production levels. This could be a factor in efforts of the WHO to shift farmer production away from leaf tobacco to other crops. In the past, leaf shortages in specific markets or on a worldwide basis have also led to green tobacco price increases.

Demand

Over the last three decades, the percentage of the global population which smokes has fallen, but the number of smokers has increased significantly due to global population growth. Industry data also shows that over the past ten years, total world consumption of cigarettes grew at the compound annual rate of 0.6%, including annual growth of about 3.4% in China. Outside China, consumption fell by 1.1% during the ten-year period. We expect that ongoing global demand for leaf tobacco will remain relatively stable primarily due to increased consumption in emerging markets (Asia, the Middle East, and Africa), influenced by demographic trends such as population growth and increasing disposable income. We believe these increases will continue to offset declining cigarette consumption in

developed markets.

Our sales consist primarily of flue-cured and burley tobaccos. Those types of tobacco, along with oriental tobaccos, are used in American-blend cigarettes which are primarily smoked in Western Europe and the United States. English-blend cigarettes which use flue-cured tobacco are smoked in Asia and other emerging markets. Industry data shows that consumption of American-blend cigarettes has declined at a compound annual rate of 2.4% for the ten years ended in 2013. As cigarette consumption declines in developed markets and increases in the emerging markets, there may be less demand for burley and oriental tobaccos and more demand for flue-cured tobacco. However, demand is affected by many factors, including regulation, product taxation, illicit trade, alternative tobacco products, and Chinese imports. On a year-to-year basis, we are also susceptible to fluctuations in leaf supply due to crop sizes and leaf demand as manufacturers adjust inventories or respond to changes in cigarette markets. Recent declines in some of our customers' sales volumes in the U.S. and Western European markets could affect the demand for certain styles of leaf available for sale in fiscal year 2015. At the same time, our uncommitted inventories have increased, and we are anticipating an oversupply of tobacco at this time. We also sell dark tobacco which is used in cigars and other smokeless products. We expect demand for this category of tobacco to remain stable.

Regulation and Product Taxation

Decreased social acceptance of smoking and increased pressure from anti-smoking groups have had an ongoing adverse effect on the percentage of the population using tobacco products, particularly in the United States and Western Europe. Also, many foreign governments have taken or proposed steps to restrict or prohibit cigarette advertising and promotion, to increase taxes on cigarettes, to prohibit smoking in public areas, and to discourage cigarette consumption. A number of such measures are included in the Framework Convention on Tobacco Control ("FCTC"), which was negotiated under the auspices of the WHO and offers guidelines for discouraging or controlling tobacco use. Countries that are parties to the FCTC may choose the level of implementation of the guidelines that is most suitable with their approach to tobacco control. In some cases, such restrictions are more onerous than those proposed or in effect in the United States. We cannot predict the extent to which government efforts to reduce tobacco consumption might affect the business of our primary customers. However, a significant decrease in worldwide tobacco consumption, as well as shifts to modified risk tobacco products brought about by existing or future governmental laws and regulations, could reduce demand for our products and services and could have a material adverse effect on our results of operations.

In addition, certain recommendations by the WHO, through the FCTC, may cause shifts in customer usage of certain types and styles of tobacco. As seen in Canada, Brazil, and the European Union, efforts have been taken to eliminate flavorings from tobacco products. Such decisions could cause a change in requirements for certain tobaccos in particular countries. Shifts in customer demand from one type of tobacco to another could create sourcing issues as requirements move from one origin to another. Furthermore, instruction at the farm level may be required to produce the changing styles of tobacco needed by tobacco product manufacturers. Given our established and well-developed programs at the farm level worldwide, we are particularly well positioned to meet manufacturer requirements.

In 2009, the U.S. Congress passed the Family Smoking Prevention and Tobacco Control Act ("the Act"). This legislation authorizes the FDA to regulate the manufacturing and marketing of tobacco products. To date, the FDA has banned flavored cigarettes, restricted youth access to tobacco products, banned advertising claims regarding certain tobacco products, established new smokeless tobacco warnings, and issued new cigarette health warnings. In addition, the FDA established the Center for Tobacco Products ("CTP"). The CTP has focused on establishing the scientific foundation and regulatory framework for regulating tobacco products in the United States and on April 24, 2014, released proposed "deeming" regulations which encompass additional manufactured tobacco products. Under these proposed regulations, tobacco products such as cigars and alternative tobacco products, including e-cigarettes, will be regulated by the FDA. In addition, the proposed regulations require that tobacco product manufacturers provide the FDA with a list of ingredients in their products. It may take several years for the proposed regulations to be finalized and implemented. Regulations impacting our customer base that change the requirements for leaf tobacco will inherently impact our business. As discussed, we have established programs that begin at the farm level to assist our customers with raw material information to support leaf traceability and customer testing requirements. Additionally, given our global presence, we also have the ability to source different types and styles of tobacco for our customers should their needs change due to regulation of ingredients.

A number of governments, particularly federal and local governments in the United States and the European Union, impose excise or similar taxes on tobacco products. There has been, and will likely continue to be, new legislation proposing new or increased taxes on tobacco products. In some cases, proposed legislation seeks to significantly increase existing taxes on tobacco products, or impose new taxes on products that to date have not been subject to tax. Increases in product taxation may have an influence on the level of illicit trade, which will affect the global leaf markets.

Illicit Trade

Illicit trade is another factor which influences demand for leaf tobacco. Industry estimates of the illegal, unregulated black market for cigarettes are approximately 10% to 12% of global consumption, although almost a quarter of illicit trade is believed to occur in the European Union. We are supportive of industry efforts to eradicate illicit trade.

Alternative Tobacco Products

Approximately six trillion cigarettes are consumed globally each year with about 5% of the consumption occurring in the United States. In the United States, sales of e-cigarettes are expected to reach $2 billion, or about 2% of the U.S. tobacco product market, in 2014. We participate in this market through our AmeriNic joint venture which produces liquid nicotine for the e-cigarette industry, and we continue to monitor industry developments. E-cigarettes are currently primarily consumed in the United States and Western Europe, and it is unclear at this time what effect the consumption of e-cigarettes will have on global demand for leaf tobacco.

Chinese Imports

To the extent that domestic leaf production in China does not meet requirements for Chinese cigarette brands, those styles of tobacco could be sourced from other origins where we have major market positions. In recent years, China has been sourcing greater amounts of tobacco outside its borders. Although domestic stock fluctuations may affect Chinese purchases in the short term, we believe this trend will continue over the long term in line with expected growth in Chinese consumption of total products.

Compliant Leaf

As we have said for the last several years, the production of compliant leaf for the tobacco industry continues to grow in importance. The definition of compliant leaf generally requires that the leaf supplier ensure that the tobacco was grown utilizing good agricultural practices (“GAP”), absent any non-tobacco material or excessive crop protection agent residues, in a sustainable manner related not only to the environment, but to social concerns and grower profitability. We have invested significant resources in the programs and infrastructure needed to work with growers to produce compliant leaf. These programs include training in GAP, advising growers on concerns such as the need to eliminate child labor and the importance of sustainable wood usage, as well as working with growers on improving farm yields to increase efficiencies and ensure their profitability in the globally competitive environment. We believe that compliant leaf will continue to be important to our customers and should favor suppliers who are able to deliver this product.

Industry Structure

In the last ten years, consolidation has increased the size of many of the multinational manufacturers of tobacco products and has increased the quantities of leaf tobacco that each one requires. This has also created an environment where security of supply is of increased importance. A key success factor for leaf suppliers is the ability to provide customers with the quality of leaf and the level of service they desire on a global basis at competitive prices, consistent with stability of supply.

Several years ago, certain customers launched efforts to procure some leaf directly from farmers. We believe that the manufacturers took these actions for several reasons, including the desire to enhance internal expertise in leaf procurement, actively manage the leaf supply chain in an increasingly regulated environment, ensure supply, and work more directly with tobacco growers. Direct leaf procurement by manufacturers is not new and has always been a factor in our business. In the last few years, we have seen no increases in direct leaf procurement by manufacturers, and none are expected.

As the leading global leaf tobacco merchant and processor, we add significant value to the system, providing expertise in dealing with large numbers of farmers, efficiently selling various qualities of leaf produced in each crop to a broad global customer base, and delivering products that meet stringent quality and regulatory specifications. We also help stabilize the tobacco markets and influence crop development at the farm level. Our key objective is to continually adapt our business model to meet our customers' evolving needs while continuing to provide stability of supply and the quality that distinguishes our products and services. In addition, we monitor new product developments in the industry to identify areas where we can provide additional value to our customers.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rates

After inventory is purchased, interest rate risk is limited in our business because customers usually pre-finance purchases or pay market rates of interest for inventory purchased for their accounts. We bill our customers interest on tobacco purchased for their order at certain points in the inventory cycle. That interest is paid at rates based on current markets for variable rate debt. If we fund our committed tobacco inventory with fixed-rate debt, we might not be able to recover interest at that fixed rate if current market interest rates were to fall. As of March 31, 2014, tobacco inventory of $640 million included $469 million in inventory that was committed for sale to customers and $171 million that was not committed. Committed inventory, after deducting about $16 million in customer deposits, represents our potential net exposure of about $453 million. We normally maintain a portion of our debt at variable interest rates in order to mitigate such interest rate risk related to carrying fixed-rate debt. At March 31, 2014, our variable-rate debt totaled approximately $238 million. Although a hypothetical 1% change in short-term interest rates would result in a change in annual interest expense of approximately $2.4 million, that amount would be at least partially mitigated by changes in charges to customers. Our policy is to work toward a level of floating-rate liabilities, including customer deposits, that reflects our average committed inventory levels over time.

In addition, changes in interest rates affect the calculation of our pension plan liabilities. As rates decrease, the liability for the present value of amounts expected to be paid under the plans increases. Rate changes also affect expense. As of the March 31, 2014 measurement date, a 1% decrease in the discount rate would have increased the projected benefit obligation ("PBO") for pensions by $31 million and increased annual pension expense by $3 million. Conversely, a 1% increase in the discount rate would have reduced the PBO by $25 million and reduced annual pension expense by $2 million.

Currency

The international leaf tobacco trade generally is conducted in U.S. dollars, thereby limiting foreign exchange risk to that which is related to leaf purchase and production costs, overhead, and income taxes in the source country. We also provide farmer advances that are directly related to leaf purchases and are denominated in the local currency. Any currency gains or losses on those advances are usually offset by decreases or increases in the cost of tobacco, which is priced in the local currency. However, the effect of the offset may not occur until a subsequent quarter or fiscal year. Most of our tobacco operations are accounted for using the U.S. dollar as the functional currency. Because there are no forward foreign exchange markets in many of our major countries of tobacco origin, we often manage our foreign exchange risk by matching funding for inventory purchases with the currency of sale, which is usually the U.S. dollar, and by minimizing our net local currency monetary position in individual countries. We are vulnerable to currency remeasurement gains and losses to the extent that monetary assets and liabilities denominated in local currency do not offset each other. We recognized $14.3 million in net remeasurement losses in fiscal year 2014, compared to $10.6 million in net remeasurement gains in fiscal year 2013, and $2.3 million in net remeasurement losses in fiscal year 2012. We recognized $6.0 million in net foreign currency transaction losses in fiscal year 2014, compared to net transaction losses of $1.0 million in fiscal year 2013, and net transaction gains of $4.2 million in fiscal year 2012. In addition to foreign exchange gains and losses, we are exposed to changes in the cost of tobacco due to changes in the value of the local currency in relation to the U.S. dollar. We have entered forward currency exchange contracts to hedge against the effects of currency movements on purchases of tobacco to reduce the volatility of costs. In addition, we periodically enter into forward contracts to hedge balance sheet exposures. See Note 9 to the consolidated financial statements in Item 8 for additional information about our hedging activities.

In certain tobacco markets that are primarily domestic, we use the local currency as the functional currency. Examples of these markets are Hungary, Poland, and the Philippines. In other markets, such as Western Europe, where export sales are primarily in local currencies, we also use the local currency as the functional currency. In each case, reported earnings are affected by the translation of the local currency into the U.S. dollar.

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. We may use derivative instruments, such as swaps, forwards, or futures, which are based directly or indirectly upon interest rates and currencies to manage and reduce the risks inherent in interest rate and currency fluctuations. When we use foreign currency derivatives to

mitigate our exposure to exchange rate fluctuations, we may choose not to designate them as hedges for accounting purposes, which may result in the effects of the derivatives being recognized in our earnings in periods different from the items that created the exposure.
We do not utilize derivatives for speculative purposes, and we do not enter into market risk-sensitive instruments for trading purposes. Derivatives are transaction specific so that a specific debt instrument, forecast purchase, contract, or invoice determines the amount, maturity, and other specifics of the hedge. We routinely review counterparty risk as part of our derivative program.

Item 8. Financial Statements and Supplementary Data
UNIVERSAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(in thousands of dollars, except per share data)	Fiscal Year Ended March 31, 2014	2013	2012
Sales and other operating revenues	$2,542,115	$2,461,699	$2,446,877
Costs and expenses			
Cost of goods sold	2,108,824	1,999,282	1,974,885
Selling, general and administrative expenses	262,013	235,295	251,639
Other income	(81,619)	—	(20,703)
Restructuring costs	6,746	4,113	11,661
Charge for European Commission fine in Italy	—	—	49,091
Operating income	246,151	223,009	180,304
Equity in pretax earnings of unconsolidated affiliates	3,897	5,635	3,195
Interest income	949	654	1,314
Interest expense	20,307	22,013	22,835
Income before income taxes	230,690	207,285	161,978
Income taxes	75,535	66,366	61,159
Net income	155,155	140,919	100,819
Less: net income attributable to noncontrolling interests in subsidiaries	(6,146)	(8,169)	(8,762)
Net income attributable to Universal Corporation	149,009	132,750	92,057
Dividends on Universal Corporation convertible perpetual preferred stock	(14,850)	(14,850)	(14,850)
Earnings available to Universal Corporation common shareholders	$134,159	$117,900	$77,207
Earnings per share attributable to Universal Corporation common shareholders:			
Basic	$5.77	$5.05	$3.32
Diluted	$5.25	$4.66	$3.25
Weighted average common shares outstanding:			
Basic	23,239	23,355	23,228
Diluted	28,392	28,478	28,339

See accompanying notes.

UNIVERSAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Fiscal Year Ended March 31,		
(in thousands of dollars)	2014	2013	2012
Net income	$155,155	$140,919	$100,819
Other comprehensive income (loss):			
Foreign currency translation, net of income taxes	6,480	(3,370)	(8,158)
Foreign currency hedge, net of income taxes	1,624	87	(3,424)
Interest rate hedge, net of income taxes	483	(364)	(727)
Pension and other postretirement benefit plans, net of income taxes	32,022	8,803	(23,195)
Total other comprehensive income (loss), net of income taxes	40,609	5,156	(35,504)
Total comprehensive income	195,764	146,075	65,315
Less: comprehensive income attributable to noncontrolling interests	(5,547)	(8,504)	(8,843)
Comprehensive income attributable to Universal Corporation	$190,217	$137,571	$56,472

See accompanying notes.

UNIVERSAL CORPORATION
CONSOLIDATED BALANCE SHEETS

	March 31,	
(in thousands of dollars)	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	$163,532	$367,864
Accounts receivable, net	468,015	401,747
Advances to suppliers, net	134,621	132,100
Accounts receivable—unconsolidated affiliates	7,375	555
Inventories—at lower of cost or market:		
Tobacco	639,812	623,377
Other	67,219	57,745
Prepaid income taxes	27,866	6,245
Deferred income taxes	22,052	32,127
Other current assets	142,755	124,213
Total current assets	1,673,247	1,745,973
Property, plant and equipment		
Land	17,275	17,125
Buildings	239,913	234,694
Machinery and equipment	562,597	545,478
	819,785	797,297
Less accumulated depreciation	(523,239)	(509,829)
	296,546	287,468
Other assets		
Goodwill and other intangibles	99,453	99,048
Investments in unconsolidated affiliates	95,305	94,405
Deferred income taxes	14,562	23,783
Other noncurrent assets	91,794	55,478
	301,114	272,714
Total assets	$2,270,907	$2,306,155

UNIVERSAL CORPORATION
CONSOLIDATED BALANCE SHEETS—(Continued)

(in thousands of dollars)	March 31, 2014	2013
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable and overdrafts	$62,905	$105,318
Accounts payable and accrued expenses	212,422	225,648
Accounts payable—unconsolidated affiliates	65	4,739
Customer advances and deposits	15,869	24,914
Accrued compensation	31,772	36,694
Income taxes payable	15,694	14,034
Current portion of long-term obligations	116,250	211,250
Total current liabilities	454,977	622,597
Long-term obligations	240,000	181,250
Pensions and other postretirement benefits	85,081	135,629
Other long-term liabilities	34,457	36,838
Deferred income taxes	45,500	42,184
Total liabilities	860,015	1,018,498
Shareholders' equity		
Universal Corporation:		
Preferred stock:		
Series A Junior Participating Preferred Stock, no par value, 500,000 shares authorized, none issued or outstanding	—	—
Series B 6.75% Convertible Perpetual Preferred Stock, no par value, 220,000 shares authorized, 219,999 shares issued and outstanding (219,999 at March 31, 2013)	213,023	213,023
Common stock, no par value, 100,000,000 shares authorized, 23,216,312 shares issued and outstanding (23,343,973 at March 31, 2013)	206,446	202,579
Retained earnings	993,093	918,509
Accumulated other comprehensive loss	(34,332)	(75,540)
Total Universal Corporation shareholders' equity	1,378,230	1,258,571
Noncontrolling interests in subsidiaries	32,662	29,086
Total shareholders' equity	1,410,892	1,287,657
Total liabilities and shareholders' equity	$2,270,907	$2,306,155

See accompanying notes.

UNIVERSAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended March 31,		
(in thousands of dollars)	2014	2013	2012
Cash Flows From Operating Activities:			
Net income	$155,155	$140,919	$100,819
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	37,257	43,408	42,158
Amortization	1,642	1,708	1,708
Provision for losses on advances and guaranteed loans to suppliers	6,705	1,623	11,930
Inventory write-downs	7,654	1,523	8,324
Stock-based compensation expense	6,278	6,171	5,987
Foreign currency remeasurement loss (gain), net	14,322	(10,579)	2,253
Deferred income taxes	(2,176)	11,794	6,770
Equity in net (income) loss of unconsolidated affiliates, net of dividends	3,420	(4,966)	14,658
Gain on favorable outcome of excise tax case in Brazil	(81,619)	—	—
Gain on fire loss insurance settlement	—	—	(9,592)
Gain on sale of property in Brazil	—	—	(11,111)
Restructuring costs	6,746	4,113	11,661
Charge for European Commission fine in Italy	—	—	49,091
Other, net	2,251	(1,174)	1,719
Changes in operating assets and liabilities, net:			
Accounts and notes receivable	(89,536)	(5,433)	(25,480)
Inventories and other assets	(47,492)	6,578	31,907
Income taxes	11,391	18,111	(1,535)
Accounts payable and other accrued liabilities	(27,345)	11,167	(53,487)
Customer advances and deposits	(8,156)	9,503	12,006
Net cash (used) provided by operating activities	(3,503)	234,466	199,786
Cash Flows From Investing Activities:			
Purchase of property, plant and equipment	(45,849)	(30,783)	(38,174)
Proceeds from sale of property, plant and equipment	2,746	3,534	18,366
Proceeds from fire loss insurance settlement	—	—	9,933
Other, net	1,033	1,004	—
Net cash used by investing activities	(42,070)	(26,245)	(9,875)
Cash Flows From Financing Activities:			
Repayment of short-term debt, net	(43,727)	(18,374)	(17,388)
Issuance of long-term obligations	175,000	—	100,000
Repayment of long-term obligations	(211,250)	(16,250)	(96,250)
Dividends paid to noncontrolling interests	(1,971)	(1,957)	(103)
Issuance of common stock	457	3,949	134
Repurchase of common stock	(14,145)	(8,481)	(4,004)
Dividends paid on convertible perpetual preferred stock	(14,850)	(14,850)	(14,850)
Dividends paid on common stock	(46,721)	(45,996)	(44,711)
Proceeds from termination of interest rate swap agreements	—	—	13,388
Debt issuance costs and other	(875)	—	(3,539)
Net cash used by financing activities	(158,082)	(101,959)	(67,323)

Effect of exchange rate changes on cash	(677)	(97)	(1,896)
Net increase (decrease) in cash and cash equivalents	(204,332)	106,165	120,692
Cash and cash equivalents at beginning of year	367,864	261,699	141,007
Cash and Cash Equivalents at End of Year	$163,532	$367,864	$261,699
Supplemental information—cash paid for:			
Interest	$25,116	$22,027	$20,462
Income taxes, net of refunds	$65,511	$35,913	$51,625

See accompanying notes.

UNIVERSAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of dollars)	Universal Corporation Shareholders					
	Series B 6.75% Convertible Perpetual Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Shareholders' Equity
Fiscal Year Ended March 31, 2014						
Balance at beginning of year	$213,023	$202,579	$918,509	$ (75,540)	$ 29,086	$ 1,287,657
Changes in preferred and common stock						
Issuance of common stock	—	457	—	—	—	457
Repurchase of common stock	—	(2,049)	—	—	—	(2,049)
Accrual of stock-based compensation	—	6,278	—	—	—	6,278
Withholding of shares from stock-based compensation for grantee income taxes		(1,410)	—	—	—	(1,410)
Dividend equivalents on RSUs	—	591	—	—	—	591
Changes in retained earnings						
Net income	—	—	149,009	—	6,146	155,155
Cash dividends declared						
Series B 6.75% convertible perpetual preferred stock ($67.50 per share)	—	—	(14,850)	—	—	(14,850)
Common stock ($2.02 per share)	—	—	(46,888)	—	—	(46,888)
Repurchase of common stock	—	—	(12,096)	—	—	(12,096)
Dividend equivalents on RSUs	—	—	(591)	—	—	(591)
Other comprehensive income (loss)						
Foreign currency translation, net of income taxes	—	—	—	7,079	(599)	6,480
Foreign currency hedge, net of income taxes	—	—	—	1,624	—	1,624
Interest rate hedge, net of income taxes	—	—	—	483	—	483
Pension and other postretirement benefit plans, net of income taxes	—	—	—	32,022	—	32,022
Other changes in noncontrolling interests						
Dividends paid to noncontrolling shareholders	—	—	—	—	(1,971)	(1,971)
Balance at end of year	$213,023	$206,446	$993,093	$ (34,332)	$ 32,662	$ 1,410,892

UNIVERSAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY—(Continued)

(in thousands of dollars)	Universal Corporation Shareholders					
	Series B 6.75% Convertible Perpetual Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Shareholders' Equity
Fiscal Year Ended March 31, 2013						
Balance at beginning of year	$213,023	$196,135	$854,654	$ (80,361)	$ 22,539	$ 1,205,990
Changes in preferred and common stock						
Issuance of common stock	—	3,949	—	—	—	3,949
Repurchase of common stock	—	(1,432)	—	—	—	(1,432)
Accrual of stock-based compensation	—	6,171	—	—	—	6,171
Withholding of shares from stock-based compensation for grantee income taxes	—	(2,819)	—	—	—	(2,819)
Dividend equivalents on RSUs	—	575	—	—	—	575
Changes in retained earnings						
Net income	—	—	132,750	—	8,169	140,919
Cash dividends declared						
Series B 6.75% convertible perpetual preferred stock ($67.50 per share)	—	—	(14,850)	—	—	(14,850)
Common stock ($1.98 per share)	—	—	(46,272)	—	—	(46,272)
Repurchase of common stock	—	—	(7,198)	—	—	(7,198)
Dividend equivalents on RSUs	—	—	(575)	—	—	(575)
Other comprehensive income (loss)						
Foreign currency translation, net of income taxes	—	—	—	(3,705)	335	(3,370)
Foreign currency hedge, net of income taxes	—	—	—	87	—	87
Interest rate hedge, net of income taxes	—	—	—	(364)	—	(364)
Pension and other postretirement benefit plans, net of income taxes	—	—	—	8,803	—	8,803
Other changes in noncontrolling interests						
Dividends paid to noncontrolling shareholders	—	—	—	—	(1,957)	(1,957)
Balance at end of year	$213,023	$202,579	$918,509	$ (75,540)	$ 29,086	$ 1,287,657

UNIVERSAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY—(Continued)

	Universal Corporation Shareholders					
(in thousands of dollars)	Series B 6.75% Convertible Perpetual Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Shareholders' Equity
Fiscal Year Ended March 31, 2012						
Balance at beginning of year	$213,023	$191,608	$825,751	$ (44,776)	$ 13,799	$ 1,199,405
Changes in preferred and common stock						
Issuance of common stock	—	259	—	—	—	259
Repurchase of common stock	—	(661)	—	—	—	(661)
Accrual of stock-based compensation	—	5,987	—	—	—	5,987
Withholding of shares from stock-based compensation for grantee income taxes	—	(1,584)	—	—	—	(1,584)
Dividend equivalents on RSUs	—	526	—	—	—	526
Changes in retained earnings						
Net income	—	—	92,057	—	8,762	100,819
Cash dividends declared						
Series B 6.75% convertible perpetual preferred stock ($67.50 per share)	—	—	(14,850)	—	—	(14,850)
Common stock ($1.94 per share)	—	—	(44,951)	—	—	(44,951)
Repurchase of common stock	—	—	(2,827)	—	—	(2,827)
Dividend equivalents on RSUs	—	—	(526)	—	—	(526)
Other comprehensive income (loss)						
Foreign currency translation, net of income taxes	—	—	—	(8,239)	81	(8,158)
Foreign currency hedge, net of income taxes	—	—	—	(3,424)	—	(3,424)
Interest rate hedge, net of income taxes	—	—	—	(727)	—	(727)
Pension and other postretirement benefit plans, net of income taxes	—	—	—	(23,195)	—	(23,195)
Other changes in noncontrolling interests						
Dividends paid to noncontrolling shareholders	—	—	—	—	(103)	(103)
Balance at end of year	$213,023	$196,135	$854,654	$ (80,361)	$ 22,539	$ 1,205,990

UNIVERSAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY—(Continued)

	Fiscal Year Ended March 31,		
	2014	2013	2012
Preferred Shares Outstanding:			
Series B 6.75% Convertible Perpetual Preferred Stock:			
Balance at beginning of year	219,999	219,999	219,999
Issuance of convertible perpetual preferred stock	—	—	—
Repurchase of convertible perpetual preferred stock	—	—	—
Balance at end of year	219,999	219,999	219,999
Common Shares Outstanding:			
Balance at beginning of year	23,343,973	23,257,175	23,240,503
Issuance of common stock and exercise of stock options and SARs	110,825	256,230	96,863
Repurchase of common stock	(238,486)	(169,432)	(80,191)
Balance at end of year	23,216,312	23,343,973	23,257,175

See accompanying notes.

UNIVERSAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts are in thousands, except per share amounts or as otherwise noted.)

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Universal Corporation, which together with its subsidiaries is referred to herein as "Universal" or the "Company," is the leading global leaf tobacco merchant and processor. The Company conducts business in over 30 countries, primarily in major tobacco-producing regions of the world.

Consolidation

The consolidated financial statements include the accounts of Universal Corporation and all domestic and foreign subsidiaries in which the Company maintains a controlling financial interest. Control is generally determined based on 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.

The equity method of accounting is used for investments in companies where Universal Corporation has a voting interest of 20% to 50%. These 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 to the extent they represent a distribution of retained earnings. The Company received dividends totaling $6.5 million in fiscal year 2014 and $16.7 million in fiscal year 2012, from companies accounted for under the equity method. No significant dividends were received from those companies in fiscal year 2013.

The Company's 49% ownership interest in Socotab L.L.C. ("Socotab"), a leading processor and leaf merchant of oriental tobaccos with operations located principally in Europe, is the primary investment accounted for under the equity method. The investment in Socotab is an important part of the Company's overall product and service arrangements with its major customers. Over the past several years, Socotab has experienced reduced demand for oriental tobaccos and lower margins, which have reduced its operating profits. As discussed further below, the Company reviews the carrying value of its investments in unconsolidated affiliates on a regular basis and considers whether any factors exist that might indicate an impairment in value that is other than temporary. At March 31, 2014, the Company determined that no such factors existed with respect to the investment in Socotab. The Company, together with Socotab management, regularly evaluates the outlook for the business, and an impairment charge could be recorded in a future period if it is determined that the fair value of the investment is less than the carrying value and the decline in value is not temporary.

In fiscal year 2006, the Company deconsolidated its operations in Zimbabwe under accounting requirements that apply under certain conditions to foreign subsidiaries that are subject to foreign exchange controls and other government restrictions. Since that time, the investment has been accounted for using the cost method, as required under the accounting guidance. The investment in the Zimbabwe operations was zero at March 31, 2014 and 2013. The Company has a net foreign currency translation loss associated with the Zimbabwe operations of approximately $7.2 million, which remains a component of accumulated other comprehensive loss. As a regular part of its reporting, the Company reviews the conditions that resulted in the deconsolidation of the Zimbabwe operations to confirm that such accounting treatment is still appropriate. Dividends from the Zimbabwe operations are recorded in income in the period received.

The Company holds less than a 100% financial interest in certain consolidated subsidiaries. The net income and shareholders' equity attributable to the noncontrolling interests in these subsidiaries are reported on the face of the consolidated financial statements. During fiscal years 2014, 2013, and 2012, there were no changes in the Company's ownership percentage in any of these subsidiaries.

UNIVERSAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Investments in Unconsolidated Affiliates
The Company's equity method investments and its cost method investments, which include its Zimbabwe operations, 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 review such an investment for impairment if the investee were to lose a significant customer, suffer a large reduction in sales margins, experience a major change in its business environment, or undergo any other significant change in its normal business. In assessing the recoverability of equity or cost method investments, the Company follows the applicable accounting guidance in determining the fair value of the investments. In most cases, this involves the use of discounted cash flow models (Level 3 of the fair value hierarchy under the accounting guidance). If the fair value of an equity or cost method investee is determined to be lower than its carrying value, an impairment loss is recognized. The determination of fair value using discounted cash flow models is normally not based on observable market data from independent sources and therefore requires significant management judgment with respect to estimates of future operating earnings and the selection of an appropriate discount rate. The use of different assumptions could increase or decrease estimated future operating cash flows, and the discounted value of those cash flows, and therefore could increase or decrease any impairment charge related to these investments.
In its consolidated statements of income, the Company reports its proportionate share of earnings of unconsolidated affiliates accounted for on the equity method based on the pretax earnings of those affiliates, as permitted under the applicable accounting guidance. All applicable foreign and U.S. income taxes are provided on these earnings and reported as a component of consolidated income tax expense. For unconsolidated affiliates located in foreign jurisdictions, repatriation of the Company's share of the earnings through dividends is assumed in determining consolidated income tax expense.
The following table provides a reconciliation of (1) equity in the pretax earnings of unconsolidated affiliates, as reported in the consolidated statements of income to (2) equity in the net income of unconsolidated affiliates, net of dividends, as reported in the consolidated statements of cash flows for the fiscal years ended March 31, 2014, 2013, and 2012:

	Fiscal Year Ended March 31,		
	2014	2013	2012
Equity in pretax earnings reported in the consolidated statements of income	$3,897	$5,635	$3,195
Less: Equity in income taxes	(809)	(547)	(1,130)
Equity in net income	3,088	5,088	2,065
Less: Dividends received on investments [(1)]	(6,508)		