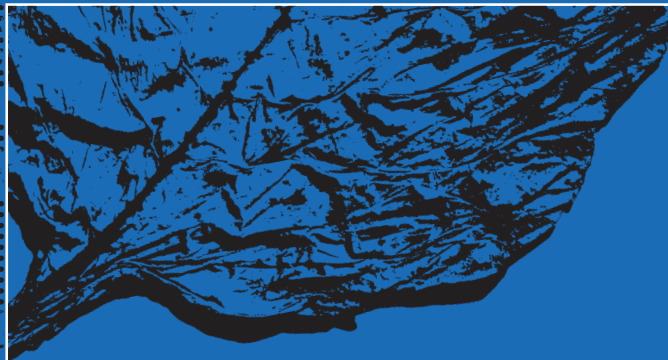
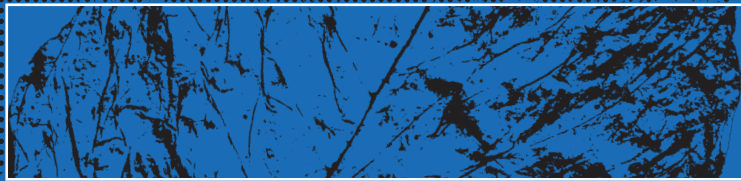




Universal Leaf Tobacco Company, Inc.



2006 SUPPLY AND DEMAND

2006 SUPPLY & DEMAND REPORT
UNIVERSAL LEAF TOBACCO COMPANY, INC.

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August 2006

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Universal Leaf Tobacco is again pleased to present its annual Supply and Demand Report.

This report represents Universal's view of the world flue-cured, burley and oriental situation as of August 2006 and what the prospects are likely to be for the leaf sector of the industry over the next 12-18 months. The data, information and views expressed herein are derived primarily from the worldwide Universal team. We have also borrowed from data provided by the U.S. Department of Agriculture, particularly the Foreign Agricultural Service; the Tobacco Merchants Association; and various industry trade sources. To these parties, we express our gratitude.

Universal cautions the reader that it does not verify the accuracy of the data and does not assume any duty for updating the information herein. Universal wishes to emphasize that unforeseen events caused by political, legal, economic or other circumstances as well as weather conditions in the leaf producing countries could substantially affect its current expectations.

Various estimates, projections and forward-looking statements appear in the report, identified by the future tense or subjunctive mood. Readers should not unduly rely on these or on the data cited herein to arrive at conclusions or to make decisions about the world tobacco market in general or any market in particular. The report is not intended to serve as an indicator of the Company's future financial results or to serve as a guide for investing in the Company. Universal has compiled a list of factors that may affect the forward-looking statements herein and its future business in its annual report on Form 10-K under the heading "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Factors That May Affect Future Results."

Universal Leaf Tobacco trusts this report will be of value to its readers and welcomes comments and suggestions for improvement.

Flue-Cured

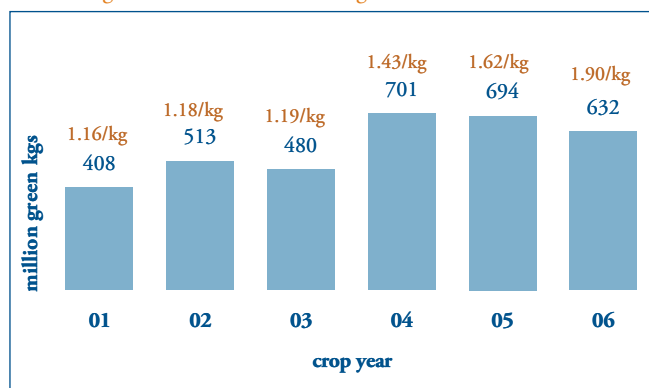
World and Exporters' Production 2006. World flue-cured production in 2006 is projected to decrease by 170 million kgs, or 4.2 percent, from the 2005 level. Production in the PRC is expected to decrease by 55 million kgs, while production in the exporting countries (excluding the PRC) is expected to drop by 132 million kgs, or 7.5 percent.

The exporters' 2006 production of 1,635 million kgs represents a significant decrease from the high exporters' production levels of 2004 and 2005, which brought about a world flue-cured oversupply situation. However, the 2006 exporters' production level is still above the ten-year average of exporters' production from 1996-2005 of 1,607 million kgs.

The decrease in exporters' production in 2006 was led by Brazil, the main African exporting countries, and the European Union (mainly Greece).

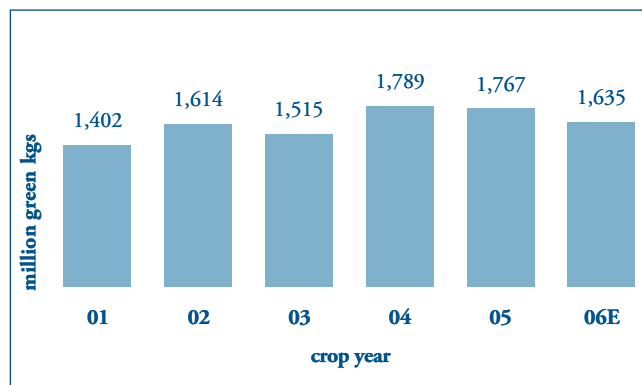
Production in Brazil decreased by about 63 million kgs, or 9.0 percent, as leaf dealers pulled back the crop size to meet decreased demand.

Brazil Flue-Cured Leaf Production and Average Grower Prices in USD/kg



fuel shortages and difficulties in obtaining crop inputs. In addition, the crop received excess rain in January and February, which also contributed to the reduced crop size. This drastic reduction in the 2006 crop size came after Zimbabwe's production had increased slightly in 2005, and seemed to be poised to rebound. Production in Tanzania decreased by 6 million kgs due to a severe drought early in the growing season. The pre-season production target was for a crop size of 57 million kgs, which would have represented an increase of 7 million kgs. South Africa's production decreased by almost 9 million kgs due to reduced demand, as the South African *rand* was strong vs the U.S. dollar during the first several months of 2006, resulting in high U.S. dollar costs. Malawi's production increased by 3 million kgs due to efforts to offset the decline in Zimbabwe. Overall efforts to increase flue-cured production in Africa close to the higher levels that preceded the decline in Zimbabwe have not been successful to date, although volumes in other African origins increased by 63 percent from 2001 to 2006E. The cost of financing growers to increase production has proved to be higher than expected, and poor infrastructure has compounded the difficulties. Malawi's production has increased by only 5 million

World Flue-Cured Exporters' Leaf Production x-PRC



leaf dealers pulled back the crop size to meet decreased demand. Crop quality was average, and riper than 2005, but with a fair percentage of lower quality styles. The strength of the Brazilian *real* vs the U.S. dollar during most of the 2006 crop buying period resulted in significant U.S. dollar-based cost increases, which further depressed demand. As a result, the reduction in the crop size proved insufficient, and supply exceeded demand for the higher-priced 2006 crop, resulting in an increase in Brazilian unsold stock levels at June 30, 2006 compared to the high level of a year ago.

Flue-cured production in the nine major African exporting countries as a group (Zimbabwe, Malawi, Tanzania, Zambia, Uganda, Mozambique, South Africa, Kenya and Democratic Republic of Congo) decreased by about 22 million kgs, or 9.6 percent. Production in Zimbabwe fell by 15 million kgs to a new low of an estimated 58 million kgs, as farmers faced

Flue-Cured (continued)

kgs over two years, and Zambia increased by less than 2 million kgs in 2006 after increasing 6 million kgs in 2005. The Zambian *kwacha* was strong against the U.S. dollar during the first several months of 2006, resulting in relatively expensive tobacco in U.S. dollar terms. The average Zambian 2006 crop grower price through August 16 was USD 1.99/kg, well above the average grower price in Malawi and about equal to that of Zimbabwe.

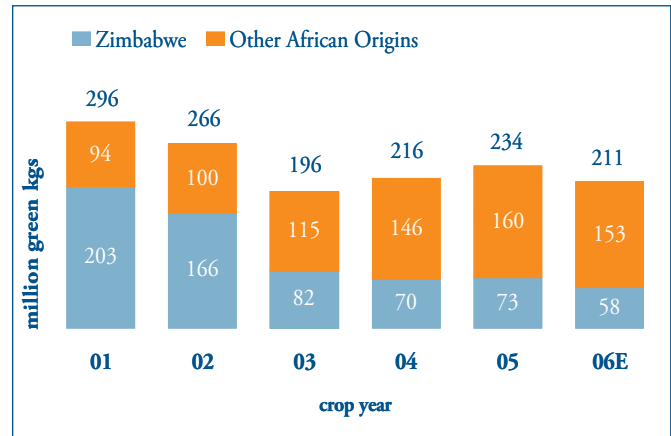
Production in Canada is also expected to decrease in 2006 by about 13 million kgs, or 33.9 percent. Domestic and export demand for Canadian flue-cured is falling due to decreasing domestic cigarette production and continued high leaf prices compared to other offshore markets. The decline of the Canadian flue-cured market is discussed in more detail in the Selected Issues section.

Due to the Greek government's decision to completely decouple the E.U. subsidy from all tobacco production beginning in the 2006 crop, flue-cured production in Greece is expected to abruptly drop from 45.4 million kgs in 2005 to zero in 2006. Other major E.U. flue-cured producers, such as Italy, Spain and France, did not decouple the subsidy for flue-cured tobacco from the obligation to produce it by more than the mandated minimum of 40 percent (except for the Apulia Region of Italy). As a result, total E.U. flue-cured production in the 2006 crop, including non-exporting E.U. countries, is expected to fall by 51.7 million kgs, which is only 6.3 million kgs over and above the decline in Greece. Production in Poland is expected to increase by 3.9 million kgs due to higher domestic demand. (Poland and Hungary are also significant E.U. flue-cured producers, only joining the European Union in 2004, and thus will not shift to the new subsidy system before the 2009 crop. Growers in these countries will only receive subsidies financed mainly by the domestic budgets.) The current situation and future outlook for E.U. flue-cured tobacco is discussed in more detail in the Selected Issues section.

Indian flue-cured production is expected to be virtually flat in 2006, decreasing by only 0.5 million kgs from 2005. Indian flue-cured is considered to be attractive filler tobacco from a price-quality standpoint, and India is considered a steady, secure source of supply since the "crop holiday" of 2001. India benefited in 2006 from the short crop size in Tanzania, which is also primarily a filler tobacco producer, as well as the significant price increase in Brazil, primarily a flavor tobacco producer. In the past several years, India has become the third largest producer of flue-cured tobacco after the PRC and Brazil.

Production in 2006 in the United States is estimated to increase by about 27 million kgs, or 14.0 percent, following the weather-reduced 2005 crop size of 195 million kgs. Most of this increase is for domestic demand. Initial forecasts for the 2005 crop were for a crop size of 215.5 million kgs, prior to excessive rainfall in the southern area and drought in the northern area. In that respect, the 2006 estimated crop size is up only about 7 million kgs, or 3.2 percent, over the original estimates for the 2005 crop.

Africa Flue-Cured Crop Sizes
Selected African Origins

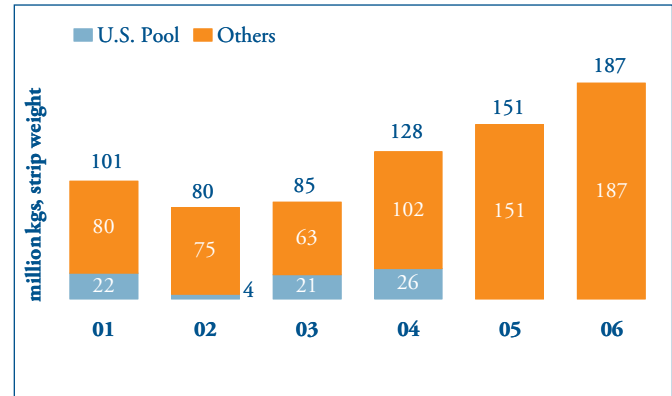


N.B.: Selected African origins = Zimbabwe, Malawi, Tanzania, Zambia, Uganda, Mozambique, South Africa, Kenya, Democratic Republic of Congo. Numbers may not sum to totals due to rounding.

Flue-Cured (continued)

Uncommitted Stocks. World uncommitted flue-cured stocks as of June 30, 2006 are up 36 million kgs, or 24 percent, from the level of a year ago, and are at the highest June 30 level since 1993-1994. Stocks have now increased significantly for three consecutive years. Stocks in Brazil are up 46 million kgs from a year ago, when they were already at high levels due to the poor quality 2005 crop. Increased current stock levels in Brazil are due to the higher priced 2006 crop, which resulted in decreased demand, and continued large crop sizes. Crop sizes in Brazil should decline in the future. Brazilian stocks are mainly medium quality upper stalk, with some lower quality leaf as well. E.U. stocks are up almost 12 million kgs, due primarily to Greece, where stocks have increased by 12.5 million kgs over the past year. U.S. stocks have decreased by almost 14 million kgs, or about 44 percent, as much of the low-cost stock distributed by the U.S. Commodity Credit Corporation (CCC) to the Flue-Cured Tobacco Cooperative Stabilization Corporation (Stabilization) has been sold. African stocks have decreased slightly

World Uncommitted Flue-Cured Stocks
as of June 30



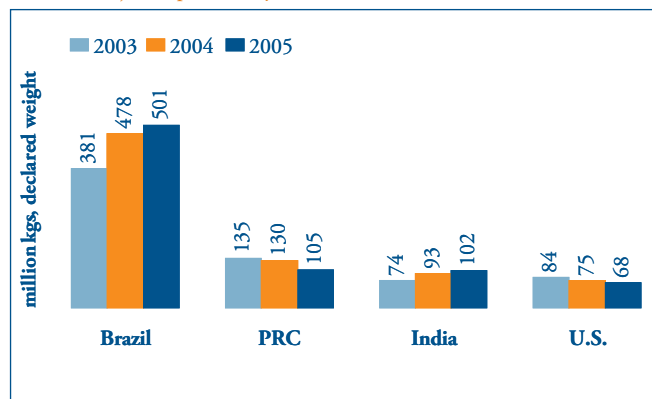
N.B.: Totals exclude 1999 crop stocks held by the U.S. Commodity Credit Corporation (CCC) from 2001-2003, as well as stocks held by Asian monopolies and KT&G. Numbers may not sum to totals due to rounding.

compared to the level of a year ago, and consist of all quality levels and stalk positions.

The China National Tobacco Corporation (CNTC) has decreased its overall offshore purchases from the various flue-cured export markets in 2006 because leaf prices in many of the major markets were higher in 2006, particularly in Brazil, and the PRC domestic crop sizes in 2005 and 2006 were at the highest levels since 1997. This reduction in export purchases by the CNTC contributed significantly to the increased flue-cured stock levels as of June 30, 2006, especially in Brazil.

As a result of the current high stock levels, the overall world flue-cured market continues to be in oversupply in 2006, with the high stock levels negatively affecting market conditions. Stock levels are forecast to decline over the coming 1 ½ years, however (see World and Exporters' Production 2007 at the end of the Flue-Cured section). (Note: Stock levels exclude stocks held by Asian monopolies and KT&G, as well as 1999 crop U.S. flue-cured stocks held by the CCC from the beginning of 2001 until their destruction in 2003.)

Estimated Flue-Cured Exports
Selected Major Exporters, by Calendar Year



Source: USDA, Tobacco Merchants Assoc., ULT estimates.

Flue-Cured Exports. Brazil continues to dominate the world flue-cured export market, exporting almost five times as much tobacco as its nearest competitors, the PRC and India, in 2005. PRC exports decreased in 2005 despite a large PRC domestic flue-cured crop size, due primarily to strong domestic demand by the CNTC and reduced export availability. India's exports continued to rise strongly, and India is now on the verge of surpassing the PRC as the world's second largest flue-cured exporter. This growth on the part of India has been due to stable, large crop sizes, low prices and good quality filler tobacco, resulting in an attractive price/quality relationship. U.S. flue-cured exports continue to shrink. The 2005 U.S. crop, some of which will not be exported until calendar year 2006, was the first post-buyout crop, with resulting lower average grower prices. U.S. flue-cured exports may increase somewhat in calendar year 2006 due to the lower 2005 crop grower prices.

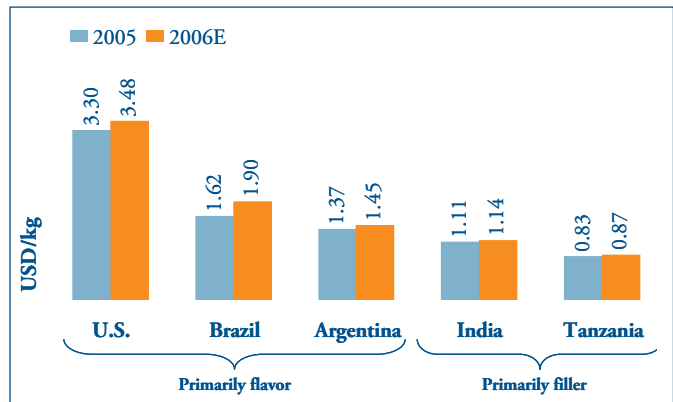
Flue-Cured (continued)

Leaf prices. Average grower prices in most of the major flue-cured exporting countries have increased in 2006.

As a result of the buyout, U.S. average grower prices dropped as expected from USD 4.07 per kg in the 2004 crop to USD 3.30 per kg in the free-market 2005 crop. Even at USD 3.30 per kg, however, U.S. average grower prices remained well above other major exporting countries. In addition, in the 2006 crop, U.S. grower prices are expected to increase by 5.5%, to USD 3.48 per kg, due primarily to pressure from domestic demand. This increase in price in 2006 will not be helpful in restoring U.S. flue-cured export demand.

Despite the increase in U.S. 2006 prices, the gap between U.S. and Brazilian grower prices narrowed further in 2006 due to the 17 percent rise in Brazil's grower prices in U.S. dollar terms. The strength of the Brazilian *real* vs the U.S. dollar during most of the crop buying period of 2006 caused most of this significant increase in Brazilian prices, which has led to decreased demand for the 2006 crop. U.S. average grower prices are now about 83 percent higher than Brazil's, which is a large price difference, but is also the smallest gap in recent memory. Brazilian average grower prices in U.S. dollar terms have been high before, most recently in the period 1995-1998, only to subsequently drop to much lower levels as the value of the local currency eventually declined versus the U.S. dollar.

Estimated Flue-Cured Average Grower Prices by Crop Year



N.B.: Argentina prices exclude Fondo subsidy of USD 0.70/kg in 2005 and 0.60/kg in 2006.

Estimated Flue-Cured Production 2005-2007P, million green kgs

crop year	05	06E	07P
Brazil	694	632	575
India	236	235	265
U.S. Marketings	195	222	245
Argentina	91	81	92
Zimbabwe	73	58	75
Tanzania	50	44	53
Italy	51	49	47
Greece	45	0	0
Indonesia	38	41	43
Malawi	25	29	28
Canada	38	25	25
Zambia	22	24	25
Philippines	23	20	25
Uganda	11	14	15
Other Exporters	173	160	173
Total Exporters, x-PRC	1,767	1,635	1,686
PRC	2,000	1,945	1,945
Others	279	296	299
World Total	4,045	3,875	3,931

N.B.: Projections for the year 2007 are based on preliminary data as of August. Numbers may not sum to totals due to rounding.

Base average grower prices in Argentina, excluding the Fondo subsidy, which is paid to the growers by the government, are up about 6 percent in 2006, but are significantly below Brazilian grower prices in U.S. dollar terms. Total Argentine 2006 grower prices, including the Fondo, are at levels higher than those of Brazil.

India and Tanzania, which produce mainly filler tobacco, have seen small increases in their average grower prices, which remain at very low, attractive levels.

World and Exporters' Production 2007. World flue-cured leaf production in 2007 is forecast to increase by about 55 million kgs, or 1.4 percent. Leaf production in the PRC is forecast to be flat, while exporters' production (excluding the PRC) will increase by about 51 million kgs.

Despite the projected increase in exporters' 2007 production, world flue-cured stock levels are forecast to drop over the next 1 ½ years. This forecast stock decrease is based primarily on reductions in current Brazil stock levels over the remainder of the 2006 crop marketing period, and demand exceeding supply in the Europe 2006 crop and Brazil 2007 crop. Should stock levels decrease as forecast, the severity of the current world flue-cured surplus would be reduced, but the overall market is likely to remain in oversupply.

In Brazil, a much smaller 2007 crop size is expected to lead to significant stock reduction. Production in Brazil is forecast to drop by 57 million kgs, or 9.0 percent. Argentine production, by contrast, is forecast to recover from the rain-reduced 2006 crop level, and return to about the level of 2005, increasing by 10.5 million kgs. Argentine tobaccos were in strong demand in the

Flue-Cured (continued)

2006 crop due to a reduced crop size, and base grower prices (excluding the Fondo) that increased by far less than Brazil's average prices in U.S. dollar terms.

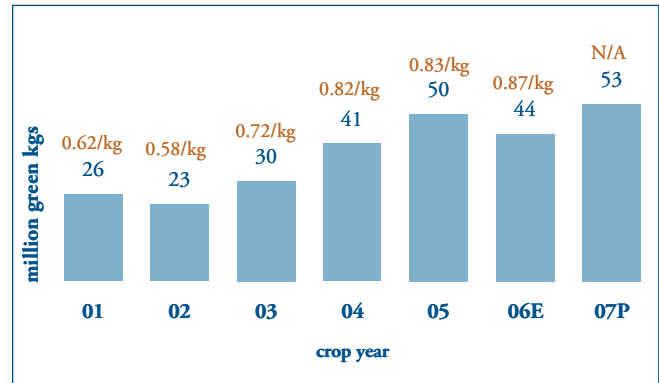
In Africa, production in the nine major exporting countries as a group (Zimbabwe, Malawi, Tanzania, Zambia, Uganda, Mozambique, South Africa, Kenya and Democratic Republic of Congo) is forecast to resume increasing, following the large decrease in 2006. Production is forecast to increase by 34 million kgs, or 16.1 percent, to 245 million kgs, which would be the highest level of production for the group since 2002. The main reasons for the renewed production increase in 2007 are: Tanzania, which is estimated to increase production by 9 million kgs over the drought-stricken 2006 crop size, and Zimbabwe, which is forecast to increase production by 17 million kgs, assuming that growers will have access to adequate crop inputs, fuel, labor and financing. Dams are full due to the plentiful rains during the 2006 crop, and the 2007 irrigated crop is forecast to increase significantly, as is contract growing in general.

Tanzania is considered to be the African flue-cured origin that is most likely to continue increasing production in the future due to an attractive price/quality relationship for its filler leaf. Two other major African flue-cured origins, Malawi and Zambia, will be mostly flat in 2007, however, as the higher cost of production there has now led to stagnant demand. The strength of the Zambian *kwacha* vs the U.S. dollar during the first several months of 2006 has led to high leaf costs, while the cost of financing flue-cured growers' leaf expansion in Malawi has been much higher than expected. Zambia will increase by only about 1 million kgs in 2007, while Malawi will decline by 0.5 million kgs. Future measurable growth in African flue-cured production post-2007 is expected to be limited mostly to Tanzania, unless conditions in Zimbabwe drastically improve and become conducive to the stable, consistent production of good quality flavor leaf at competitive prices.

Flue-cured production in the European Union is expected to be virtually flat in 2007 (including non-exporting E.U. countries). E.U. flue-cured production should remain fairly steady from the 2007 through the 2009 crops, due to the decision by the major E.U. flue-cured producers not to further decouple subsidies from flue-cured production by more than the minimum 40 percent (other than Greece, which completely decoupled the subsidies and drastically affected 2006 crop production). The European Union may expand to 27 countries on January 1, 2007 by adding Bulgaria and Romania, both of which grow measurable volumes of flue-cured, primarily for the domestic market. However, a decision by the European Union as to whether these countries have met all admission criteria for entry in 2007 is not expected until October 2006. The outlook for E.U. flue-cured tobaccos is discussed in more detail in the Selected Issues section.

India's 2007 production is forecast to increase by about 30 million kgs, due to grower satisfaction with 2006 Traditional crop prices, and a recovery from the drought-affected 2006 Mysore crop.

Tanzania Flue-Cured Leaf Production and Average Grower Prices in USD/kg

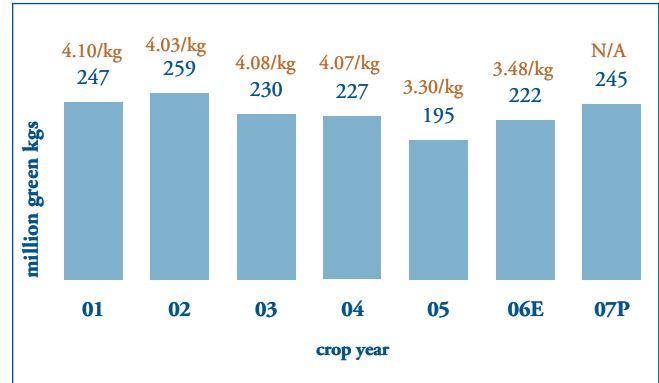


Flue-Cured (continued)

In the United States, flue-cured production is forecast to increase again in 2007, due primarily to an increase in domestic demand. The forecast production of 245 million kgs would be the highest level of U.S. flue-cured marketings since the 2002 crop. Export demand is not expected to increase significantly if average grower prices remain at the 2006 crop level of USD 3.48 per kg, unless Brazilian grower prices move up again in U.S. dollar terms, measurably higher than the 2006 level of USD 1.90 per kg.

Going forward, manufacturers are expected to continue to focus on price and the price/quality relationship to guide their purchases of flue-cured tobacco from the various flue-cured export markets. Shifts in styles or origins will be made as needed to adjust to price changes. It is cost prohibitive for leaf dealers to quickly build or decrease leaf production in origins affected by rapid supply shifts. South America is expected to continue to be the primary source for flue-cured flavor and semi-flavor tobaccos, assuming the Brazilian *real* does not continue to strengthen against the U.S. dollar. The United States will continue to be primarily a domestic market, although not to the same extent as the U.S. burley, unless U.S. flue-cured grower prices retreat. The European Union will be a strong supplier of competitive flue-cured filler tobaccos over the next several years, thanks to the continuation of the decoupled subsidy level at only 40 percent in the major origins (excluding Greece). But the future of E.U. production beginning in 2010 remains an issue (see Selected Issues section). Africa could be a major supplier of flue-cured as well, but the issue of the high cost of increasing production must be addressed if Africa is expected to maintain overall flue-cured production at current levels. India has been very successful over the past several years and can be expected to grow even further in the years ahead, as long as the price/quality relationship of Indian flue-cured filler remains favorable. The growth and decline of selected flue-cured origins is discussed in more detail in the Selected Issues section.

U.S. Flue-Cured Leaf Production
and Average Grower Prices in USD/kg

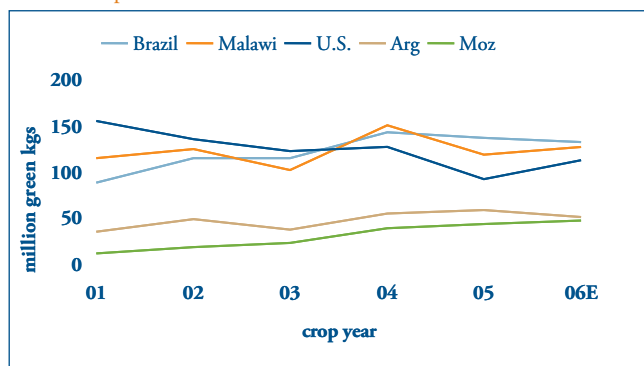


Burley

World Production 2006. World burley leaf production in 2006 is projected to be 773 million kgs, a decrease of 4 million kgs, or 0.5 percent, from the 2005 level of 777 million kgs. All of the estimated decrease occurred in the exporting countries, with significant decreases in Italy, Greece and Argentina. The decrease in those countries was partially offset by increases in the United States, Malawi, Mozambique and Uganda. Excluding the spike in burley production in the 2004 crop, world burley production has stayed in a relatively narrow range of 770 – 815 million kgs from 2000 through 2006.

Burley production in the European Union for the 2006 crop (including non-exporting E.U. countries) is projected to be 66 million kgs, down 28.3 percent from the 2005 crop level of 92 million kgs as the E.U. Common Market Organization's decoupling of tobacco subsidies from production takes effect with the 2006 crop. Major impacts were felt in Italy and Greece. In Greece, the government announced 100 percent decoupling of the subsidy, which resulted in a Greek 2006 crop burley production estimate of zero, down from the 10 million kgs produced in 2005. Italy left the burley decoupling percentage at the mandated minimum of 40 percent, except in the Apulia region, where semi-oriental and poor quality burley and flue-cured were grown. In this region, the decoupling percentage was increased to 100 percent, and tobacco production will drop to zero. Italian burley production is projected to decrease to 35 million kgs in the 2006 crop, down 28.7 percent, or 14 million kgs, from the estimated 2005 crop level of 49 million kgs. Most of this decrease is concentrated in Apulia and in the marginal inland areas of Campania, where lower quality burley was grown. The other major E.U. burley producers, France and Spain, left the decoupling percentage at 40 percent. (In Poland and Hungary, growers receive subsidies financed mainly by the domestic budgets, and the new E.U. subsidy system will not be implemented before the 2009 crop.)

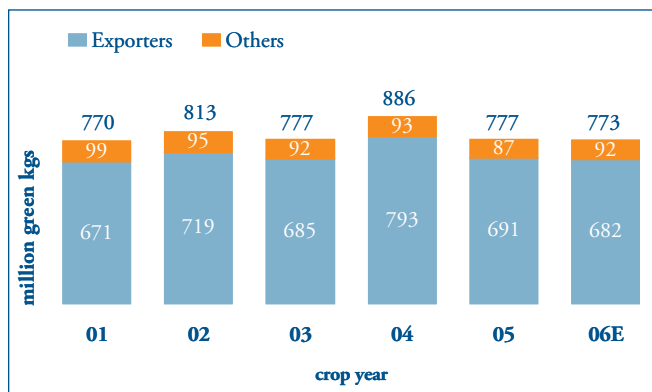
Burley Leaf Production Selected Exporters



The 2006 burley production estimate in Brazil is down 3.3 percent, or 4.6 million kgs, from the 2005 crop figure as leaf production slowly continues to retreat from the record 2004 crop level. The 2006 burley crop in Argentina was 52 million kgs, down 12.1 percent from the almost 60 million kgs produced in the 2005 crop, due to higher than normal rainfall in 2006. The 2006 burley crops in the PRC and Zambia are both projected to decrease by about 4 million kgs from the 2005 crop levels.

As a partial offset to these decreases, U.S. burley marketings in the 2006 crop are projected at 113 million kgs, an increase of about 20 million kgs, or 21.9 percent, over the weather-reduced 2005 crop level. Initial estimates of the 2005 crop size were about 109 million kgs, prior to the effects of dry weather on the crop. In the free-market, post-buyout environment, the quest to secure adequate burley volumes in the United States by the domestic manufacturers has pushed significant volumes of burley production into Pennsylvania, Maryland, and the traditional flue-cured growing areas of Virginia and North Carolina. Smaller amounts of burley are also now being grown in some other states as well, such as Wisconsin.

World Burley Leaf Production



N.B.: Numbers may not sum to totals due to rounding.

The 2006 burley production estimate in Brazil is down 3.3 percent, or 4.6 million kgs, from the 2005 crop figure as leaf production slowly continues to retreat from the record 2004 crop level. The 2006 burley crop in Argentina was 52 million kgs, down 12.1 percent from the almost 60 million kgs produced in the 2005 crop, due to higher than normal rainfall in 2006. The 2006 burley crops in the PRC and Zambia are both projected to decrease by about 4 million kgs from the 2005 crop levels.

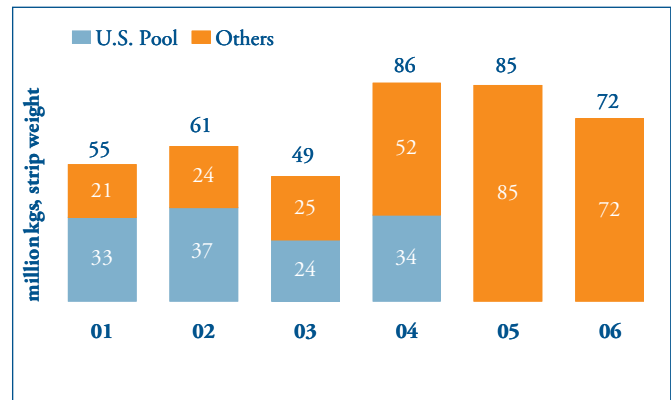
Burley (continued)

In Malawi, total 2006 crop burley production increased to 128 million kgs, which was about 8.5 million kgs over the weather-reduced 2005 crop, but still well below the record 2004 crop size of 151 million kgs. Excessive, late rains affected quality in some areas while price disputes and the initiation of government-mandated minimum prices marked a large part of the selling season. The Mozambique 2006 burley crop is expected to increase by about 4 million kgs to 48 million kgs. In Uganda, burley production began to recover in 2006, increasing to 5 million kgs from the 2005 crop's low level of 1.6 million kgs.

Uncommitted Stocks. Estimated world uncommitted burley stocks at June 30, 2006 have decreased somewhat from the high levels of 85 million kgs at June 30, 2005 and 86 million kgs at June 30, 2004, due mainly to a significant reduction in burley stocks in the United States, as most of the former Pool stocks entered the trade at reduced cost. U.S. burley stocks at June 30, 2006 are down about 24 million kgs from the level of a year ago. Stocks in Brazil are up 20 million kgs compared to the level of a year ago, due to the higher priced 2006 crop, which resulted in decreased demand. Burley stocks in the European Union are down by about 4 million kgs.

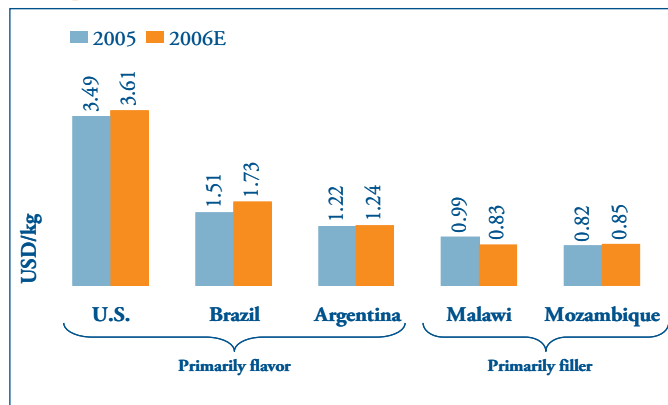
Although world burley stocks have decreased over the past year, they remain at relatively high levels. In addition, non-U.S. stocks, which have traditionally been used to gauge the strength or weakness of the overall burley market, are still at high levels. At June 30, 2006, non-U.S. stocks composed about 57 million kgs of the 72 million kg total, compared to 47 million kgs a year ago, and 52 million kgs at June 30, 2004. As a result, the world burley market is considered to still be in oversupply, despite the reduced current stock levels. The overall burley market perhaps reflects estimates provided by the Tobacco Merchants Association showing that worldwide consumption of American Blend cigarettes, which account for most of the use of burley tobaccos, has been in decline from 2000 to 2005. (Note: Stock levels exclude stocks held by Asian monopolies and KT&G, and also exclude the 1999 crop U.S. burley stocks held by the Commodity Credit Corporation from late 2000 until their destruction in 2003.)

World Uncommitted Burley Stocks
as of June 30



N.B.: Totals exclude 1999 crop stocks held by the U.S. Commodity Credit Corporation (CCC) from late 2000 until 2003, as well as stocks held by Asian monopolies and KT&G. Numbers may not sum to totals due to rounding.

Estimated Burley Average Grower Prices
by Crop Year



N.B.: Argentina prices exclude Fondo subsidy of USD 0.45/kg in 2005 and 2006. Malawi 2006 price is as of August 18, with the crop approximately 64% sold.

Leaf Prices. Estimated 2006 average grower prices among the major exporting countries have increased in some countries and declined or remained about flat in others compared to the 2005 crop levels. Brazil's 2006 average grower price increased about 15 percent over last year. Since the 2003 crop, Brazil's average burley grower price, in U.S. dollar terms, has increased by a total of 71 percent, or USD 0.72 per kg. This is due primarily to the strengthening of the *real* versus the U.S. dollar over most of this time period. This situation has impacted price-sensitive manufacturers, and demand for Brazilian burley has decreased as a result. U.S. grower prices are forecast to increase about 3 percent in 2006 primarily due to the need to increase burley production to meet domestic market demand. This upward movement in price may have a dampening effect on the export market for U.S. burley. Base grower prices in Argentina, excluding the Fondo subsidy, which is paid by the

Burley (continued)

government to the growers, remain significantly below Brazilian grower prices in U.S. dollar terms. Average grower prices including the Fondo increased only slightly in U.S. dollar terms from the 2005 level. As a result, Argentine grower prices including the Fondo subsidy were below the average grower price of Brazil for the first time since 2002.

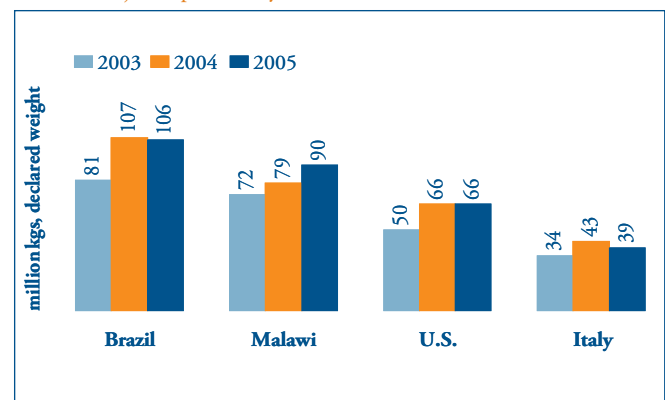
The average grower price for the large Malawi 2006 crop decreased from the price level for the weather-reduced 2005 crop, as excessive rains affected 2006 crop quality. There was grower dissatisfaction and confusion with the price levels despite the installation by the government of mandated minimum prices during a large part of the selling season. Estimated average grower prices in Mozambique increased slightly to USD 0.85 per kg.

Going forward, the importance of price to manufacturers will play an important role in the styles and origins of burley that they find usable, with manufacturers shifting their demand as needed. It is cost prohibitive for leaf dealers to quickly build or decrease leaf production in origins affected by rapid supply shifts. The attractive price/quality relationship of African filler burley, primarily Malawi and Mozambique, is expected to ensure that Africa remains a primary source of burley. South America is also expected to remain a primary burley source, with Brazil for flavor and Argentina for semi-flavor. However, future Brazilian burley demand and crop sizes could decrease further if Brazilian grower prices in U.S. dollar terms continue to increase. The United States may become a domestic burley market if upward pressure on grower prices, caused by strong domestic demand, continues. The growth and decline of selected burley origins is discussed in more detail in the Selected Issues section.

Burley Exports. Most of the major exporting countries saw flat or decreasing export volumes in 2005. The notable exception was Malawi where the timing of shipments from the record 2004 crop lifted export volumes during the 2005 calendar year. Brazil continued as the largest burley exporter as exports of burley tobaccos from Brazil decreased only slightly from the record 107 million kgs, declared weight in 2004.

U.S. burley exports in 2005 remained at the high level reached in 2004, with Russia again the leading destination followed closely by Germany. If upward pressure on grower prices and strong domestic demand continue, exports of U.S. burley may be negatively affected going forward. Italian burley exports in 2005 partially retreated from the recovery in calendar 2004.

Estimated Burley Exports
Selected Major Exporters, by Calendar Year



Source: USDA and ULT estimates.

World Production 2007. World burley production in 2007 is forecast at 755 million kgs, a decrease of about 18 million kgs, or 2.4 percent from the 2006 level. Exporters account for almost all of the decrease, with exporters' 2007 production projected at only 664 million kgs compared to the 2006 level of 682 million kgs. Among the major exporters, the Mozambique 2007 crop production forecast is 48.5 million kgs, an increase of only 0.5 million kgs over 2006. Malawi burley production is expected to decrease slightly to 125 million kgs in the 2007 crop. Philippine burley production is forecast to increase strongly in 2007, following the flood-reduced 2006 crop. The Brazilian burley production level in 2007 is forecast to be down significantly, decreasing by 29 million kgs, as leaf dealers continue to scale back the size of the crop to compensate for reduced demand and high stock levels. In contrast, the 2007 Argentina burley production forecast is up about 2 million kgs over the weather-reduced 2006 crop. Lower grower prices in 2006, in U.S. dollar terms, relative to Brazil also benefited Argentina. Burley production in the European Union, including non-exporting E.U. countries, is projected to be almost 69 million kgs for the 2007 crop, up slightly from the 66 million kg level estimated for the 2006 crop. (The European Union may expand to 27 countries on January 1, 2007 by adding Bulgaria and Romania, both of which grow measurable volumes of burley. However, a decision by the European Union as to whether these countries have met all admission criteria for entry in 2007 is not expected until October 2006.)

Burley (continued)

Estimated Burley Production 2005-2007P, million green kgs

crop year	05	06E	07P
Malawi	120	128	125
U.S. Marketings	93	113	113
Brazil	137	133	104
Argentina	60	52	54
Mozambique	44	48	49
Thailand	42	40	43
Italy	49	35	38
PRC	29	25	25
India	13	15	18
Zambia	22	17	17
Guatemala	12	11	11
Philippines	8	7	11
Mexico	11	13	10
France	10	9	9
Other Exporters	42	35	36
Total Exporters	691	682	664
Others	87	92	91
World Total	777	773	755

N.B.: Projections for the year 2007 are based on preliminary data as of August. Numbers may not sum to totals due to rounding.

The forecast for the 2007 U.S. burley crop size is the same as the 2006 crop level at 113 million kgs.

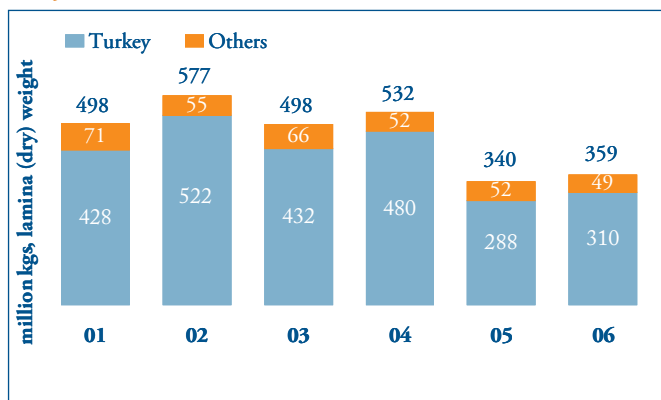
Along with the reduced leaf production level in 2007, world burley stock levels are forecast to decrease further over the next 1 ½ years. This forecast stock decrease is based primarily on reductions in current Brazil stock levels over the remainder of the 2006 crop marketing period, and demand exceeding supply in the Europe 2006 crop and Brazil 2007 crop. As a result, the overall world burley market is expected to move closer to a balanced position.

Oriental

Oriental Production. Total 2005 oriental and semi-oriental production was 358 million kgs, an increase of about 5 million kgs, or 1.5 percent, over the 2004 level of 353 million kgs. The increases in the exporting countries more than offset the decreases in the CIS and other producers. Exporters' 2005 production compared to 2004 shows an increase of 4.0 percent, while CIS countries declined 6.5 percent, and other producers decreased 1.0 percent.

The oriental markets are entering, once again, a period of change and adaptation. While the major changes that occurred during the last few years were mainly motivated by local political considerations (privatization attempts, liberalization of markets, change in government strategies towards supporting certain less commercially viable varieties, etc.), many of the upcoming changes are due to the larger issue of E.U. change and integration. Of course, political forces remain, as do the traditional issues, such as supply and demand.

World Uncommitted Oriental Stocks as of June 30



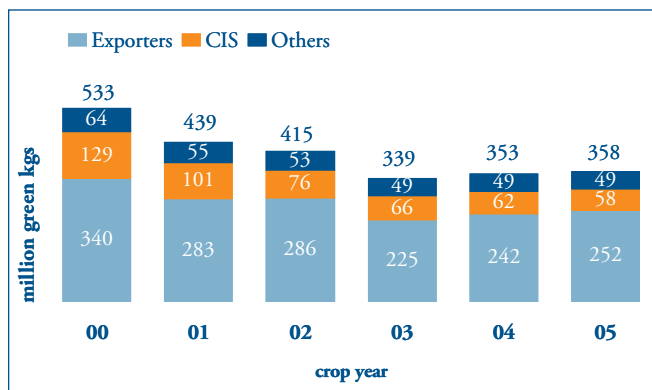
N.B.: Countries include Turkey, Bulgaria, Greece, Italy, Macedonia and Thailand. June 30, 2006 stock levels include 2004 and prior crops, June 30, 2005 stock levels include 2003 and prior crops, etc. Numbers may not sum to totals due to rounding.

The following is a review of the four classical oriental markets of Turkey, Greece, Bulgaria and Macedonia:

Turkey. In Turkey, total 2005 oriental production was estimated at 130 million kgs, up about 6 million kgs, or 4.7 percent, over the 2004 level of 124 million kgs. Increases were seen in almost all areas, with Izmir leading the way with an increase of 3.4 million kgs over 2004. In the Izmir region, overall crop quality was below average due mainly to above average rainfall which, in the later stages, caused fast growth with oversized leaves, particularly in the lower stalk positions. There was a 17 percent drop in the number of growers in Izmir due to some farmers exiting tobacco production, as well as the tightening of contracting policies by leaf merchants and Tekel. In the Samsun and Basma regions, favorable weather conditions resulted in generally average to above average crop quality.

The controversial tax law of last year was finally repealed, returning the ratio of export-to-local sales to a more historical average. Turkey continues to negotiate its entry into the European Union, but the conventional wisdom is that this will only happen some years from now; the subsidy considerations are therefore too far off to have a bearing on today's market.

World Oriental and Semi-Oriental Production

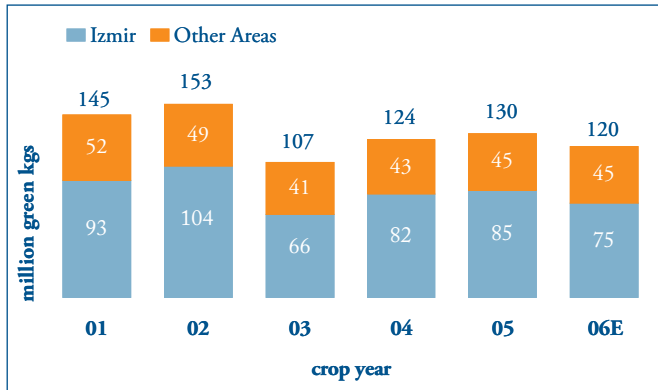


N.B.: Numbers may not sum to totals due to rounding.

Uncommitted Stocks. Total oriental and semi-oriental uncommitted stocks increased to 359 million dry weight kgs as of June 30, 2006, up about 19 million kgs, or 5.7 percent, from the June 30, 2005 level (which was the lowest level of unsold stocks on June 30 since Universal Leaf began compiling comparable oriental market unsold stock statistics in 1999). The increased stock level is due mostly to Turkey and Greece. Stocks held in Turkey increased by 7.9 percent to 310 million kgs, nearly all of which are held by Tekel. Tekel stocks now represent 86 percent of the total oriental stocks at June 30, 2006. Stocks in Greece are at very high levels, up by 20.4 percent over the level of a year ago. Stocks held by Bulgaria increased slightly, while unsold stock levels in Macedonia declined significantly. Estimated Italian and Thailand stocks remained zero at June 30, 2006, the same as a year ago. Overall stock levels are forecast to increase substantially in the 2005 crop, with increases in all four of the classical oriental markets.

Oriental (continued)

Turkey Oriental Production



N.B.: Numbers may not sum to totals due to rounding.

by about 12 percent as a result of reduced dealer contracts. Tekel, on the other hand, remains stable in its contracting quantity, even going so far as to enter into two-year contracts with their farmer base. The decreased dealer contracting reflects the combination of a softening of new crop demand with a higher-than-usual dealer uncommitted inventory position going into the new crop. When the several purchases from the Tekel stocks during the previous year are factored in, it would appear that the Izmir 2006 crop size would be somewhat below the actual demand for that variety. Should conditions remain the same, it is anticipated that the 2007 Izmir crop will return to a more average size of around 85,000 to 95,000 tons.

Greece. In Greece, 2005 production decreased 1.5 million kgs. In the Basma and Katerini regions, the generally favorable weather conditions resulted in overall good quality tobaccos in all areas.

Total 2006 crop production is forecast to decrease by 27.1 million kgs, or 48.9 percent, as the 100 percent decoupling of the E.U. subsidies takes effect in Greece. In June 2005, the Greek government approved decoupling of the E.U. subsidies for tobacco at a level of 100 percent, in the transition period 2006-2009. Due to the 100 percent decoupling regime, the existence of contracts between farmer and processor ceases to be mandatory. As a result, the contracting of the 2006 crop has been sporadic, and it remains to be seen how much of the crop actually gets grown under contract. As of the beginning of July, the 2006 Basma crop is largely under contract, whereas the Katerini farmers seem more reluctant to commit to a contract. The exact reason for the Katerini reluctance is not clear, but it is believed that there is a mistaken perception of a larger demand than exists in reality.

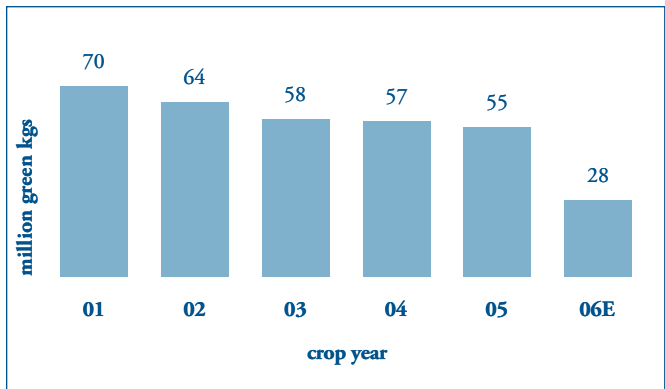
The demand for Greek oriental tobacco continues to erode. It is generally expected that Basma and Katerini will be the only two surviving varieties within the Greek oriental tobacco market, and that Katerini and Basma will be substantially reduced in volume. However, the 2006 crop is the first decoupled crop, and it will be necessary to see how the market plays out in order to have some clarity on the future volumes of Katerini and Basma in Greece. Farmers will likely use the 2006 crop as a “test case” in order to judge the viability of the leaf tobacco sector for the following three crops.

The Turkish *lira* had been considered overvalued for much of the previous year. Combined with a high local inflation rate, exports were being disadvantaged. During the spring of 2006, the *lira* lost close to 25 percent against the *euro*. This slide should help restore some competitiveness to the *euro* or U.S. dollar pricing of Turkish tobaccos, assuming these recent gains remain throughout the year.

The overall demand for Turkish oriental remains stable. Nevertheless, this demand continues to be split between new crop offerings and Tekel stock availabilities.

Total 2006 crop production is forecast to decrease by 10.2 million kgs, or 7.8 percent, continuing the recent trend of crop sizes which are well below historical levels. The 2006 Izmir crop size is projected to be down

Greece Oriental Production



Oriental (continued)

Current Greek oriental stock levels are very high and are expected to increase further in the 2005 crop. In the reduced 2006 crop, stocks are forecast to decrease, falling back close to current levels.

Bulgaria. In Bulgaria, oriental 2005 crop production increased by about 2 million kgs, or 6.3 percent, over 2004 to a total of 35.6 million kgs, primarily due to an increase in the classical areas. Specifically, production increases in the Krumovgrad and Djebel/Basma areas were partially offset by declines in the Nevrokop and East Balkan areas. In the classical areas, excessive rainfall affected crop development. In general, quality ranged from average for upper stalk to below average for the lower stalk positions, which were most affected by the heavy rains.

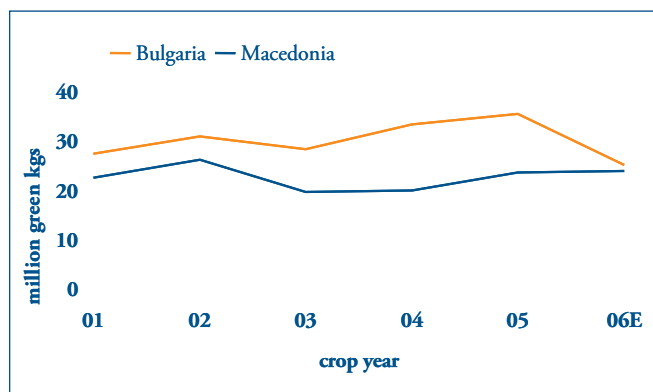
The 2006 crop size is projected at 25.2 million kgs, a significant decrease of 10.4 million kgs, or 29.2 percent, from the 2005 crop size. The forecast is for a small decrease in the classical export varieties, reflecting certain uncommitted inventories coming to market. Also, as expected, the non-export varieties are phasing out.

Bulgaria has recently received pre-approval by the E.U. Council for a January 2007 accession to the European Union, but the final approval depends on whether certain reforms are started by October of this year. If the October deadline is not met, the date of joining is pushed back by a year. The reforms on which Bulgaria will need to show some progress are:

- setting up a proper integrated administration and control system in agriculture,
- building up of rendering, collection and treatment facilities on TSE (transmissible spongiform encephalopathy) and animal by-products,
- clearer evidence of results in investigating and prosecuting organized crime networks,
- more effective and efficient implementation of laws for the fight against fraud and corruption,
- intensified enforcement of anti-money laundering provisions, and
- strengthened financial control for the future use of structural and cohesion funds.

Although the accession date might be subject to change, if Bulgaria enters into the European Union in 2007 as currently scheduled, the Bulgarian subsidy system will be replaced with a European Union-approved system. Although the date of accession is approaching, and the framework of the subsidy system is set (maximum amounts, methods of allocation and distribution, quotas), the details are yet to be finalized. However, as a new member, Bulgaria will be allowed to supplement E.U. subsidies with national additional subsidies, financed by the national budget. Certain hurdles still exist, though, such as ensuring that a working and reliable land registry is established in time for the determination and allocation of eligible farms. Additionally, difficult negotiations remain on the terms of a national budget, agreeable to the broader agricultural interests of the country, since tobacco is not the only crop grown in the country. What is important in all of these

Oriental Production Trends
Selected Countries



Oriental (continued)

considerations is to ensure continuity during the transition period for the leaf tobacco sector. Today, both farmer subsidies as well as processor subsidies exist, and in order to maintain Bulgarian oriental tobacco's competitive place in the world market, some sort of continuity in the economics of the crop must persist.

As in past years, demand for the traditional export varieties remains strong. The trend of consolidating demand into a few core varieties continues, and the volume of other oriental and semi-oriental types continues to decrease. Bulgaria continues to benefit from a source drift driven by neighboring Greece's volume instability, exacerbated by the full decoupling policy adopted by the Greek government. Although overall Bulgarian stocks are currently at relatively high levels, the inventories remain balanced in terms of grades. This is especially true when compared to other inventories in the other oriental regions, which tend to be concentrated in either top or lower grades. Overall stocks are expected to increase significantly in the marketing of the 2005 crop, and then decrease somewhat in the smaller 2006 crop.

Macedonia. Macedonian 2005 crop oriental production increased to 23.7 million kgs. Weather conditions were favorable across the growing areas and the overall quality was good to very good.

Although Macedonia has been given the go-ahead by the European Union to start accession talks, actual accession is many years away.

The trend to concentrate demand into core varieties continues. There appears to be a reinforcement of the demand for Prilep, while the demand for Yaka, although resilient, is showing overall signs of flagging. Nevertheless, total volumes for the country remain relatively stable from year to year.

The 2006 crop is projected to increase by 0.4 million kgs over 2005. The supply portfolio, however, has shifted some volume out of Yaka and into Basmak, leaving the overall volume for the non-Prilep varieties relatively flat. Certain government-held stocks have been coming to market lately, resulting in lower overall current unsold stock levels. Stock levels over the next two years are forecast to increase, however.

Estimated Oriental and Semi-Oriental Production 2004-2006E, million green kgs

crop year	04	05	06E
Turkey	124	130	120
Greece	57	55	28
Bulgaria	34	36	25
Macedonia	20	24	24
Thailand	5	6	6
Italy	2	1	0
Total Exporters	242	252	203
C.I.S.	62	58	62
Others	49	49	53
World Total	353	358	318

N.B.: Projections for the year 2006 are based on preliminary data as of August. Numbers may not sum to totals due to rounding.

Oriental Forecast. Total oriental and semi-oriental 2006 production is forecast at 318 million kgs, a decrease of about 40 million kgs, or 11.2 percent, from the 2005 level, with all of the reduction coming in the exporting countries, and being only slightly offset by increases in the CIS and other producing countries. Turkey is expected to account for 10.2 million kgs of the decrease, while Greece is expected to decline 27.1 million kgs due to the 100 percent decoupling of the E.U. subsidies by the Greek government. Bulgaria is expected to decrease by a projected 10.4 million kgs from 2005, while Macedonia is projected to increase slightly by 0.4 million kgs. As a result of decreasing demand and E.U. subsidy decoupling, Italian oriental production is projected to fall to zero in the 2006 crop. Oriental production in Thailand is expected to be flat at 5.8 million kgs. Production of oriental and semi-oriental tobaccos in the CIS and other producing countries in 2006 is projected to increase by a total of 8.0 million kgs.

Greece's future looks to be pegged to the sole ability of the Katerini and Basma market players (farmers and processors together) to adapt to a decoupled reality. Currently it looks as if some of the volume will survive. However, a balance must be found between meeting the growers' expectations while at the same time maintaining the ability to market these tobaccos at commercially sustainable conditions. All eyes will be focused on the 2006 crop year in order to determine the future of the Greek oriental leaf tobacco market.

Oriental (continued)

Bulgaria's transition into the European Union must be managed to ensure a continuity of supply of classical oriental tobaccos. The existing subsidy system allows the market to produce and export these varieties at competitive levels – a situation which should be encouraged and supported. The final shape of Bulgaria's post-E.U.-accession subsidy system will be crucial for the well being of the oriental leaf market. This uncertainty comes at a critical time, since many of Greece's traditional customers are starting to look for alternatives to the missing Greek volumes, as well as looking for a hedge against Greece's current uncertain outlook.

The oriental markets continue to feel the after-effects of heavy government involvement over the past years. The combination of the buffer of government stocks, which overhangs the market in Turkey, Macedonia and Bulgaria, with the switch to contract markets, has produced more volatility and nervousness in the market, as evidenced by the projected swings in crop volumes. With less government involvement in the future, and thus less buffer stocks being built up, the perceived demand gets immediately translated into crop sizes. Indeed, although demand is basically flat to slightly down in the oriental markets, some of that demand will be supplied by inventories, causing the 2006 crops to be smaller than 2005, and in fact, smaller than actual demand. As a result, stock levels in the 2006 crop are forecast to decrease measurably. Although this adjustment is healthy in terms of helping to dispose of uncommitted stocks, the trend must reverse itself starting with the following 2007 crop, in order to ensure a sustainable base for future needs.

More volatility over the next year and a half is therefore expected. However, once the markets settle down, it is anticipated that a stable base will have built up; a base that will be geared to supplying the needs of the market from contracted new crops, on a continued and sustainable basis for some years to come.

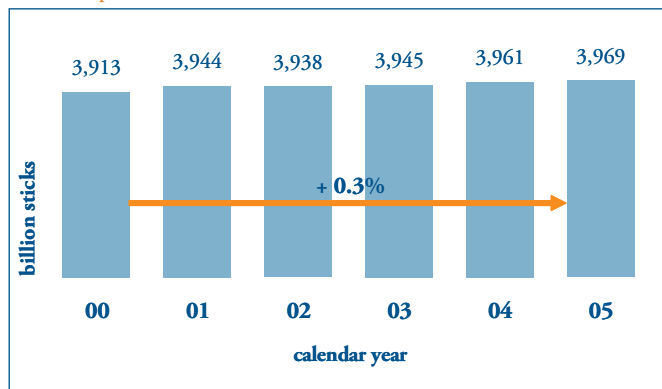
Cigarette Production Trends

World Production 2005. World cigarette production increased in 2005 by about 77 billion sticks, or 1.3 percent. As in the past several years, the increase was mostly due to the PRC, which increased cigarette production by about 68 billion sticks, or 3.6 percent. World cigarette production has grown in the range of 1.3-1.7 percent in each of the past three years, and by 1.2 percent on a compound annual basis between 2000 and 2005. Longer term world cigarette production growth has been much lower, however, with a compound annual growth rate of 0.5 percent over the period 1995-2005, when PRC cigarette production actually decreased in four of the five years from 1995-2000.

World production excluding the PRC increased by only 8 billion sticks, or 0.2 percent, in 2005. World cigarette production reached a record high in 2005, but cigarette production excluding the PRC still remains below the level of 1997. For the period 2000-2005, cigarette production excluding the PRC grew at a compound annual rate of only 0.3 percent.

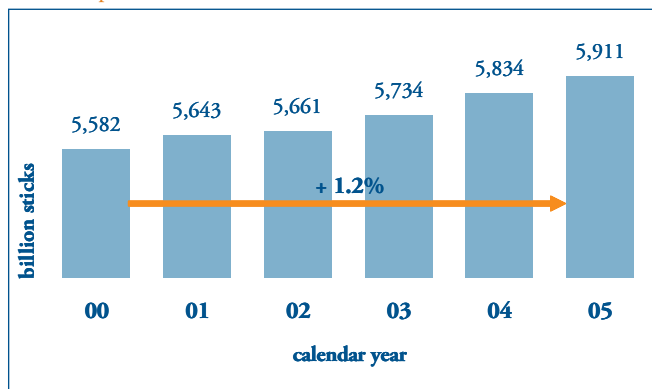
Production Increases and Decreases. Significant increases or decreases by country between 2004 and 2005 are shown in the accompanying charts. As was the case in 2003 and 2004, the huge increase in the PRC was the driving force in the world cigarette market in 2005. Production in Asia (excluding the PRC)

World Cigarette Production x-PRC
and Compound Annual Growth Rate



declined significantly, primarily due to Japan and South Korea. Japan's decrease was mostly due to Philip Morris taking over the license production of Marlboro for the Japanese market from Japan Tobacco at the end of April 2005, and moving the production offshore. Indonesia and Vietnam registered strong increases. Production in the European Union continued to decrease steeply, led by the United Kingdom, Italy and the Netherlands. Russian production increased strongly in 2005 after two years of decreases. Ukraine production also continued to increase significantly. Since 1999, cigarette production in the Ukraine has increased by almost 67 billion sticks. African production increased due to a number of countries, principally South Africa and Kenya.

World Cigarette Production
and Compound Annual Growth Rate



2005 vs. 2004

country	billion sticks
PRC	+ 68
Russia	+ 23
Indonesia	+ 12
Ukraine	+ 11
Egypt	+ 8
Vietnam	+ 8

declined steeply, led by the United Kingdom, Italy and the Netherlands. Russian production increased strongly in 2005 after two years of decreases. Ukraine production also continued to increase significantly. Since 1999, cigarette production in the Ukraine has increased by almost 67 billion sticks. African production increased due to a number of countries, principally South Africa and Kenya.

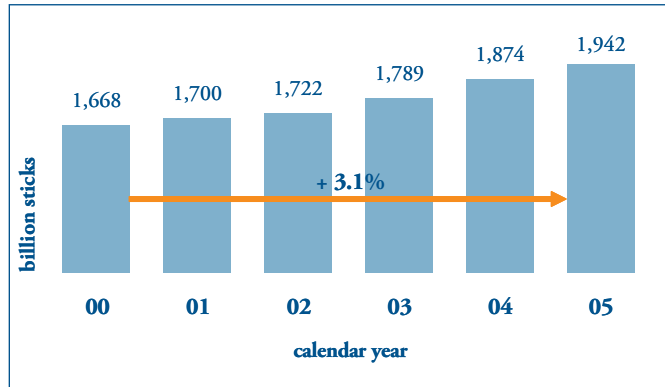
country	billion sticks
Japan	- 24
S. Korea	- 17
U.K.	- 12
Italy	- 11
Netherlands	- 10
Turkey	- 7

region	billion sticks
Americas	-
Europe & CIS	+ 8
MENA	+ 2
Africa	+ 10
Asia x-PRC	- 11
PRC	+ 68

Note to the reader: We emphasize that cigarette production estimates may vary considerably for any given country, depending on the source. Estimates are also more reliable for some countries than for others. For countries where little or no data are available, we provided our best estimates. In some instances the estimates appearing in this year's Supply & Demand Report differ considerably from those in last year's report for the same time periods. This has resulted from additional analysis of data as well as new estimates received for prior years.

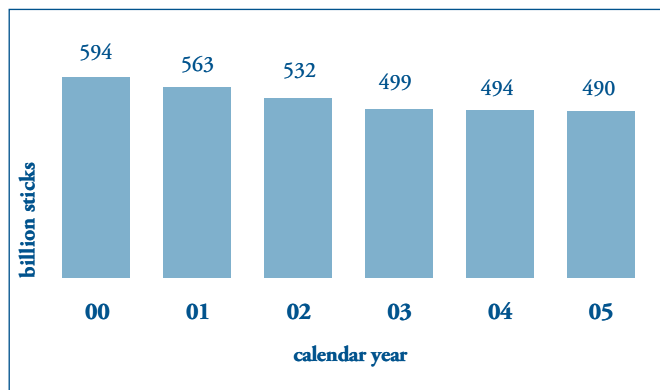
PRC. Strong cigarette production growth in the PRC continued in 2005 for the third consecutive year. Since 2000, PRC cigarette production has grown at a compound rate of 3.1 percent per year vs. 0.3 percent for the world excluding the PRC. The PRC now represents 33 percent of world cigarette production. Over the past three years, multinational manufacturers have signed agreements whereby their brands would be produced under license by the China National Tobacco Corporation (CNTC) in the PRC. Philip Morris and the CNTC reached an agreement in December 2005 whereby Marlboro would be produced under license by the CNTC and sold in China, beginning in the first half of 2006. In addition, Philip Morris and the CNTC established a 50/50 joint venture, to be based in Switzerland, which will offer CNTC Chinese cigarettes in international markets. Prior to that, Gallaher Group had signed an agreement with the CNTC's Shanghai Tobacco Corp. in late 2003, whereby their Memphis brand would be produced under license by Shanghai and sold in China, and the Shanghai brand Golden Deer would be produced and sold by Gallaher Group in Russia. Imperial Group had also signed an agreement with the CNTC's Hongta Group in late 2003, whereby their West brand would be produced under license by the Hongta Group and sold in China.

PRC Cigarette Production
and Compound Annual Growth Rate



United States. U.S. cigarette production declined in 2005 for the ninth straight year, decreasing by 3.6 billion sticks, or 0.7 percent. U.S. cigarette production for the first six months of 2006 is up by 2.4 percent over the same period in 2005, however, indicating that 2006 may be the first year of increased production since 1996. Exports decreased in 2005 by almost 5.6 billion sticks, or 4.7 percent, primarily due to a decrease in shipments to Iran and Israel, partially offset by an increase in shipments to Japan.

U.S. Cigarette Production

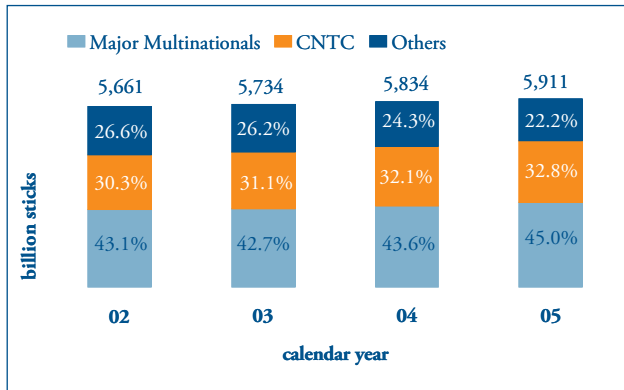


Cigarette production by the smaller U.S. manufacturers declined in 2005 by an estimated 2.7 billion sticks, or 19 percent, following a 15 percent decrease in 2004 (the U.S. smaller-manufacturer group includes all manufacturers except PM, Reynolds American, Lorillard, Liggett/Vector, Commonwealth Brands, and any license production done by them for others). Production by the smaller U.S. manufacturers has now decreased by a total of 5.7 billion sticks over the past three years from the peak level of an estimated 17.0 billion sticks in 2002 to 11.3 billion sticks in 2005. Production volume by the smaller manufacturers continues to be adversely affected by the "allocable share" legislation which has now been passed by all of the 46 Master Settlement Agreement States except Missouri and New Jersey. This legislation no longer allows non-participating manufacturers to receive a refund of a portion

of their state escrow payment prior to the 25-year expiration period, and thereby forces these manufacturers to increase the price of a pack of cigarettes by all or most of the cost of the foregone early refund.

Cigarette Production Breakdown

Major Multinationals, CNTC, Others



N.B.: Production by the Major Multinationals excludes production for third parties. Reemtsma's volume is assumed to be included in Imperial Group (Major Multinational) for all of 2002. Production by CNTC excludes estimated license production for the Major Multinationals. Certain manufacturers' data are fiscal year. Major Multinationals = PM, BAT, JT, Imperial, Gallaher.

Consolidation and Privatization. Cigarette production in 2005 by the five major multinationals (PM, BAT, JT, Imperial Group and Gallaher Group) grew by 4.6 percent, of which 3.0 percent was due to acquisitions made in either mid-2004 (BAT 42 percent share of Reynolds American) or during the course of 2005 (PM near 100 percent of Coltabaco of Colombia and Sampoerna of Indonesia). Cigarette production in 2005 by these five major multinationals represented 45.0 percent of total world production, up from 43.6 percent of world production in 2004. To date in 2006, Gallaher Group has completed their acquisition of CITA (Canary Islands) in early January, and JT purchased in May 2006 the Serbian company Duvanska Industrija Senta, which is a tobacco processor and holds a license to produce cigarettes.

Production by the CNTC in the PRC increased strongly once again in 2005, in terms of both volume and as a percent of overall world production, increasing from 32.1 percent of world production in 2004 to 32.8 percent in 2005.

Total cigarette production by the ten largest manufacturers, excluding the CNTC, represented about 77 percent of world production in 2005 (also excluding the CNTC). Including the CNTC, the ten largest manufacturers represented 84 percent of world production in 2005. These figures represent a highly concentrated industry.

Estimated production by the other, smaller manufacturers has steadily declined as a percentage of total world production since 2002, decreasing from 26.6 percent in 2002 to an estimated 22.2 percent in 2005. This decline is mostly due to acquisitions by the major multinationals of smaller manufacturers during this period, but also due to some organic volume loss on the part of the smaller manufacturers to the major multinational group. Total production by this group of other manufacturers is expected to continue to slowly decline in the future.

One example of the decreasing production volume of the other, small manufacturers is in Russia. Production by Russian independent manufacturers that are not part of any multinational group was about 57 billion sticks in 2005, or 14.0 percent of total Russian cigarette production. (Production by Russian manufacturers that are not part of the five major multinationals was about 87 billion sticks in 2005, or 21.5 percent of total Russian cigarette production, with the difference in the two figures of 87 billion and 57 billion sticks being Altadis.) In 2002, the Russian independent manufacturers produced 139 billion sticks, or 35.6 percent of total Russian production. Total Russian cigarette production over this time period has actually increased, from 390 billion sticks in 2002 vs 405 billion in 2005. The steep decrease in Russian independent production of 82 billion sticks over this period was due to the acquisition of Balkan Star by Altadis in 2004 (2002: 36 billion sticks), as well as organic volume declines and manufacturer closures (46 billion sticks).

Largest Cigarette Manufacturers x-CNTC, 2005

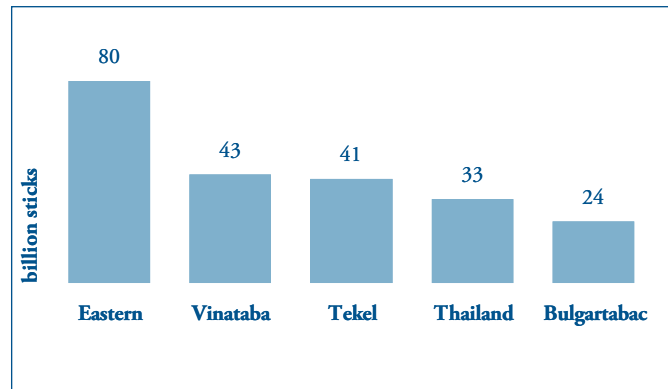
manufacturer	billion sticks
PM	997
BAT	910
JT	413
Gallaher Group	176
Imperial Group	175
Altadis	132
KT&G	90

N.B.: PM includes OTP volume. BAT and Gallaher Group include MYO "singles." BAT includes Reynolds American volume of 110. Imperial Group excludes RYO/MYO volume of 26,600 tons. Altadis excludes RYO. Certain volumes include production for third parties and JV volume. JT and Imperial Group volumes are fiscal year.

Source: Published figures, ULT estimates.

Monopoly production declined again in 2005, primarily due to a decrease in production by Tekel (Turkey), partially offset by increases by Eastern Company (Egypt) and Vinataba (Vietnam). There were no acquisitions or privatizations of monopolies in 2005. Monopoly production now consists of an estimated 307 billion sticks, and represented only 8 percent of world cigarette production in 2005 (excluding the CNTC). The Egyptian government plans to sell its remaining stake of about 53 percent in Eastern Company to a main investor sometime in the coming months. Privatizations of Tekel and Bulgartabac (Bulgaria), which have failed in the past, appear to remain mired in the planning stages. The Privatization Administration of Turkey is weighing alternative sale methods and gauging buyer interest in Tekel, with a tender announcement possibly to be made in October or November. It appears that Bulgartabac Holding will try to sell off its cigarette manufacturing plants in Plovdiv and Slantse-Stara Zagora, but hold onto its two largest plants in Blagoevgrad and Sofia.

Selected Remaining Monopoly Producers x-CNTC
2005 estimated production



N.B.: Certain volumes exclude license or contract production for third parties.

Smoking Restrictions and Measures. The World Health Organization's (WHO) Framework Convention on Tobacco Control treaty (FCTC) held its first Conference of the Parties (COP) in February 2006. 113 countries ratified the treaty in time to vote at the first COP, which set the permanent headquarters of the FCTC in Geneva, established a 2006 budget of USD 8 million, and agreed to develop non-binding guidelines over the next year to assist countries in establishing smoke-free places and regulating tobacco products. The treaty has proven to be influential in motivating governments to establish laws dealing with the following reforms: advertising and promotion bans, more effective health warning labels, elimination of claims and terms such as "light", "low tar", etc., increases in taxes and prices, and measures to protect against environmental tobacco smoke. A summary of selected action taken to date, or being actively pursued, in four of these reform areas is as follows:

- **Smoking restrictions:** Many governments have banned smoking in public places over the past several years, with new bans becoming more frequent each year. These bans take different forms, with the most restrictive involving total bans on smoking in public, but also involving partial, less onerous bans on public smoking, such as bans on smoking in the workplace, or bans on smoking in certain enclosed public places, etc. Some of the countries that have instituted bans of some degree on smoking in public are: Ireland, Norway, Sweden, Italy, Spain, Scotland, Latvia, most Provinces in Canada, New Zealand, India and Chile. Thailand has proposed new regulations to further restrict smoking in public, which would become effective later in 2006. Other countries, such as Lithuania and the rest of the United Kingdom (England, Wales and Northern Ireland; Scotland implemented a ban in March 2006), have passed or proposed bans which are due to take effect at some point in 2007. In some cases, the initial result of the ban was a sharp drop in consumption, followed by a partial recovery or stabilization at a lower level. However, the long-term effect of such bans is likely to be negative for the industry.
- **Graphic health warning labels:** A few governments have also required the use of large graphic health warning labels on packs of cigarettes sold in their countries, instead of the smaller, traditional text warning. In some cases these graphic warning labels must cover substantial portions of the front and back of the pack. Some of the governments that have instituted graphic health warning labels include Canada, Thailand, Brazil, Singapore, Australia, Jordan, Belgium (beginning December 2006) and India (beginning February 2007). The United Kingdom has proposed the introduction of graphic health warnings beginning Fall 2007.

- Advertising restrictions: The E.U. ban on most forms of tobacco advertising, which was introduced in 2003, was recently upheld by the advocate general to the E.U. Court of Justice in June 2006. In most cases, the Court follows the recommendation of the advocate general. India also has had a ban on tobacco advertising in place since 2004, and Thailand recently closed the point-of-sale loophole in its advertising ban.

- Cigarette excise tax or price increases: Since late 2004, certain governments have increased cigarette excise taxes, or implemented a minimum excise tax or a minimum reference price policy. Many of these actions have been in E.U. countries. Germany implemented the third and final stage of recent excise tax increases in September 2005, following increases in March and December 2004. Italy, Ireland, France, Belgium and Austria have adopted minimum reference price mechanisms. The European Commission has raised legal objections to these reference price mechanisms, however, considering them a violation of E.U. directives. Italy also has implemented a minimum excise tax. Spain implemented an excise tax increase in January 2006, which was followed by price cuts by the manufacturers. Spain then also imposed a minimum excise tax of € 1.10 per pack in February 2006 in order to react to the price cuts and set a floor on cigarette prices. These cigarette excise tax increases and the establishment of minimum reference prices or minimum excise taxes usually lead to initial reduction in sales and consumption.

Selected Issues

European Union Tobacco Subsidy Update. In April 2004, the Council of Agriculture Ministers reached a consensus on a new subsidy scheme for tobacco in the European Union. Thereafter, the new Common Market Organization (CMO) was implemented through a number of regulations set at the E.U. and national level. The new CMO can be summarized as follows:

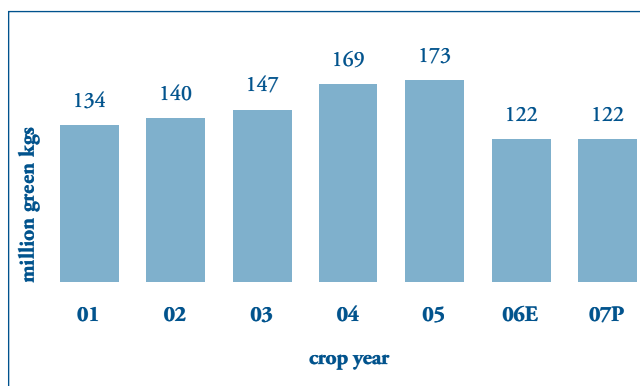
- During the 2006-2009 crop “interim period”, each farmer will receive at least 40 percent of his historical subsidy in the form of a decoupled payment, i.e. without any obligation to produce tobacco. To qualify, the farmers only need to maintain as many hectares as they used to farm in good agricultural and environmental conditions. The remaining part of the subsidy will be distributed only if the farmer actually produces and delivers tobacco, through a cultivation contract signed with an approved processor.
- Unless otherwise changed, beginning with the 2010 crop, farmers will receive 50 percent in decoupled form and the remaining 50 percent will go to a restructuring fund, to be used to finance alternatives to tobacco farming and processing.
- In 2013 the entire E.U. Common Agricultural Policy is to be re-discussed.

Beginning with the 2006 crop, individual Member States can set decoupling percentages that are higher than 40 percent. It is also possible to set these percentages at different levels within each Member State’s different regions. As far as the individual countries are concerned, these are the decisions on decoupling percentages valid for the whole 2006-2009 interim period, as announced in August 2005, and their expected impact on total tobacco production levels:

- France: 40 percent decoupling – a reduction of around 10-12 percent is expected.
- Germany: 40 percent decoupling – an average reduction of 15-17 percent is expected, more severe in burley and dark air-cured than in flue-cured.
- Portugal: 50 percent decoupling – only 60 percent of the traditional flue-cured and burley volume will be grown.
- Austria and Belgium: 100 percent decoupling – no production.
- Italy: 40 percent decoupling, with the exception of the Apulia Region (semi-Orientials were grown here as well as some flue-cured and burley of poor quality), where 100 percent decoupling shall be applicable - total production shall be down from 120 million kgs to 95-100. Apulia production will disappear.
- Spain: 40 percent decoupling – an average reduction of 15 percent is expected, higher in the burley than in flue-cured.
- Greece: 100 percent decoupling – flue-cured and burley production will disappear; Classical Orientals will remain, but at a lower level.

As far as Hungary and Poland are concerned, the implementation of the new CMO does not immediately affect them. It is likely that they will join into the system only in the 2009 crop. In the meantime, their “top-up” subsidy will steadily increase by approximately € 0.12-0.14 per year, increasing farmers’ income. (The accession of Romania and Bulgaria into the European Union on January 1, 2007 is still under examination, and no decision will be taken before October 2006.)

European Union Flue-Cured Leaf Production



N.B.: The flue-cured tobacco producing countries of Hungary, Poland, Cyprus and the Slovak Republic joined the E.U. in 2004 and are included in the above figures for 2004-2007P.

With the exception of Greece, in the other three major growers (Italy, Spain and France), the implementation of the reform has confirmed that governments are interested in maintaining a viable and significant tobacco production. In fact, the reduction in volumes is mainly concentrated in varieties that were less adapted to market requirements and within these varieties, in marginal areas and low-quality farmers.

These reductions shall turn into an increase in the coupled subsidies and should therefore increase the income of those farmers who have retained their production. If production in one Member State drops because some farmers decide that 40 percent is enough, and they do not want to risk producing tobacco to receive the 60 percent corresponding to their “coupled” subsidy, then this 60 percent will become available to the other farmers. For example, this means that, if the marginal 10 percent of flue-cured and burley farmers in one country stop producing, the others will receive € 0.15-0.18 per green kg additional coupled subsidy for their contracted and delivered production.

In 2007, it is expected that the producing countries will start discussions to extend the interim period beyond the 2009 crop, through 2013, eventually with 50 percent decoupling and 50 percent coupled to tobacco production (instead of going to the restructuring fund).

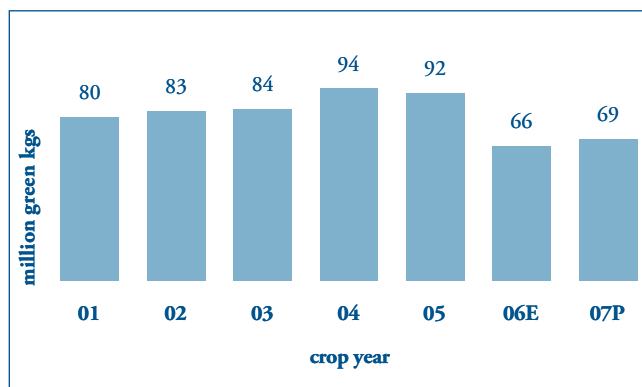
It is clear that practical implementation of the reform and reactions by the farmers to the new set-up shall be two prime factors in determining the future of leaf tobacco operations in Europe.

Farmers will compare their “decoupled” income (decoupled payments net of costs for maintaining land and for depreciating equipment and quotas) with the income they can make by producing tobacco and selling it to processors. Commercial prices become the central issue, but the provision by which a reduction in production will increase the coupled subsidies of the producing farmers also plays an important role. Low quality (low commercial price) farmers are likely to be the first to decide to abandon production and this should lead to a better average quality of the crops.

At the same time, the processing industry needs to restructure itself (in particular in Italy), by reducing the number of processing plants and cutting unnecessary costs (i.e. double processing – in loose leaf by small dealers and then threshed by exporters – and intermediation fees recognized by middlemen in tobacco acquisition).

Long-term availability of European tobaccos is the other focal point of the discussion. Of course, customers look for stability and they will closely monitor how the situation evolves, with specific attention to the mid-term evaluation of the system in 2007. The agreement signed in 2005 between the Italian Ministry of Agriculture and Philip Morris International (PMI) seems to indicate a renewed interest by the international manufacturers in European tobaccos. PMI has committed to buy 15 percent more volumes in the next three crops than the average of the previous three, conditioned on certain activities to improve tobacco grown in Italy. Moreover, PMI has allocated a budget of some € 500,000 to finance research, and restructuring of flue-cured curing barns to indirect firing. Similar agreements have been signed in Italy by BAT and JT. Negotiations are currently under way to reach similar agreements in Spain and France.

European Union Burley Leaf Production



N.B.: The burley tobacco producing countries of Hungary, Poland and the Slovak Republic joined the E.U. in 2004 and are included in the above figures for 2004-2007P.

Decline and Growth of Selected Flue-Cured and Burley Markets. Over the past 10-15 years, a number of flue-cured and burley export markets have shrunk significantly in terms of volume and importance, while at the same time other markets have gained in prominence. The reasons for these declines are varied, with political turmoil and a shrinking domestic cigarette production base sometimes playing important roles. However, in many cases the most significant reason has to do with relative value compared to leaf price, as manufacturers reallocated a significant portion of their flue-cured and burley purchase volumes over time to those markets with the most competitive prices and the most favorable price/quality relationship. The lack of overall growth in world cigarette production (excluding the PRC) since 1996-1997 has caused intense price competition in the world cigarette market, which in turn has caused major multinational manufacturers to focus on costs, including leaf prices. In addition, the mergers of the past decade have resulted in a group of major multinational cigarette manufacturers whose size means that they prefer to purchase the majority of their tobaccos in sufficient scale from origins that have a sufficiently large leaf production base. These changes have created difficult market conditions for leaf dealers who have increased production of leaf in a number of smaller origins in response to manufacturers' desire to protect sources of tobacco through diversification. If manufacturers want to retain the benefits of diversification of supply source, they may have to accept somewhat higher prices, settle for a less attractive relationship between price and quality, or buy in smaller, less efficient, quantities.

Flue-cured. The makeup of the leading flue-cured exporter group has changed significantly over the past ten years. In 1995, Brazil, Zimbabwe and the United States exported the largest flue-cured volumes, with Brazil exporting 200 million kgs, Zimbabwe 169 million kgs, and the United States 137 million kgs, all declared weight. By 2005, Brazil's export volume had grown by about 150 percent, while Zimbabwe and U.S. exports had both declined drastically, surpassed by the PRC and India (see Flue-Cured Exports discussion in the Flue-Cured section). One of the main reasons for the growth and decline of these countries has been the relation of price to quality, except in the case of Zimbabwe. For example, the average grower price in the United States over the 12-year period 1995-2006E was USD 3.88 per kg, compared to USD 1.48 per kg in Brazil and USD 1.03 per kg in India over the same period. Zimbabwe's decline was the result of government action. The PRC's export volume has increased during this period due to large filler volumes being made available for export out of the huge overall crop size, at mostly attractive prices.

Selected flue-cured exporting markets whose leaf production has declined significantly since 1995 include the following:

- **Canada:** Canadian flue-cured production decreased by 49 million kgs, or 66 percent, from 1995 to 2006, due to declining Canadian cigarette production (down about 13 billion sticks, or 26 percent, from 1995 to 2005), and less competitive Canadian leaf prices that resulted in a decline in estimated leaf exports. The 2006 crop declined by an estimated 13 million kgs due to reduced domestic and export demand. The grower organization is presently in discussions with the Canadian government concerning a buyout program which would address a complete buyout of tobacco growers' quota over a defined period of time. Specific details of this buyout program and how it will affect future Canadian tobacco production are not known at this time.

Flue-Cured Leaf Production Declines
Selected Countries, million green kgs
1995 vs. 2006E

crop year	1995	2006E	Decrease
Canada	74	25	- 49
United States	387	222	-165
Greece	31	0	- 31
Zimbabwe	199	58	-141
Total	691	305	-386

- **United States:** U.S. flue-cured production decreased by 165 million kgs, or 43 percent, from 1995 to 2006, due to U.S. cigarette production that declined by about 257 billion sticks, or 34 percent, from 1995 to 2005, and also flue-cured leaf exports which declined by about 69 million kgs, declared weight, 1995-2005. U.S. grower prices were supported during almost all of this period, up until the 2005 crop, by the federal tobacco program. As a result, U.S. leaf prices were uncompetitive in the world market, and export demand continued to shrink (domestic demand continued to shrink as well, driven mostly by the decline in cigarette production). Although U.S. flavor leaf quality has been traditionally judged to be the finest in the world, the price differential between U.S. leaf and Brazilian leaf in particular was too great for manufacturers, who reduced their utilization of U.S. leaf over time. U.S. flue-cured average grower prices declined by 19 percent in the 2005 crop with the dissolution of the federal program, but are estimated to increase again in the 2006 crop by 5.5 percent, due primarily to

strong domestic demand. U.S. grower prices remain well above the levels of other world export markets. Although the crop size is estimated to increase in both 2006 and 2007, this growth is primarily from domestic demand.

- Greece: The abrupt decline of Greek flue-cured filler production from 45 million kgs in 2005 to virtually zero in 2006 is directly attributable to the Greek government's decision to completely decouple the E.U. subsidy from the obligation to produce tobacco, beginning with the 2006 crop. As a result, the Greek flue-cured growers would receive no further subsidy for growing, and felt no incentive to grow for just the base commercial market price.
- Zimbabwe: The decline in Zimbabwe, unlike Canada, the United States and Greece, is due to governmental policy, and not leaf price and/or declining cigarette production. The government's program of compulsory land acquisition and redistribution has resulted in a drastic decline in the number of commercial farmers, and a crop size that has dwindled to an estimated 58 million kgs in 2006 from the peak of 237 million kgs in 2000. Zimbabwe average auction prices were generally above the average grower price levels of Brazil even during Zimbabwe's period of growth, but were not an issue due to the strong demand for Zimbabwe's flavor leaf, and the price/quality relationship.

Selected flue-cured exporting markets whose leaf production has grown strongly since 1995 include the following:

- Brazil: Brazilian flue-cured leaf production grew by 354 million kgs, or 128 percent, from 1995 to 2006. The reasons for this incredible growth are: low, competitive prices; steadily increasing overall flavor leaf quality (offset by an occasional poor crop); a stable political situation; and the decline of Zimbabwe leaf production since 2000. Although Brazil's flue-cured crop size grew by 207 million kgs from 2000-2006, when Zimbabwe was in decline, it also grew by 147 million kgs from 1995-2000, prior to the effects of the Zimbabwe government's land reform program. The Brazilian flue-cured crop size is now being brought down since the peak crop size of 2004 due to the world flue-cured oversupply situation, and the strong Brazilian *real* vs. the U.S. dollar, which has increased Brazilian grower prices in U.S. dollar terms and led to decreased demand. Brazilian flue-cured crop sizes may grow again after the world flue-cured surplus is reduced, if the Brazilian *real* weakens vs. the U.S. dollar.

Flue-Cured Leaf Production Increases
Selected Countries, million green kgs
1995 vs. 2006E

crop year	1995	2006E	Increase
Brazil	278	632	+ 354
India	112	235	+ 123
Tanzania	23	44	+ 21
Total	412	911	+ 499

N.B.: Numbers may not sum to totals due to rounding.

- India: Indian flue-cured leaf production grew by 123 million kgs, or 110 percent, from 1995 to 2006. The reasons for this impressive growth have been very low, competitive prices, and an attractive price/quality relationship for filler tobaccos. India's steady flue-cured production growth over most of this period suffered a setback in 2001, when the government instituted a "crop holiday" which resulted in a much-reduced crop size. India is expected to continue to grow in the future, as long as prices remain low and filler tobacco quality does not decline.
- Tanzania: Tanzanian flue-cured leaf production has grown by 21 million kgs, or 95 percent, from 1995 to 2006. However, the Tanzanian 2006 crop was affected by drought, which reduced the crop size to 44 million kgs from the original target of 57 million kgs. Growth is expected to resume in 2007. Tanzania has grown over this period for the same reasons as India: very low, competitive prices, and an attractive price/quality relationship for filler tobaccos. Tanzania is expected to continue to increase leaf production in the future.

Burley. As with the flue-cured, the growth and decline of the various burley markets can also be attributed to price in many cases. For example, the average burley grower price in the United States over the 12-year period 1995-2006E was USD 4.15 per kg, compared to USD 1.38 per kg in Brazil, USD 1.22 per kg in Malawi, USD 1.17 per kg base price in Argentina (excluding the Fondo subsidy), and USD 1.06 per kg in Thailand over the same period. In the future, price-sensitive manufacturers could continue to shift volumes of the burley styles that they find usable based on relative price and price/quality relationships.

Selected burley exporting markets whose leaf production has declined significantly since 1995 include the following:

- **United States:** U.S. burley production decreased by 105 million kgs, or 48 percent, from 1995 to 2006, with the reasons being uncompetitive leaf prices and declining U.S. cigarette production, as described above in the U.S. flue-cured paragraph. Burley grower prices declined by 20 percent in the 2005 crop with the dissolution of the federal program and the advent of a free market for U.S. leaf, but are estimated to increase again in the 2006 crop by about 3 percent, due primarily to strong domestic demand. U.S. burley grower prices remain well above the levels of other world export markets. Although the crop size is estimated to increase in 2006, this growth is primarily from domestic demand.

Burley Leaf Production Declines
Selected Countries, million green kgs
1995 vs. 2006E

crop year	1995	2006E	Decrease
United States	218	113	- 105
Greece	12	0	- 12
Mexico	21	13	- 9
Total	251	126	-125

N.B.: Numbers may not sum to totals due to rounding.

- **Greece:** The abrupt decline of Greek burley production from 10 million kgs in 2005 to virtually zero in 2006 is a result of the same factors described above in the paragraph on Greek flue-cured.
- **Mexico:** Mexican burley production has declined by almost 9 million kgs, or 40 percent, from 1995 to 2006. Grower prices for Mexican filler burley were reasonably stable during this period, averaging USD 1.55 per kg, but became measurably higher than Malawi's burley prices beginning in 1998, with the price gap becoming significant beginning in 2000. Mexican burley grower prices also became higher than Brazil's prices in 1999. As a result, the crop size has come down from about 20-25 million kgs during the period 1995-2001 to a level of about 11-13 million kgs for 2004-2006. Production is forecast to decline further in 2007, and future crop sizes may be adversely affected by the lack of scale preferred by the major multinational manufacturers.

Selected burley exporting markets whose leaf production has grown significantly since 1995 include the following:

- **Malawi/Mozambique/Zambia:** Filler burley leaf production in the major African burley producers of Malawi, Mozambique and Zambia, as a group, has grown by 89 million kgs, or 86 percent from 1995 to 2006, driven by low grower prices and an attractive price/quality relationship. Malawi prices were in the range of about USD 1.00-1.15/kg for the period 2000-2005, and have averaged USD 0.83/kg for 64 percent of the 2006 crop sold through August 18. Mozambique grower prices have been well below USD 1.00/kg for all years except 2000. Zambia grower prices have also been well below USD 1.00/kg beginning with the 2001 crop. These low prices have ensured growth for African burley filler tobaccos during the period, and should result in continued growth in the future, as long as prices remain attractive to manufacturers.

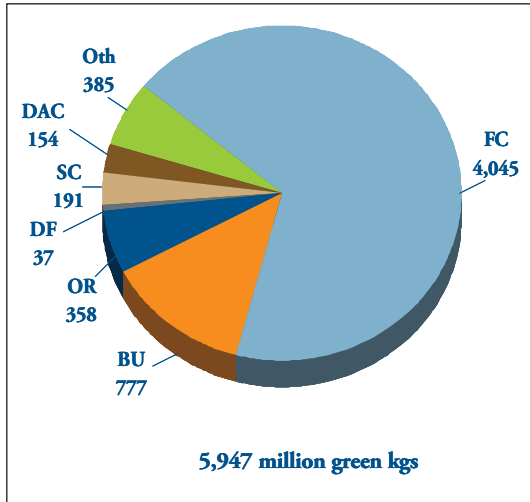
Burley Leaf Production Increases
Selected Countries, million green kgs
1995 vs. 2006E

crop year	1995	2006E	Increase
Malawi/Moz/Zambia	104	193	+ 89
Brazil	53	133	+ 80
Argentina	22	52	+ 30
Thailand	24	40	+ 16
Total	203	418	+ 215

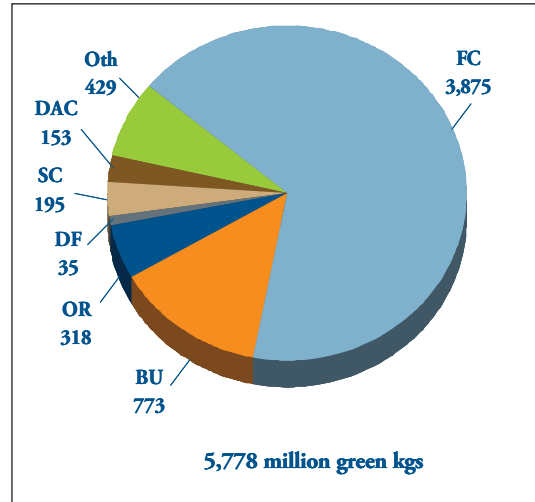
- Brazil: Brazilian burley leaf production grew by 80 million kgs, or 150 percent, from 1995 to 2006. The reasons for this large growth are the same as those for the Brazilian flue-cured (except that Zimbabwe has played no significant role in Brazil's burley increase): low, competitive prices; steadily increasing overall flavor leaf quality (offset by an occasional poor crop); and a stable political situation. The Brazilian burley crop size is now being brought down since the peak crop size of 2004 due to the world oversupply of burley during the period 2004-2006, and the strong Brazilian *real* vs. the U.S. dollar, which has increased Brazilian grower prices in U.S. dollar terms, and led to decreased demand. Brazilian burley crop sizes may grow again if the Brazilian *real* weakens vs. the U.S. dollar, since the overall world burley market is forecast to move closer to a balanced position over the next 1 ½ years.
- Argentina: Argentine semi-flavor burley production has grown by 30 million kgs, or 139 percent, from 1995 to 2006. Argentine base burley grower prices (excluding the Fondo subsidy which is paid by the government directly to the growers) have remained at moderate, mostly stable levels throughout most of the period, and have been well below Brazilian burley grower prices beginning with the 2004 crop.
- Thailand: Thai filler burley production over the period 1995-2006 has increased by 16 million kgs, or 67 percent. Once again the main reason appears to be price: Thai burley grower prices have been low and very competitive during most of the period. Production is forecast to grow somewhat in 2007.

World Leaf Production Trends

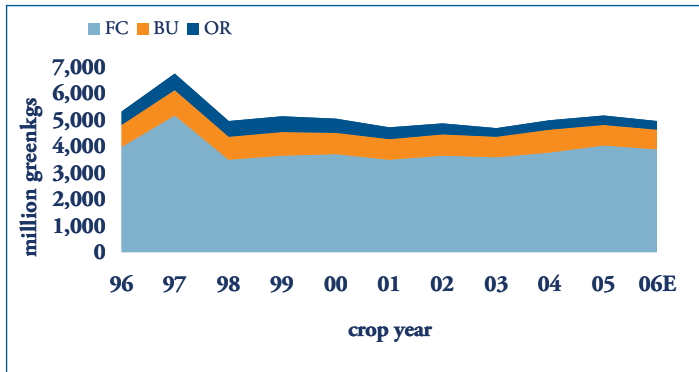
Estimated 2005 World Leaf Production



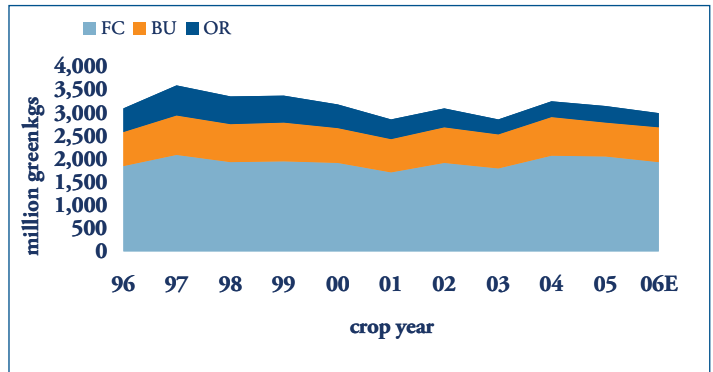
Estimated 2006 World Leaf Production



Estimated Leaf Production Trends



Estimated Leaf Production Trends x-PRC



Estimated Flue-Cured Production million green kgs

crop year	97	98	99	00	01	02	03	04	05	06E	07P
Exporters											
Argentina	75.3	82.4	61.0	65.0	55.2	71.0	69.1	90.5	91.1	81.3	91.8
Bangladesh	21.5	24.0	25.1	29.5	31.0	40.0	39.5	42.5	42.0	49.0	54.0
Brazil	429.9	315.9	441.4	425.0	408.2	512.7	479.9	701.3	694.3	631.6	575.0
Canada	74.5	71.4	68.7	51.6	55.1	52.2	44.1	40.3	38.1	25.2	25.2
Greece	30.6	30.6	30.6	32.6	36.0	40.4	43.6	45.4	45.4	0.0	0.0
India	183.9	186.2	197.0	177.0	59.8	183.3	201.4	238.3	235.9	235.4	265.0
Indonesia		26.6	33.4	53.4	45.8	23.2	36.4	36.2	38.0	41.0	43.0
Italy	47.6	48.2	48.2	49.1	49.7	48.8	52.1	49.3	51.3	49.0	47.0
Kenya	9.6	10.0	9.0	10.0	10.0	8.0	8.5	9.0	19.5	18.5	18.5
Malawi	14.9	13.9	14.3	10.7	8.2	11.2	13.7	23.2	25.3	28.5	28.0
Philippines	40.0	47.0	32.8	36.6	36.1	36.5	39.3	24.0	23.1	20.2	25.0
South Africa	23.6	24.0	25.0	23.0	25.4	24.9	27.4	24.9	20.4	11.7	18.0
Spain	28.2	28.8	29.7	29.9	28.4	29.5	29.0	30.2	30.6	26.4	27.5
Tanzania	36.8	32.8	18.4	18.8	25.9	23.0	30.1	41.4	49.9	44.0	53.0
Thailand	25.0	29.0	27.0	25.0	25.2	22.0	22.5	19.0	18.0	15.0	15.0
Uganda	5.1	7.5	11.0	10.3	12.4	18.9	18.3	20.0	11.2	14.0	15.0
U.S. Marketings	460.1	370.0	296.7	255.9	246.9	258.6	230.3	226.5	195.0	222.3	245.3
Zambia	3.0	4.3	4.4	4.4	3.7	4.9	7.1	16.1	22.0	23.9	25.0
Zimbabwe	187.3	215.9	192.1	236.9	202.5	165.8	81.8	69.9	73.4	58.0	75.0
Other Exporters	18.4	27.9	36.0	39.8	36.4	39.5	40.9	41.3	42.4	39.8	39.9
Sub-Total	1,715.3	1,596.4	1,601.8	1,584.5	1,401.9	1,614.4	1,515.0	1,789.3	1,766.9	1,634.8	1,686.2
Other Producers											
Indonesia	33.6										
Japan	45.5	42.5	44.8	42.2	41.3	41.0	33.6	35.7	32.8	33.0	33.0
Poland	20.3	24.5	23.0	17.8	12.1	13.0	17.3	16.4	17.8	21.8	22.5
Pakistan	47.0	52.5	60.2	65.0	51.0	59.6	51.3	50.3	65.8	74.7	74.7
South Korea	36.1	36.4	42.0	46.2	40.9	36.0	33.0	33.0	20.5	20.0	19.0
Vietnam	14.1	16.3	18.4	19.0	21.9	19.8	19.8	19.8	24.0	30.0	35.0
Others	187.6	185.8	174.6	166.0	160.1	153.2	141.8	136.2	141.6	146.0	150.2
Sub-Total	370.1	341.7	344.6	337.2	305.4	302.8	277.0	271.6	278.5	295.5	299.4
Total x-PRC	2,085.4	1,938.1	1,946.4	1,921.7	1,707.3	1,917.2	1,792.0	2,060.9	2,045.4	1,930.3	1,985.6
PRC	3,100.0	1,550.0	1,700.0	1,800.0	1,800.0	1,733.0	1,800.0	1,700.0	2,000.0	1,945.0	1,945.0
Grand Total	5,185.4	3,488.1	3,646.4	3,721.7	3,507.3	3,650.2	3,592.0	3,760.9	4,045.4	3,875.3	3,930.6

N.B.: Totals may differ from the sum of the numbers in each column due to rounding.

Hungary is included in "Other Exporters" from 1999 forward, and in "Others" of Other Producers from 1998 back.

Estimated Burley Production million green kgs											
crop year	97	98	99	00	01	02	03	04	05	06E	07P
Exporters											
Argentina	37.0	28.5	41.0	38.5	35.7	49.8	38.3	55.8	59.5	52.3	54.0
Bangladesh	0.8	1.0	0.5	0.9	1.2	1.8	1.8	2.8	3.7	4.1	5.0
Brazil	101.0	83.7	101.6	95.0	88.7	115.5	115.3	143.7	137.4	132.8	104.0
Chile	7.0	7.0	7.1	5.8	3.8	3.2	3.0	4.8	5.4	5.6	5.7
Colombia	2.3	2.7	3.0	3.2	4.0	5.3	5.6	5.7	5.3	5.1	5.0
France	6.6	7.8	7.5	8.4	8.7	9.3	10.4	8.7	9.9	9.1	9.5
Greece	12.3	12.4	12.0	12.3	12.4	12.0	10.3	10.2	10.2	0.0	0.0
Guatemala	14.9	16.7	12.6	12.0	12.3	9.9	11.4	12.7	12.4	10.6	11.2
India	13.9	8.7	10.5	8.5	10.0	6.2	10.5	8.7	12.8	15.1	18.0
Indonesia				1.3	2.7	4.0	4.5	3.3	6.0	6.5	6.5
Italy	49.0	50.6	46.9	48.0	49.9	51.8	52.4	52.1	49.1	35.0	37.5
Malawi	133.9	113.8	111.4	142.2	115.3	125.4	102.7	151.5	119.5	128.0	125.0
Mexico	19.7	33.1	26.1	23.3	20.0	14.5	16.8	13.1	11.4	12.9	9.8
Mozambique	3.1	2.3	3.4	6.1	12.4	19.0	23.4	39.4	44.1	48.0	48.5
PRC	77.5	60.0	60.0	61.5	55.0	50.0	45.0	45.0	29.0	25.0	25.0
Philippines	7.9	13.4	18.9	26.5	19.8	24.9	24.8	9.2	7.5	7.4	11.2
Spain	2.4	2.5	5.4	6.0	5.7	6.4	7.1	6.5	5.6	4.3	4.0
Thailand	38.0	40.0	40.0	28.0	38.0	42.0	43.2	45.0	42.0	40.0	43.0
Uganda	2.6	3.0	5.7	5.5	6.8	14.9	17.0	18.5	1.6	5.0	6.0
U.S. Marketings	286.4	269.7	251.4	143.1	155.9	136.0	123.5	127.6	93.0	113.4	113.4
Zambia	4.1	3.0	3.2	3.3	3.6	8.3	11.7	23.8	21.5	17.3	17.3
Other Exporters	5.6	8.8	15.3	12.9	8.7	8.5	6.5	5.0	3.8	4.0	4.2
Sub-Total	826.0	768.7	783.5	692.3	670.6	718.7	685.2	793.1	690.7	681.5	663.8
Other Producers											
Japan	21.8	20.5	19.1	17.8	18.4	16.4	16.4	16.3	13.5	14.0	14.0
Poland	10.5	13.9	15.5	12.5	8.7	8.8	9.6	9.9	11.7	12.4	12.5
South Korea	18.3	19.2	22.1	22.0	18.7	18.9	16.5	16.5	8.9	10.0	9.0
Others	60.5	59.9	53.5	53.5	53.5	50.6	49.7	50.3	52.7	55.5	55.8
Sub-Total	111.1	113.5	110.1	105.8	99.3	94.7	92.2	93.0	86.8	91.9	91.3
Grand Total	937.1	882.2	893.6	798.1	769.9	813.4	777.4	886.1	777.5	773.4	755.1

N.B.: Totals may differ from the sum of the numbers in each column due to rounding.

Hungary is included in "Other Exporters" from 1999 forward, and in "Others" of Other Producers from 1998 back.

Indonesia is included in "Others" of Other Producers from 1999 back.

Kenya is included in "Other Exporters" from 2003 forward, and in "Others" of Other Producers from 2002 back.

Estimated Oriental and Semi-Oriental Production million green kgs

crop year	96	97	98	99	00	01	02	03	04	05	06E
Exporters											
Bulgaria	28.2	52.9	26.8	29.8	22.6	27.6	31.1	28.5	33.5	35.6	25.2
Greece	81.8	86.0	81.0	84.3	78.7	69.9	63.8	57.8	56.9	55.4	28.3
Italy	11.3	11.1	12.1	12.0	10.0	9.0	5.2	5.3	2.3	1.0	0.0
Macedonia	13.6	25.2	35.7	31.3	20.7	22.6	26.3	19.7	20.1	23.7	24.1
Thailand	10.0	14.5	10.0	11.0	9.0	9.0	6.8	6.4	5.0	5.8	5.8
Turkey	225.0	295.5	250.6	242.6	199.1	144.7	153.1	106.9	124.3	130.2	120.0
<i>Izmir</i>	<i>127.6</i>	<i>159.1</i>	<i>132.6</i>	<i>130.8</i>	<i>114.2</i>	<i>92.8</i>	<i>104.2</i>	<i>66.3</i>	<i>81.8</i>	<i>85.2</i>	<i>75.0</i>
Sub-Total	369.9	485.2	416.3	411.0	340.2	282.8	286.4	224.6	242.1	251.7	203.4
Other Producers											
Albania	3.3	3.6	4.3	8.7	7.0	6.5	4.5	4.7	4.7	4.6	4.3
C.I.S.	90.8	102.2	118.3	111.6	129.3	100.8	76.2	65.5	61.5	57.5	61.5
Iran	6.1	3.9	3.9	5.6	5.2	3.1	3.3	2.0	1.7	2.0	2.7
Lebanon	8.3	10.0	9.0	10.0	11.0	11.0	10.9	9.6	8.4	8.5	8.5
Pakistan	14.1	17.0	16.5	17.8	15.1	9.7	9.4	10.8	11.0	9.9	12.9
PRC	8.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	7.0
Syria	9.5	8.0	10.0	10.7	10.0	10.0	10.0	10.0	10.2	10.5	10.5
Others	8.5	11.3	11.5	10.8	9.5	9.0	8.8	5.8	7.0	7.1	6.7
Sub-Total	148.6	162.1	179.5	181.2	193.1	156.0	129.0	114.4	110.5	106.0	114.1
Grand Total	518.5	647.3	595.8	592.2	533.3	438.8	415.4	339.0	352.6	357.7	317.5

N.B.: Totals may differ from the sum of the numbers in each column due to rounding.

Estimated Cigarette Production - Top 20 Cigarette Producers

Based on Calendar Year 2005 Production billion pieces

calendar year	95	96	97	98	99	00	01	02	03	04	05	% total
1 PRC	1,735.0	1,700.3	1,683.6	1,674.7	1,644.0	1,668.2	1,699.5	1,722.5	1,789.1	1,873.6	1,942.0	32.9%
2 U.S.	746.5	754.5	722.8	674.7	610.2	594.3	562.8	532.0	499.4	493.5	490.0	8.3%
3 Russia	141.1	141.9	177.1	210.7	283.1	341.4	374.0	390.0	385.0	382.0	405.0	6.9%
4 Indonesia	205.1	217.4	247.4	232.2	233.2	237.1	236.6	213.3	214.7	214.0	225.5	3.8%
5 Germany	216.2	203.6	181.6	181.9	204.6	206.8	213.8	212.5	205.2	208.3	212.4	3.6%
6 Japan	285.1	275.7	268.5	269.8	269.0	260.0	258.9	251.0	240.0	234.6	210.7	3.6%
7 Brazil	174.6	182.5	182.8	183.1	122.6	118.7	118.7	122.0	134.1	131.7	133.2	2.3%
8 Ukraine	48.0	43.0	53.4	58.8	53.7	57.9	69.4	80.9	96.8	108.9	120.2	2.0%
9 Turkey	99.5	109.0	112.0	119.3	119.4	122.2	125.3	130.0	120.9	117.9	111.1	1.9%
10 South Korea	87.5	93.0	92.7	101.0	96.2	98.8	97.7	93.8	122.3	127.5	110.1	1.9%
11 Netherlands	100.6	111.2	116.2	116.3	120.0	123.1	120.4	126.3	115.6	115.2	105.0	1.8%
12 Poland	97.0	95.2	95.8	96.7	94.6	83.8	80.6	80.9	82.3	86.6	102.4	1.7%
13 India	95.0	102.0	99.0	98.0	97.0	97.0	86.3	90.5	92.0	97.0	99.0	1.7%
14 Philippines	74.1	79.0	67.1	67.1	68.6	73.2	79.0	81.0	85.8	90.8	93.6	1.6%
15 Vietnam	40.8	42.0	41.5	43.9	42.8	50.9	63.3	68.5	77.4	82.2	89.9	1.5%
16 U.K.	157.0	170.3	170.2	163.5	134.6	126.1	126.1	133.0	107.9	99.7	87.4	1.5%
17 Egypt	45.0	49.0	53.6	56.6	58.1	61.9	63.7	65.1	73.7	77.0	85.2	1.4%
18 Pakistan	32.7	45.5	46.1	48.2	51.6	48.5	58.1	60.1	62.1	71.8	74.0	1.3%
19 Spain & Can. Is.	76.5	70.5	73.1	79.5	73.2	71.6	62.3	62.8	59.1	54.1	53.8	0.9%
20 Bangladesh	14.0	18.0	19.8	22.0	23.3	29.7	33.9	34.5	40.7	42.8	49.7	0.8%
World Total	5,645.9	5,667.6	5,659.9	5,626.6	5,500.9	5,581.6	5,643.0	5,660.6	5,733.9	5,834.2	5,910.8	100.0%
World Total, x-PRC	3,910.9	3,967.3	3,976.3	3,952.0	3,857.0	3,913.4	3,943.5	3,938.2	3,944.8	3,960.6	3,968.8	67.1%

N.B.: Some data for Japan are for the Japanese fiscal year.