

DIMON INC
Form 10-K/A
January 13, 2004
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

FOR THE TRANSITION PERIOD FROM _____ TO _____.

COMMISSION FILE NUMBER 1-13684

DIMON INCORPORATED

Incorporated under the laws of

VIRGINIA

I.R.S. Employer

Identification No. 54-1746567

512 Bridge Street, Danville, Virginia 24541

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Telephone Number (434) 792-7511

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

| <u>Title of Each Class</u> | <u>Name of Exchange On Which Registered</u> |
|---|---|
| Common Stock (no par value) Common Stock Purchase Rights | New York Stock Exchange |

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

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

The aggregate market value of Common Stock held by non-affiliates of the registrant (based upon the closing sale price quoted by The New York Stock Exchange) on December 31, 2002, was approximately \$263,000,000. In determining this figure, the registrant has assumed that all of its directors and officers, and all persons known to it to beneficially own ten percent or more of its Common Stock, are affiliates. This assumption shall not be deemed conclusive for any other purpose. As of August 18, 2003, there were 44,745,504 shares of Common Stock outstanding.

INFORMATION INCORPORATED BY REFERENCE

Certain information contained in the September 22, 2003 Proxy Statement for the Annual Meeting of Shareholders (to be held November 6, 2003) of the registrant is incorporated by reference into Part III hereof.

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EXPLANATORY NOTE

DIMON Incorporated is filing this Amendment No. 1 to its Annual Report on Form 10-K/A for the fiscal year ended June 30, 2003 (the Form 10-K/A) to amend certain items in its Annual Report on Form 10-K for the fiscal year ended June 30, 2003, which was originally filed with the Securities and Exchange Commission on August 28, 2003 (the Annual Report). None of the amendments to the Annual Report reflected in this Form 10-K/A resulted in a restatement of the financial statements or other financial information included in the Annual Report.

This Form 10-K/A continues to speak as of the date of the original filing of the Annual Report and we have not updated the disclosures contained therein to reflect any events that occurred at a later date. The filing of this Form 10-K/A shall not be deemed an admission that the original filing, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

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Special Note Regarding Forward Looking Statements

This report on Form 10-K, including the sections entitled Item 1. Business and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Act of 1934. Statements that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. These statements are based on our plans, estimates and projections at the time we make the statements, and you should not place undue reliance on them. In some cases, you can identify forward-looking statements by the use of forward-looking terms such as may, should, expect, intend, plan, anticipate, believe, estimate, predict, potential, or other similar terms.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in or suggested by any forward-looking statement. These factors include, among others: general economic and business conditions; weather conditions; crop yields; competition; the regulatory actions of U.S., foreign and local governments; foreign currency exchange and interest rate fluctuations; the loss of significant customers or a substantial reduction in orders from customers; industry trends, including continued customer consolidation and changes in customer buying and inventory practices; availability, terms and deployment of capital; ability to increase prices; production capacity constraints and other economic, business, competitive and/or regulatory factors affecting our operations discussed in this report. See also Factors that May Affect Future Results.

All forward-looking statements in this report on Form 10-K are qualified by these cautionary statements and are made only as of the date of this report. We undertake no obligation, other than as required by law, to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS

AVAILABLE INFORMATION

Our website address is www.dimon.com. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

THE COMPANY

DIMON Incorporated is the second largest independent leaf tobacco merchant in the world and ships tobacco to manufacturers of cigarettes and other consumer tobacco products in approximately 90 countries around the world.

BUSINESS DESCRIPTION

Product

The world's large multinational cigarette manufacturers, with one exception, rely primarily on independent leaf tobacco merchants such as DIMON to supply the majority of their leaf tobacco needs. Leaf tobacco merchants select, purchase, process, store, pack, ship and, in certain developing markets, provide agronomy expertise and financing for growing leaf tobacco. Our revenues primarily comprise sales of processed tobacco and fees charged for processing and related services to manufacturers of tobacco products around the world. We do not manufacture cigarettes or other consumer tobacco products.

We deal primarily in flue-cured, burley, and oriental tobaccos that are used in international brand cigarettes. International brand cigarettes have gained market share in several major foreign markets including Asia (particularly the Pacific Rim), Europe and the Middle East in recent years. International brand cigarettes include Virginia cigarettes that contain only flue-cured tobaccos as well as American blend cigarettes. American blend

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cigarettes contain approximately 50% flue-cured, 37% burley and 13% oriental tobacco, contain less tar and nicotine and taste milder than locally produced cigarettes containing dark and semi-oriental tobacco historically consumed in certain parts of the world. According to the Tobacco Merchants Association, international brand cigarettes represented 58% of worldwide cigarette consumption (excluding China) in 2002, compared to 48% in 1990. As international brand cigarettes have continued to gain global market share, the demand for export quality flue-cured, burley and oriental tobacco sourced and processed by us and our competitors has grown accordingly.

Several of the large multinational cigarette manufacturers have expanded their operations throughout the world, particularly in Asia, Central and Eastern Europe and the former Soviet Union, in order to increase their access to and penetration of these markets. As cigarette manufacturers expand their global operations, we believe that demand will increase for local sources of leaf tobacco and local tobacco processing and distribution, primarily due to the semi-perishable nature of unprocessed leaf tobacco and the existence of domestic content laws in certain countries. We believe that the international expansion of the large multinational cigarette manufacturers will cause these manufacturers to place greater reliance on the services of financially strong leaf tobacco merchants with the ability to source and process tobacco on a global basis and to help develop higher quality local sources of tobacco by improving local agronomic practices.

Geographic Regions of Operation

We have developed an extensive international network through which we purchase, process and sell tobacco. In addition to our processing facilities in Virginia and North Carolina, we own or have an interest in processing facilities in Brazil and Zimbabwe, the two most significant non-U.S. exporters of flue-cured tobacco, Malawi and Mexico, two of the leading non-U.S. exporters of burley tobacco, and Bulgaria, Greece, Indonesia, Kyrgystan, Macedonia and Turkey, the leading exporters of oriental tobacco. We also have processing facilities in Germany, Italy, Tanzania and Thailand. We have historically contracted with third parties for the processing of tobacco in certain countries including Argentina, Canada, Chile, China, Congo, Guatemala, India, Spain and certain countries of the former Soviet Union. In addition, we have entered into contracts, joint ventures and other arrangements for the purchase of tobacco grown in substantially all countries that produce export-quality flue-cured and burley tobacco, including Argentina, Canada, China and India.

We purchase tobacco in more than 40 countries. Although a significant portion of the dollar value of tobacco we purchase is produced in the U.S., the relative importance of tobacco grown overseas to our profitability has increased steadily. During fiscal 2003, approximately 20% of the dollar value of tobacco we purchased was purchased in the U.S. The recent decreases in U.S. tobacco purchases, due to the shift to direct contract buying, are discussed in Purchasing below. Approximately 18%, 13%, 5% and 5% of the dollar value of tobacco we purchased during fiscal 2003 was purchased in Brazil, Zimbabwe, Turkey and Malawi, respectively. The remaining 39% was purchased in more than 35 different countries with no single country accounting for more than 4%.

Through our wholly-owned subsidiary, Compania General de Tabacos de Filipinas S.A. (CdF), we are also a leading international dealer in dark tobaccos typically used for cigars and smokeless tobacco products. CdF maintains its administrative and sales headquarters in Barcelona, Spain, and has operations in the major dark tobacco producing countries, including Cameroon, Colombia, Dominican Republic, Indonesia, Northern Brazil, Paraguay and the Philippines.

Purchasing

Tobacco is purchased at auction or directly from growers. In the United States, flue-cured and burley tobacco crops were traditionally sold at public auction, but these markets have undergone a fundamental change in recent years. Beginning with the 2000 U.S. burley crop and continuing to the 2001 U.S. flue-cured crop, there was a significant shift from auction markets to purchasing directly from growers (direct

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contract buying). The U.S. Department of Agriculture has reported that approximately three-fourths of both the 2002 U.S. flue-cured and U.S. burley tobacco crops were sold through direct contract buying. Concurrent with the shift from an auction system to direct contract buying a number of our significant U.S. customers began purchasing green tobacco directly from the growers. Although the tobacco purchased directly from growers by our customers has continued to be processed in our U.S. facilities, we no longer take ownership of that tobacco and no longer record sales revenues associated with its resale. The shift to direct contract buying negatively impacted our sales in fiscal 2001, 2002 and 2003. We have continued to earn and record service revenues for the processing of all such tobaccos for our customers. Our gross

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profit has not been materially affected by the shift to direct contract buying by our customers, although sales revenues have been reduced and profit margin has increased. Although we believe that we have taken proper actions to operate effectively in the U.S. direct contract buying environment, there are continuing challenges in managing our operating cost base in the United States in light of the continued requirement to field buying personnel in the residual auction markets. Under the direct contract buying system, purchasers generally buy a farmer's entire tobacco crop. The majority of our purchases of U.S. flue-cured and burley tobacco are made through the direct contract buying system where we buy the farmer's entire crop. With respect to tobacco purchased by us through this system (and to which we still take title), we assume the risk of matching the quantities and grades needed by our customers to the entire crop we must purchase under contract. As a result, we work closely with our customers in advance of the crop to estimate our customer requirements and use these estimates as the basis to contract tobaccos directly from farmers. However, this arrangement has increased the possibility that we may accumulate inventories of grades of tobacco that our customers do not need. With respect to tobacco purchased directly by our customers (and to which we do not take title), the customer assumes the risk of loss of such tobacco while it is located at our facilities or en-route to and from our facilities. When we purchase under an auction system, we continue to purchase tobaccos primarily to match specific customer orders. See also Management's Discussion and Analysis of Financial Condition and Results of Operations Factors that May Affect Future Results.

Other principal auction markets include Canada, Malawi and Zimbabwe. We usually purchase tobacco at those auction markets after receiving specific customer orders or indications of customers' upcoming needs. Our network of tobacco buyers allows us to cover the major auctions of flue-cured and burley tobacco throughout the world. These buyers are experts in differentiating hundreds of grades of tobacco based on customer specifications and preferences that take into account, among other factors, the texture, visual appearance and aroma of the tobacco.

In non-auction markets such as Argentina, Brazil, Bulgaria, China, Greece, Guatemala, India, Indonesia, Italy, Mexico, Kyrgystan, Spain, Tanzania, Thailand and Turkey, we purchase tobacco directly from growers or from local entities that have arranged for purchase from growers. We often make these direct purchases based upon our projection of the needs of our long-standing customers rather than against specific purchase orders. Our arrangements with growers vary from locale to locale depending on our predictions of future supply and demand, local historical practice and availability of capital. For example, in Brazil, we generally contract to purchase a grower's entire tobacco crop at the market price per grade at the time of harvest based on the quality of the tobacco delivered. Pursuant to these purchase contracts, we provide growers with fertilizer and other materials necessary to grow tobacco and may either directly loan or guarantee Brazilian rural credit loans to growers to finance the crop. Under longer-term arrangements with growers, we may also finance or guarantee financing on growers' construction of curing barns.

In addition, our agronomists maintain frequent contact with growers prior to and during the growing and curing seasons to provide technical assistance to improve the quality and yield of the crop. In other non-auction markets, such as Argentina and India, we buy tobacco from local entities that have purchased tobacco from growers and supervise the processing of that tobacco by those local entities. We believe that our long-standing relationships with our customers are vital to our purchasing operations outside of the auction markets.

Processing

We process tobacco to meet each customer's specifications as to quality, yield, chemistry, particle size, moisture content and other characteristics. We operate tobacco processing facilities in 29 countries. Unprocessed tobacco is a semi-perishable commodity that generally must be processed within a relatively short period of time to prevent fermentation or deterioration in quality. Accordingly, we have located our processing facilities in proximity to our principal sources of tobacco.

Upon arrival at our processing plants, flue-cured and burley tobacco is first reclassified according to grade. Most of that tobacco is then blended to meet customer specifications regarding color, body and chemistry, threshed to remove the stem from the leaf and further processed to produce strips of tobacco and sieve out small scrap. We also sell a small amount of processed but unthreshed flue-cured and burley tobacco in loose-leaf

and bundle form to certain customers.

Processed flue-cured and burley tobacco is redried to remove excess moisture so that it can be held in storage by customers or us for long periods of time. After redrying, whole leaves, bundles, strips or stems are

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separately packed in cases, bales, cartons or hogsheads for storage and shipment. Packed flue-cured and burley tobacco generally is transported in the country of origin by truck or rail, and exports are moved by ship. Prior to and during processing, steps are taken to ensure consistent quality of the tobacco, including the regrading and removal of undesirable leaves, dirt and other non-tobacco related material. Customer representatives are frequently present at our facilities to monitor the processing of their particular orders. Increased consumption of discount and value-priced cigarettes and competition among leaf merchants have led to improvements in processing designed to minimize waste and thereby increase yield. Throughout the processing, our technicians use laboratory test equipment for quality control to ensure that the product meets all customer specifications.

From time to time, we process and store tobacco acquired by various stabilization cooperatives under the domestic price support program. We can derive significant revenues from the fees charged for such services, particularly in years when a substantial portion of the domestic tobacco crop is acquired by such cooperatives under the program. While these revenues are not material to our net sales, they result in additional recovery of fixed costs that may be significant to gross profit. With the shift to direct contract buying, these revenues and related gross profits may decrease.

Customers and Selling Arrangements

Customers

We ship tobacco to manufacturers of cigarettes and other consumer tobacco products located in approximately 90 countries around the world. We ship tobacco to international locations designated by these manufacturers. A majority of the shipments of tobacco are to factories of these manufacturers that are located outside the U.S. In certain countries, we also use sales agents to supplement our selling efforts.

The consumer tobacco business in most markets is dominated by a relatively small number of large multinational cigarette manufacturers and by government controlled entities. Of our 2003, 2002, and 2001 sales and other operating revenues, approximately 21%, 22% and 18%, respectively, were to various tobacco customers which we have been led to believe are owned by or under common control of Japan Tobacco Inc. and approximately 17%, 13% and 18%, respectively, were to various tobacco customers which we have been led to believe are owned by or under common control of the Altria Group, Inc. No other customer accounts for more than 10% of our sales. We generally have maintained relationships with our customers for over sixty years. In fiscal 2003, we delivered approximately 19% of our tobacco sales to customers in the U.S., approximately 41% to customers in Europe and the remainder to customers located in Asia, Africa and elsewhere.

Selling Arrangements

We typically make most of our leaf tobacco purchases pursuant to customer orders or supply contracts or customer indications of anticipated need, with most purchases made based on indications. Customers are legally bound to purchase tobacco purchased by us pursuant to orders, but no contractual obligation exists with respect to tobacco purchased in response to indications. However, we have done business with most of our customers for many years and have never experienced a significant failure of customers to purchase tobacco for which they have given indications.

We have three agreements with major customers to process and, with respect to one customer, purchase and process, a certain portion of each customer's U.S. tobacco requirements. Generally, the agreements establish a framework for pricing our services (which generally is negotiated

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with respect to crop year, grade of tobacco leaf or type of service provided based on market prices), but two of these agreements do not provide for minimum purchases and are terminable upon reasonable notice. None of the contracts are individually material to our business as a whole, and we have no other significant supply agreements with our customers.

Our normal customer sales terms are either cash against documents, payment against invoice or customer letter of credit. Most of our sales throughout the world are denominated in U.S. dollars. While we can receive payment for tobacco sold after we have processed and shipped it, most of the larger customers advance payments to us throughout the buying season as we purchase tobacco for the customers' accounts.

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Competition

The leaf tobacco industry is highly competitive. Competition among leaf tobacco merchants is based primarily on the price charged for products and services as well as the merchant's ability to meet customer specifications in the buying, processing and financing of tobacco. In addition, there is competition in all countries to buy the available leaf tobacco and in many areas, total leaf tobacco processing capacity exceeds demand.

Currently, there are three major global competitors in the leaf tobacco industry, including DIMON, and all are dependent upon a few large cigarette manufacturing customers. Our principal competitors are Universal Corporation and Standard Commercial Corporation. Of the independent leaf tobacco merchants, we believe that, based on revenues, we rank second in established worldwide market share. We further believe that among independent leaf tobacco merchants, we have the largest or second largest market share in Argentina, Brazil, China, Greece, Guatemala, Mexico, Spain, Thailand, Turkey, the U.S. and Zimbabwe as well as other countries. Universal's market share in the U.S., Brazil and Africa is considerably greater than ours. The number of manufacturers has declined in recent years due to consolidation. The loss of, or a substantial reduction in the services provided to, any one or more significant customers could have a material adverse effect on our financial condition or results of operations.

Seasonality

The purchasing and processing activities of our tobacco business are seasonal. Flue-cured tobacco grown in the U.S. is purchased generally during the five-month period beginning in July and ending in November. U.S.-grown burley tobacco is purchased usually from late November through January or February. Tobacco grown in Brazil is purchased usually from January through July. Other markets around the world have similar purchasing periods, although at different times of the year.

Mature tobacco, prior to being processed and packed, is a semi-perishable commodity. The production cycle for redrying and packing is relatively short. For example, flue-cured tobacco in the U.S. is generally processed, packed and invoiced within the same five-month period (July through November) that it is purchased. During this period, inventories of unprocessed tobacco, inventories of redried tobacco and trade accounts receivable normally reach peak levels in succession. Current liabilities, particularly advances from customers and short-term notes payable to banks, normally reach their peak in this period as a means of financing the seasonal expansion of current assets. Increasing amounts of U.S.-grown burley and foreign tobacco are now being processed in periods other than July through November, reducing the seasonal fluctuations in working capital. At June 30, the end of our fiscal year, the seasonal components of our working capital reflect primarily the operations related to foreign grown tobacco.

Research and Development

We routinely cooperate with both our customers and the manufacturers of the equipment used in our processing facilities to improve processing technologies. However, no material amounts are expended for research and development, and we hold no material patents, licenses, franchises, or concessions.

Employees

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Our consolidated entities employed about 3,700 persons, excluding seasonal employees, in our worldwide operations at June 30, 2003. In the U.S. operations, our consolidated entities employed about 400 employees at June 30, 2003. During processing periods the seasonal employees in the U.S. would number approximately 900. Most U.S. seasonal employees are covered by collective bargaining agreements with two local labor unions. None of our full-time employees are covered by collective bargaining agreements. In the non-U.S. operations, our consolidated entities employed about 3,300 persons, excluding 15,000 seasonal employees at June 30, 2003. We consider our employee relations to be satisfactory.

Change in Fiscal Year

On June 23, 2003, our Board of Directors adopted a new fiscal year end. Our new fiscal year will end on March 31, beginning with the fiscal year ending March 31, 2004. The primary purpose of the change is to better

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match the financial reporting cycle with natural global crop cycles for leaf tobacco. Our predecessor companies selected the existing June 30 fiscal year end many years ago when operations were substantially domestic because it matched the U.S. crop cycle. However, given the importance of our international operations today, particularly those in South America for which financial results now straddle fiscal years, a March 31 year-end is a more appropriate fiscal end. We will file our regularly scheduled quarterly reports on Form 10-Q during the shortened fiscal year 2004. The separate audited financial statements required for the transition period will be included in our annual report on Form 10-K for the fiscal year ending March 31, 2004.

Government Regulation and Environmental Compliance

See Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors that May Affect Future Results for a discussion of government regulation. Currently there are no material estimated capital expenditures related to environmental control facilities.

Financial Information about Industry Segments, Foreign and Domestic Operations, and Export Sales

We operate in one segment, the tobacco business. We purchase, process, sell and store leaf tobacco. Financial information concerning our reporting is included in Note L to the Notes to Consolidated Financial Statements. Information with respect to our working capital appears in Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

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The following information is furnished with respect to the Company's executive officers who were serving in the capacities indicated as of June 30, 2003. Executive officers serve at the pleasure of the Board of Directors and are elected at each annual organizational meeting of the Board.

| <u>NAME</u> | <u>AGE</u> | <u>BUSINESS EXPERIENCE PAST FIVE YEARS</u> |
|----------------------|-------------------|---|
| Brian J. Harker | 53 | Chairman and Chief Executive Officer of DIMON since March 2003; prior thereto Chief Executive Officer since May 1999; prior thereto President since March 1999; prior thereto Executive Vice President and Chief Financial Officer since October 1996. |
| Steve B. Daniels | 45 | President and Chief Operating Officer of DIMON since March 2003; prior thereto Senior Vice President-Operations Director since October 2001; prior thereto Senior Vice President-Regional Director Latin America/Africa since March 1999; prior thereto Senior Vice President-Regional Executive Latin America since March 1998. |
| James A. Cooley | 52 | Senior Vice President-Chief Financial Officer of DIMON since February 1999; prior thereto Senior Vice President-Treasurer since September 1997. |
| H. Peyton Green, III | 54 | Senior Vice President-Sales Director of DIMON since October 2001; prior thereto Senior Vice President-Sales and Marketing since November 1998; prior thereto Senior Vice President since May 1995. |
| Don C. Hare | 48 | Vice President-Human Resources of DIMON since January 2001; prior thereto Manager of Human Resources at Ensco Marine (an offshore oil rig leasing company) since October 2000; prior thereto a general human resources and health and safety consultant since October 1999; prior thereto Vice President-Human Resources and Environmental Health & Safety of Citizens Utilities, a regulated utility and telecommunications company since July 1997. |
| Thomas C. Parrish | 55 | Senior Vice President-Chief Legal Officer and Secretary of DIMON since October 2001; prior thereto Senior Vice President-Corporate Affairs and Secretary since November 1999; prior thereto Senior Vice President-Corporate Affairs since 1997. |

The information contained in the Proxy Statement under the caption "Election of Directors" is incorporated herein by reference.

ITEM 2. PROPERTIES

Following is a description of our material properties:

Corporate

Our corporate headquarters are located in Danville, Virginia.

Facilities

We operate each of our tobacco processing plants for seven to nine months during the year to correspond with the applicable harvesting season. While we believe our processing facilities are being efficiently utilized, we also believe our domestic processing facilities and certain foreign processing facilities have the capacity to process additional volumes of tobacco if required by customer demand.

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The following is a listing of the various material properties used in operations all of which are owned by us:

| <u>LOCATION</u> | <u>USE</u> | <u>AREA IN SQUARE FEET</u> |
|--|--------------------|--------------------------------|
| <u>UNITED STATES</u> | | |
| DANVILLE, VA. | FACTORY/STORAGE | 1,867,000 |
| FARMVILLE, N.C. | FACTORY/STORAGE | 895,000 |
| LAKE CITY, S.C. | STORAGE | 252,000 |
| ROCKY MOUNT, N.C. | FACTORY/STORAGE | 239,000 |
| <u>SOUTH AMERICA</u> | | |
| VERA CRUZ, BRAZIL | STORAGE | 311,000 |
| SANTA CRUZ, BRAZIL | FACTORY/STORAGE | 896,000 |
| VENANCIO AIRES, BRAZIL | FACTORY/STORAGE | 988,000 |
| <u>AFRICA</u> | | |
| LILONGWE, MALAWI | FACTORY/STORAGE | 796,000 |
| HARARE, ZIMBABWE | FACTORY/STORAGE | 1,080,000 |
| MOROGORO, TANZANIA | FACTORY/STORAGE | 741,000 |
| LUBUMBASHI, DEMOCRATIC REPUBLIC OF CONGO | STORAGE | 288,000 |
| <u>EUROPE</u> | | |
| KARLSRUHE, GERMANY | FACTORY/STORAGE | 236,000 |
| THESSALONIKI, GREECE | FACTORY/STORAGE | 378,000 |
| SPARANISE, ITALY | FACTORY/STORAGE | 466,000 |
| IZMIR, TURKEY | FACTORY(2)/STORAGE | 898,000 |
| <u>ASIA</u> | | |
| LAMPHUN, THAILAND | FACTORY/STORAGE | 186,000 |

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ITEM 3. LEGAL PROCEEDINGS

DeLoach, et al. v. Philip Morris Companies Inc., et al., is a lawsuit pending in the United States District Court for the Middle District of North Carolina (Case No. 00-CV-1235). On April 3, 2002, the Court issued an opinion and order certifying a class of plaintiffs. As certified, the class consists of persons who, at any time from March 1, 1996 through February 28, 2001, held a quota to grow or produced and sold U.S. flue-cured and burley tobacco. The plaintiffs allege that the defendants, which include cigarette manufacturers and leaf tobacco dealers, including DIMON, violated the antitrust laws by conspiring to rig bids at auction and undermine the federal government quota and price support program. The plaintiffs seek injunctive relief, treble damages in an unspecified amount, pre- and post-judgment interest, attorneys' fees and costs of litigation. DIMON and the other defendants have asserted a number of defenses to the allegations made.

On May 15, 2003, we entered into a conditional settlement agreement to resolve our involvement in the DeLoach class action litigation. The Settlement Agreement was signed by the plaintiffs, on behalf of themselves and the class of plaintiffs they represent, DIMON, and all but one of the other defendants in the case. Under the terms of the Settlement Agreement, we will pay \$6 million of the approximately \$210 million of cash settlement payments to be paid by the settling defendants, and will not be obligated to pay any portion of the plaintiffs' attorneys' fees or other costs or expenses awarded by the Court, which will be paid by certain other settling defendants. Because we expect that the court will ultimately approve the settlement agreement, we have recorded our share of the settlement as of June 30, 2003. In addition, certain other settling defendants who are cigarette manufacturers have agreed to purchase certain minimum amounts of U.S. grown tobacco over the next ten years. In exchange, the plaintiffs and the members of the class will release the settling defendants, including DIMON and its affiliates, from any and all claims, damages, or liabilities of any nature whatsoever, known or unknown, under state or federal law, that any plaintiff or member of the class has or had, that was or could have been alleged as a class action in the DeLoach litigation.

The Settlement Agreement expressly recognizes our continued denial of wrongdoing and liability, and does not constitute an admission of any of the claims or allegations made by the plaintiffs in the case, or any admission or evidence of a violation of any law or other wrongdoing by any of the settling defendants.

The Settlement Agreement has received preliminary approval from the Court, and consummation of the settlement is subject to final approval of the Court following a required notice to the members of the class of plaintiffs. It is expected that any such final approval will occur in mid to late September. Certain members of the potential class of plaintiffs may opt out of the settlement in accordance with the rules governing class action litigation. The DeLoach litigation will continue against the non settling defendant.

In October 2001, the Directorate General for Competition (DGCOMP) of the European Commission (EC) began conducting an administrative investigation into certain tobacco buying and selling practices alleged to have occurred within the leaf tobacco industry in Spain and Italy. We believe that the DGCOMP may be conducting similar investigations in other countries. Our subsidiaries in Spain (Agroexpansion) and Italy (DIMON Italia) are cooperating with the DGCOMP. Based on our understanding of the facts pertaining to the activities of Spanish and Italian tobacco processors, including Agroexpansion and DIMON Italia, respectively, we believe there have been infringements of EU law. Agroexpansion and DIMON Italia believe that there are mitigating circumstances in the structure and traditional operation of tobacco production and processing in these markets. The EC is not expected to issue a ruling (Statement of Objection) concerning either of these investigations until later in 2003. We expect that administrative penalties will be assessed, and those penalties could be material to our earnings. However, we are not able to make an assessment of the amount of any such penalties at this time. We understand that the cooperation of our subsidiaries with the DGCOMP during its investigations could result in a reduction of the amount of penalties imposed.

In September 2002, the Argentina National Commission for Defense of Competition (NCDC) began an administrative inquiry into the tobacco and cigarette industry in Argentina. Our subsidiary in Argentina, DIMON Argentina S.A., is cooperating with the NCDC. We cannot predict whether the inquiry will result in any further action by the NCDC.

Table of Contents**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

DIMON Incorporated's common stock is traded on the New York Stock Exchange, under the ticker symbol DMN. The Common Stock began trading on the NYSE on April 3, 1995.

The following table sets forth for the periods indicated the high and low reported sales prices of the Common Stock as reported by the NYSE and the amount of dividends declared per share for the periods indicated.

| | DIMON | | |
|--------------------------------|---------------------|------------|-------------------------------|
| | Common Stock | | |
| | High | Low | Dividends Declared |
| <u>Fiscal Year 2003</u> | | | |
| Fourth Quarter | \$ 7.44 | \$ 5.69 | \$.075 |
| Third Quarter | 7.50 | 5.60 | .075 |
| Second Quarter | 6.60 | 5.35 | .075 |
| First Quarter | 7.00 | 5.45 | .05 |
| <u>Fiscal Year 2002</u> | | | |
| Fourth Quarter | \$ 7.94 | \$ 6.35 | \$.05 |
| Third Quarter | 8.29 | 6.35 | .05 |
| Second Quarter | 7.50 | 5.35 | .05 |
| First Quarter | 10.18 | 5.49 | .05 |

As of June 30, 2003, there were approximately 5,946 shareholders, including approximately 5,036 beneficial holders of DIMON Incorporated's Common Stock. DIMON pays dividends quarterly.

We are subject to certain restrictions on our ability to pay dividends. See Management's Discussion and Analysis of Financial Condition and Results of Operations Factors that May Affect Future Results.

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On May 27, 2003, we completed a private issuance of \$125 million principal amount of 7³/₄% Senior Notes due 2013 pursuant to Rule 144A under the Securities Act of 1933 to the initial purchaser, Wachovia Securities, Inc. The financial covenants of the Senior Notes are substantially similar to those for the existing \$200 million principal amount of 9⁵/₈% Senior Notes due 2011. The net proceeds from the sale of the 7³/₄% Senior Notes were approximately \$121.6 million, after deducting the initial purchaser's discounts and offering expenses of approximately \$3.4 million. The proceeds from the 7³/₄% Senior Note issuance were used to repay our 8⁷/₈% Senior Notes due 2006.

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Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

FIVE-YEAR FINANCIAL STATISTICS

DIMON Incorporated and Subsidiaries

| (in thousands, except per share amounts and number of stockholders) | Years Ended June 30 | | | | |
|--|---------------------|---------------|---------------|---------------|----------------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| Summary of Operations | | | | | |
| Sales and other operating revenues | \$ 1,271,683 | \$ 1,259,720 | \$ 1,400,955 | \$ 1,473,630 | \$ 1,815,223 |
| Restructuring (recovery), asset impairment and merger costs | | | (1,384) | (211) | 25,932 |
| Income (loss) from continuing operations before cumulative effect of accounting changes and extraordinary item | 26,280 | 27,476 | 24,997 | 17,988 | (28,378) |
| Cumulative effect of accounting changes, net of income taxes | | | (103) | | |
| Income from discontinued operations, net of income taxes | | | | | 22,912 |
| Extraordinary item - Iraqi receivable recovery, net of income taxes | 1,777 | | | | |
| Net Income (Loss) | 28,057 | 27,476 | 24,894 | 17,988 | (5,466) |
| Per Share Statistics | | | | | |
| Basic Earnings Per Share: | | | | | |
| Income (loss) from continuing operations before cumulative effect of accounting changes and extraordinary item | \$.59 | \$.62 | \$.56 | \$.40 | \$ (.63) |
| Net income (loss) | .63 | .62 | .56 | .40 | (.12) |
| Diluted Earnings Per Share: | | | | | |
| Income (loss) from continuing operations before cumulative effect of accounting changes and extraordinary item | .58* | .61* | .56* | .40* | (.63)* |
| Net income (loss) | .62* | .61* | .56* | .40* | (.12)* |
| Dividends paid | .275 | .20 | .20 | .20 | .40 |
| Book value | 10.16 | 9.74 | 9.23 | 9.06 | 8.91 |
| Balance Sheet Data | | | | | |
| Working capital (1) | \$ 436,544 | \$ 429,059 | \$ 172,863 | \$ 433,735 | \$ 443,602 |
| Total assets | 1,353,152 | 1,277,090 | 1,182,089 | 1,266,749 | 1,479,194 |
| Revolving Credit Notes and Other Long-Term Debt (1) | 351,569 | 328,883 | 128,641 | 400,856 | 458,180 |
| Convertible Subordinated Debentures | 73,328 | 73,328 | 73,328 | 73,328 | 73,328 |
| Stockholders' equity | 454,573 | 434,663 | 411,539 | 403,504 | 396,539 |
| Other Data | | | | | |
| Ratio of Earnings to Fixed Charges (2) | 1.69 | 1.75 | 1.61 | 1.44 | |

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| | | | | | |
|--|--------|--------|--------|--------|--------|
| Common shares outstanding at year end | 44,737 | 44,640 | 44,575 | 44,525 | 44,525 |
| Number of stockholders at year end (3) | 5,946 | 6,025 | 4,611 | 4,899 | 5,729 |

* For 1999, 2000, 2001, 2002 and 2003 assumed conversion of Convertible Debentures at the beginning of the period has an antidilutive effect on earnings per share.

- (1) Working capital increased in fiscal 2002 due to the issuance of long-term debt which was used to refinance both the current portion of long-term debt and other short-term debt. See Note F to the Notes to Consolidated Financial Statements.
- (2) In 1999, fixed charges exceeded earnings by approximately \$30.3 million.
- (3) Includes the number of stockholders of record and non-objecting beneficial owners.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our discussion and analysis of DIMON's financial condition and results of operations should be read in conjunction with the consolidated financial information and related footnotes for the fiscal years ended June 30, 2003, 2002 and 2001.

General

DIMON was formed through the April 1, 1995 merger of Dibrell Brothers, Incorporated (established in 1873) and Monk-Austin, Inc. (established in 1907). We believe that we are the world's second largest independent purchaser and processor of leaf tobacco.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are those described below.

Inventories

Inventories are valued at the lower of cost or market. Inventories are reviewed and written down for changes in market value based on assumptions related to future demand and worldwide and local market conditions. If actual demand and market conditions vary from those projected by management, additional write downs to lower of cost or market value may be required. Inventory write downs in 2003 and 2002 were \$3.5 million and \$4.7 million, respectively.

Income Taxes

Through our subsidiaries, we are subject to the tax laws in each of the jurisdictions in which we operate. Therefore, we must estimate tax expense as well as assess the impact of amounts arising from differing treatment of items for book and tax purposes. We are also subject to a tax audit in each of these jurisdictions, which could result in changes to estimated taxes. In addition, we make assumptions regarding the future utilization of foreign tax credits, alternative minimum tax credits and tax loss carryforwards. These assumptions could be affected by changes in future taxable income and its sources and changes in U.S. or foreign tax laws. Our effective tax rate could be impacted by changes in these

assumptions. See Note J to the Notes to Consolidated Financial Statements for further disclosure on income taxes.

Goodwill and Other Intangible Assets

Annually, or more frequently if necessary, we review the carrying value of goodwill in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* utilizing a discounted cash flow model. The preparation of discounted future cash flow analyses requires significant judgment by management with respect to earnings growth rates and the appropriate discount rate. Neither a one-percentage-point increase in the discount rate assumption or a one-percentage-point decline in the earnings growth rate would result in an impairment charge. Unforeseen events and changes in circumstances and market conditions could, however, cause significant changes in estimates of future cash flows, which could result in an impairment charge.

Long-Lived Assets

We review the carrying values of our long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* whenever events or changes in circumstances indicate that such

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carrying values may not be recoverable. Unforeseen events and changes in circumstances and market conditions could negatively affect the fair value of our assets and result in an impairment charge. Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties and may be estimated using a number of techniques, including quoted market prices or valuations by third parties, present value techniques based on estimates of cash flows, or multiples of earnings or revenue performance measures. The fair value of the asset could be different using different estimates and assumptions in these valuation techniques.

Pensions and Postretirement Health Care and Life Insurance Benefits

The valuation of our pension and other postretirement health care and life insurance plans requires the use of assumptions and estimates that are used to develop actuarial valuations of expenses, assets and liabilities. These assumptions include discount rates, investment returns, projected salary increases and benefits and mortality rates. The significant assumptions used in the calculation of pension and postretirement obligations are:

Discount rate: The discount rate is based on returns available on high-quality fixed income obligations, such as those included in the Moody's Aa bond index.

Salary increase assumption: The salary increase assumption reflects the Company's expectations with respect to long-term salary increases of its workforce. Historical pay increases, expectations for the future, and anticipated inflation and promotion rates are considered in developing this assumption.

Cash Balance Crediting Rate: Interest is credited on cash balance accounts based on the yield on one-year Treasury Constant Maturities plus 1%. The assumed crediting rate thus considers the discount rate, current treasury rates, current inflation rates, and expectations for the future.

Mortality Rates: Mortality rates are based on gender-distinct group annuity mortality (GAM) tables.

Expected return on plan assets: The expected return reflects asset allocations, investment strategy and our historical actual returns.

Termination and Retirement Rates: Termination and retirement rates are based on standard tables reflecting past experience and anticipated future experience under the plan. No early retirement rates are used since benefits provided are actuarially equivalent and there are no early retirement subsidies in the plan.

Management periodically reviews actual demographic experience as it compares to the actuarial assumptions. Changes in assumptions are made if there are significant deviations or if future expectations change significantly. Based upon anticipated changes in assumptions, pension and postretirement expense is expected to increase by \$1.3 million in 2004 as compared to 2003. Also, we will be required to resume funding of our cash balance plan in 2004. The cash contribution to our cash balance plan required in 2004 is \$0.9 million.

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The effect of actual results differing from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense in such future periods. Changes in other assumptions and future investment returns could potentially have a material impact on our pension and postretirement expenses and related funding requirements. See Note K to the Notes to Consolidated Financial Statements for a further discussion of these assumptions and how a change in certain of these assumptions could affect our earnings.

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The effect of a change in certain assumptions is shown below:

| | Estimated Change in Projected Benefit Obligation Increase (Decrease) (in 000 s) | Estimated Change in Annual Expense Increase (Decrease) (in 000 s) |
|--|--|--|
| <u>Change in Assumption (Pension Plans)</u> | | |
| 1% increase in discount rate | \$ (6,385) | \$ (450) |
| 1% decrease in discount rate | \$ 7,539 | \$ 527 |
| 1% increase in salary increase assumption | \$ 1,655 | \$ 403 |
| 1% decrease in salary increase assumption | \$ (1,487) | \$ (366) |
| 1% increase in cash balance crediting rate | \$ 894 | \$ 127 |
| 1% decrease in cash balance crediting rate | \$ (805) | \$ (113) |
| 1% increase in rate of return on assets | | \$ (338) |
| 1% decrease in rate of return on assets | | \$ 338 |
| <u>Change in Assumption (Other Postretirement Benefits)</u> | | |
| 1% increase in health care cost trend rates | \$ 1,118 | \$ 101 |
| 1% decrease in health care cost trend rates | \$ (990) | \$ (88) |

Contingencies

A contingency is an existing condition, situation, or set of circumstances involving uncertainty that will ultimately be resolved when one or more future events occur or fail to occur. Provisions for contingencies are required to be established when it is probable that the future event will or will not occur and that its impact can be reasonably estimated. When we either are not able to make an assessment of an amount or have determined that the probability of a loss occurring is not likely, no liability is recorded in the consolidated financial statements for the contingency. Provisions may be required as circumstances change with respect to ongoing matters or as new issues emerge.

Accounting Matters

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, which provided a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. In June 1999, the FASB issued SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS No. 133, which delayed implementation of SFAS No. 133 until years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, which amended SFAS No. 133. Effective July 1, 2000, we adopted SFAS No. 133 as amended. See Notes D and O to the Notes to Consolidated Financial Statements.

Effective July 1, 2000, four of our European subsidiaries changed their fiscal year end from March 31 to June 30. More efficient financial reporting routines have allowed us to eliminate the traditional fiscal quarter lag associated with the inclusion of these subsidiaries in our

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consolidated financial statements. For the quarter ended September 30, 2000, income of \$284 earned by the affected subsidiaries during the period between April 1, 2000 and June 30, 2000 has been recognized as the cumulative effect of an accounting change. See Note O to the Notes to Consolidated Financial Statements.

In June 2001, the FASB issued SFAS No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with the Statements. We have chosen the first day of the last quarter as the date for our annual review. Other intangible assets continue to be amortized over their useful lives.

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We applied the new rules of accounting for goodwill and other intangible assets beginning the first quarter of fiscal 2003. Application of the non-amortization provisions of the Statement resulted in an increase in net income of approximately \$6.2 million for the year. In accordance with SFAS No. 142, we evaluated our goodwill and found no indication of impairment in fiscal 2003.

In October 2001, FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. As required by SFAS No. 144, we adopted this new accounting standard on July 1, 2002. The adoption of SFAS No. 144 did not have a material impact on our financial statements.

In April 2002, FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. This Statement eliminates an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and establishes that gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria of extraordinary. There was no material impact on our financial statements as a result of adopting SFAS No. 145.

In June 2002, FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. We adopted this standard by the required December 2002 deadline. The financial statements were not impacted by the adoption of this Statement.

In November 2002, FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This Interpretation requires a guarantor to include disclosure of certain guarantees that it has issued and if applicable, at inception of the guarantee, to recognize a liability for the fair value of the obligation undertaken in issuing a guarantee. The recognition and measurement requirements of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of this Interpretation did not have a material impact on our financial statements. We do not anticipate a material increase in liabilities in future periods due to the adoption of this Interpretation.

In December 2002, FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, an amendment of FASB Statement No. 123. This Statement amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As required under SFAS No. 148, we adopted these disclosure requirements in fiscal 2003.

In January 2003, FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*. This Interpretation requires that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities and results of the activities of the variable interest entity should be included in consolidated financial statements of the business enterprise. This Interpretation applies immediately to variable interest entities created after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of this Interpretation were effective beginning in our third quarter of fiscal 2003. We do not believe that we have any significant variable interest entities requiring consolidation or further disclosure. Therefore, the adoption of this Interpretation did not have a material impact on our financial statements.

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In April 2003, FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement will become effective in fiscal 2004 for contracts entered into or modified after June 30, 2003. We will adopt the provisions under SFAS No. 149 beginning on July 1, 2003 and do not expect any material impact on our financial statements.

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In May 2003, FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. Under the provisions of SFAS No. 150 certain financial instruments that previously could be accounted for as equity must be presented as liabilities, and in some cases assets, on the balance sheet. We will adopt this new standard beginning July 1, 2003 and do not expect it to have any material effect on our financial statements.

Results of Operations

Operating Environment:

Global

We believe that the global supply and demand for leaf tobacco is now substantially balanced, and the raw material inventories held by customers are largely in equilibrium with production forecasts.

Africa

Political and economic situations in Zimbabwe present uncertainties as the country is in a period of civil unrest accompanied by a deteriorating economy. We have adjusted our operations throughout the region to be attentive to the current situation. The Zimbabwe crop size is estimated to decrease from 167 million kilos in the 2002 crop year to approximately 85 million kilos in the 2003 crop year. As a result, our customers have shifted portions of their purchases to Brazil, Argentina and certain African countries. Financial results from our Zimbabwe operation remain positive despite the adversity. Our Malawi operation continues to operate positively in a large burley market where the crop size has reached a plateau due to availability and demand for the product. In response to the Zimbabwe situation, Malawi is expanding its flue-cured production through various growing schemes. Both Zimbabwe and Malawi benefit from processing tobaccos from our expanding sourcing projects in the nearby African countries of Zambia, Mozambique and the Democratic Republic of Congo. Production at our Tanzania operation continues to grow as customer demand for these tobaccos increases further.

South America

We continue to see excellent results in our Brazilian operation as customers shift portions of their Zimbabwe and U.S. requirements to Brazil. Brazil is among our largest source countries in terms of volume and revenue. We consider this region to be a viable area for continued growth in tobacco leaf production. Though an extended rainy season negatively affected the crop yield this past year, larger crop sizes are predicted as Brazil responds to Zimbabwe's continued political and economic difficulties. Argentina has also benefited from the smaller crop size in Zimbabwe, with new customers entering the market this year. Argentina continues to be in a period of political and economic uncertainty. We purchase processed tobacco for export and do not own any processing assets there. The customer base for both Guatemala and Mexico is somewhat limited by the high production costs in those countries. Our operations in those countries generally purchase and process only to customer orders.

Asia

The Asian region provides our customers with a good quality product at a comparatively lower cost. The importance of the Asian region is increasing as our customers expand their operations into the region. In Thailand, we purchase and process tobacco through our own operations. In other areas of Asia, we supervise the purchase and processing of tobacco in conjunction with operations owned by governmental and other third parties.

Europe

We believe that Turkey will continue to be the most important among Oriental tobacco markets. Turkey is currently undergoing change as the State Monopoly (TEKEL) is privatized. As a result of this change, Turkey has become a direct contract purchasing market, and we anticipate smaller crops in future years. Our other Oriental operations including those in Bulgaria, Greece, Macedonia, Kyrgyzstan and Moldova continue to contribute to the region's profitability. We currently have various European initiatives underway to consolidate processing into regional facilities to achieve greater economies of scale.

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The production of leaf tobacco in the U.S. currently operates under a USDA-administered Tobacco Program that restricts supply and induces non-value added costs into the price of farm cured, or green tobacco. Increasingly, the relatively high cost of U.S. grown tobacco makes it uncompetitive in the world market. The market for U.S. grown leaf tobaccos has largely become limited to domestic customers, as traditional foreign buyers have significantly reduced or eliminated these tobaccos from their product blends. The U.S. market has substantially converted to direct contract purchasing over the past several years with certain domestic customers now purchasing their requirements directly from farmers. As a result, our U.S. operations are increasingly focused on providing processing services to our customers. There are several legislative bills before Congress that could eliminate the Tobacco Program with the potential effect of making U.S. grown leaf tobacco more competitive and restoring production growth in the country. We process approximately thirty percent of the U.S. flue-cured and burley tobacco crops. Our Canadian operations continue to contribute to the region's profitability.

Dark Tobacco

We have dark air-cured tobacco operations that service customers in the cigar industry. Recently, supply has exceeded demand for cigar filler tobacco. This situation has resulted in both lower sales volumes and gross profits from this type of tobacco. We believe that the cigar market has now stabilized in both the U.S. and Europe, and that supply and demand for cigar filler tobacco will become balanced. Strong demand continues to exist for quality cigar wrappers and binders.

Condensed Statement of Consolidated Income

| | Year | | Year | | Year |
|---|-----------------|-------------------------|----------------|-------------------------|-----------------|
| | Ended | Increase/ (Decrease) | Ended | Increase/ (Decrease) | Ended |
| | June 30 | | June 30 | | June 30 |
| (in millions) | 2003 | 2003 | 2002 | 2002 | 2001 |
| Sales and other operating revenues | \$ 1,271.7 | \$ 12.0 | \$ 1,259.7 | \$ (141.3) | \$ 1,401.0 |
| Gross profit | 210.4 | 4.9 | 205.5 | 14.5 | 191.0 |
| Selling, administrative and general expenses | 116.1 | 6.7 | 109.4 | 5.9 | 103.5 |
| Restructuring recovery | | | | 1.4 | (1.4) |
| Recovery from litigation settlements | | | | 3.9 | (3.9) |
| Interest expense | 46.9 | (1.0) | 47.9 | (5.7) | 53.6 |
| Current charge derivative financial instruments | 12.4 | 2.2 | 10.2 | 5.5 | 4.7 |
| Income taxes | 9.1 | (1.1) | 10.2 | 0.9 | 9.3 |
| Equity in net income (loss) of investee companies | 0.3 | 0.6 | (0.3) | | (0.3) |
| Cumulative effect of accounting changes: | | | | | |
| Reporting period of subsidiaries | | | | (0.3) | 0.3 |
| Derivative financial instruments, net of \$(191) income tax | | | | 0.4 | (0.4) |
| Extraordinary item - Iraqi receivable recovery, net of \$957 income tax | 1.8 | 1.8 | | | |
| NET INCOME | \$ 28.1* | \$ 0.6* | \$ 27.5 | \$ 2.6* | \$ 24.9* |

* Amounts do not equal column totals due to rounding.

Table of Contents**Sales and Other Operating Revenue Supplemental Information**

| (in millions, except per kilo amounts) | Year Ended June 30 2003 | Increase/ (Decrease) 2003 | Year Ended June 30 2002 | Increase/ (Decrease) 2002 | Year Ended June 30 2001 |
|--|----------------------------------|---------------------------------|----------------------------------|---------------------------------|----------------------------------|
| Tobacco sales and other operating revenues: | | | | | |
| Sales and other operating revenues | \$ 1,218.0 | \$ 3.8 | \$ 1,214.2 | \$ (156.0) | \$ 1,370.2 |
| Kilos | 398.7 | 9.7 | 389.0 | (16.9) | 405.9 |
| Average price per kilo | \$ 3.05 | \$ (0.07) | \$ 3.12 | \$ (0.25) | \$ 3.38 |
| Processing and other service revenues | \$ 53.7 | \$ 8.2 | \$ 45.5 | \$ 14.7 | \$ 30.8 |
| Total sales and other operating revenues | \$ 1,271.7 | \$ 12.0 | \$ 1,259.7 | \$ (141.3) | \$ 1,401.0 |

Comparison of the Year Ended June 30, 2003 to the Year Ended June 30, 2002

Sales and other operating revenues increased 0.9% from \$1,259.7 million in 2002 to \$1,271.7 million in 2003. This \$12.0 million increase is a combination of a \$3.8 million increase from sales and other operating revenues of tobacco owned and sold and an \$8.2 million increase in processing and other service revenues.

The \$3.8 million increase in sales and other operating revenues of tobacco owned and sold results from a 9.7 million kilo or 2.5% increase in quantities sold offset by a \$0.07 or 2.2% decrease in the average price per kilo. This change results from increases in quantities and average prices of non-U.S. tobacco offset by decrease in quantities and average prices of U.S. tobacco. The sales and other revenues of non-U.S. tobacco increased \$84.3 million offset by an \$80.5 million decrease from U.S. tobacco. Quantities of non-U.S. tobacco, primarily due to earlier shipments from Brazil, increased 21.3 million kilos over the prior year resulting in increased revenues of \$57.7 million. Quantities from our African operations were minimally impacted from decreases in the Zimbabwe crop size as quantities from other countries in the region increased. Average prices of non-U.S. tobacco increased resulting in a \$26.6 million increase over the prior year due to changes in product mix as the greater quantities consisted of higher priced product. Quantities of U.S. tobacco sold decreased 11.6 million kilos over the previous year resulting in a \$70.5 million decrease in sales. The decrease in the U.S. quantities was primarily due to reduced sales to non-U.S. customers and non-recurring 2002 sales of prior crop tobacco. Average prices of U.S. tobacco decreased resulting in a \$10.0 million decrease primarily due to product mix as the reductions in quantity were also comprised of higher priced product.

The \$8.2 million increase in processing and other service revenues relates primarily to higher quantities of customer owned tobacco processed in the U.S.

Gross profit as a percentage of sales increased to 16.5% in 2003 compared to 16.3% in 2002. Our gross profit increased \$4.9 million to \$210.4 million in 2003 from \$205.5 million in 2002. This increase was primarily due to the increased volume in Brazil, which was partially offset by lower volumes of U.S. tobacco sold to non-U.S. customers. The increase in gross profit is also due to charges recognized in 2002 of \$2.9 million related to devaluation of the Argentine peso partially offset by a gain of \$1.7 million realized in 2002 related to the sale of unutilized Zimbabwe assets. In Africa, gross profit decreases in Zimbabwe were offset by increased gross profit from Malawi and Tanzania. In Europe, gross profit decreased as costs increased due to the strength of the euro.

Selling, administrative and general expenses increased \$6.7 million or 6.1% from \$109.4 million in 2002 to \$116.1 million in 2003. This increase is primarily due to \$7.8 million in increased legal and professional fees substantially due to the recognition of \$6.0 million in settlement of the DeLoach class action lawsuit and increases due to related legal fees, increases in retirement expense of \$3.4 million primarily due to changes in defined benefit and postretirement plan actuarial assumptions including the rate of return assumption on cash balance plan assets, insurance expense increases of \$1.5 million due to changes in business risk related to events that have occurred in recent years and an estimated \$2.7 million impact from exchange rate changes on expenses denominated in euros and sterling. These increases were somewhat offset by the adoption of SFAS No. 142 in 2003 that resulted in cessation of goodwill amortization that was \$6.5 million in 2002 as well as decreases of \$3.2 million in incentive compensation awards that are related directly to our operating results.

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Interest expense decreased \$1.0 million from \$47.9 million in 2002 to \$46.9 million in 2003. This change is primarily due to a \$14.6 million decrease related to lower average rates offset by a \$13.6 million increase related to higher average borrowings partially resulting from the effect of carrying \$125 million of redundant debt during the thirty-day call period associated with the refinancing transaction completed in May 2003.

Current charge derivative financial instruments increased \$2.2 million from 2002 to 2003. This charge relates to the changes in fair value of non-qualifying interest rate swap agreements as discussed in Note D of the Notes to Consolidated Financial Statements.

Effective income tax rates of 26% in 2003 and 27% in 2002 relate primarily to the distribution of taxable income among various taxing jurisdictions. Changes in the rate from 2002 to 2003 are also partially attributable to the non-amortization of goodwill in 2003.

Extraordinary Item On May 1, 2003, the Company received \$2.7 million from the United Nations Compensation Commission in connection with a claim filed by a predecessor company, Monk-Austin, Incorporated. The claim arose from an uncollected trade receivable from the Iraqi Tobacco Monopoly, which related to transactions that occurred prior to Iraq's invasion of Kuwait in August 1990. The extraordinary gain of \$1.8 million is recorded net of tax of \$0.9 million.

Comparison of the Year Ended June 30, 2002 to the Year Ended June 30, 2001

Sales and other operating revenues were \$1,259.7 million, a decrease of 10.1% from \$1,401.0 million in 2001. The decrease was primarily due to the shift from auction buying to direct contract buying in the United States. Quantities of U.S. tobacco that were owned and sold by the company declined 43.9 million kilos resulting in decreased sales of \$241.9 million. Improved prices of owned and sold U.S. tobacco resulted in increased sales of \$27.1 million while service revenue increased \$14.7 million predominately from processing tobacco owned by others. Sales were also negatively impacted by decreased demand for cigar filler tobacco that led to decreased sales of \$5.3 million due to decreased quantities and \$8.7 million due to decreased prices. The decreases were partially offset by increased sales volumes in South America and Europe. In South America, sales volumes increased 22% resulting in an increase of \$68.7 million from quantity increases due in part to sales of prior crop tobacco in Argentina and Brazil partially offset by decreased sales of \$16.4 million due to lower prices realized on tobacco from the area. In Europe, an increase in demand for oriental tobaccos impacted both volume and price that resulted in increases of \$6.3 million and \$14.2 million, respectively.

Gross profit as a percentage of sales increased from 13.6% in 2001 to 16.3% in 2002. Fiscal 2002 cost of sales and gross margin percentages were not comparable to prior years due to the shift from auction buying to direct contract buying in the United States. Gross profit increased \$14.5 million or 7.6% from \$191.0 million in 2001 to \$205.5 million in 2002. Gross profit increases were primarily due to shipments from Argentina and Brazil carried over from the prior fiscal year, and increased demand for European oriental tobacco. These increases in gross profit were partially offset by decreases caused by lower demand for cigar filler tobacco, and lower gross profits in Africa due to exchange variations and lower quantities. Pricing of certain African tobacco was sufficiently increased by exchange variations to offset lower quantities, leaving sales value largely unchanged, but reducing gross profit. In the United States, decreases in gross profit caused by lower domestic demand were offset by additional gross profit from sales of prior crop tobacco. As a result of the economic situation in Argentina, we recognized \$2.9 million in charges primarily in connection with the devaluation of the Argentine peso. Partially offsetting these charges were gains of \$1.7 million related to the sale of unutilized Zimbabwe fixed assets.

Selling, administrative and general expenses increased \$5.9 million or 5.6% from 2001 to 2002 due primarily to \$3.3 million in increased personnel related expenses, and \$2.0 million in expenses related to improved technology for information sharing. The increase in personnel related expenses includes a \$2.6 million increase in incentive compensation awards that are based on our performance.

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Interest expense decreased 10.6% or \$5.7 million from \$53.6 million in fiscal 2001 to \$47.9 million in fiscal 2002. The decrease is due to a \$4.8 million decrease related to lower average borrowings and \$0.9 million due to lower average rates.

Restructuring charges of \$1.4 million were recovered in fiscal 2001. These recoveries related primarily to sales of fixed assets.

Recovery from litigation settlements. During fiscal 2001, a subsidiary in Spain, Compania General de Tabacos de Filipinas (CdF) settled litigation regarding the alleged breach of contract in CdF's sale of a building located in Barcelona in 1991. CdF successfully concluded the lawsuit in February 2001, resulting in income of \$3.9 million.

Current charge derivative financial instruments were \$10.2 million in 2002 compared to \$4.7 million in 2001 from the change in fair value of non-qualifying interest rate swap instruments as discussed in Note D to the Notes to Consolidated Financial Statements.

Effective income tax rates of 27% in both 2002 and 2001 relate primarily to the distribution of taxable income among various taxing jurisdictions.

Liquidity and Capital Resources

The following table is a summary of items from the Consolidated Balance Sheet and the Statement of Consolidated Cash Flows.

| (in millions, except for current ratio) | Years Ended June 30 | | |
|--|---------------------|----------|----------|
| | 2003 | 2002 | 2001 |
| Cash and cash equivalents | \$ 88.9 | \$ 109.0 | \$ 14.6 |
| Net trade receivables | 179.5 | 173.6 | 177.7 |
| Inventories and advances on purchases of tobacco | 529.9 | 478.1 | 457.4 |
| Total current assets | 839.8 | 792.0 | 673.3 |
| Notes payable to banks | 210.2 | 181.6 | 205.8 |
| Accounts payable | 73.5 | 76.8 | 69.3 |
| Total current liabilities | 403.2 | 363.0 | 500.4 |
| Current ratio | 2.1 to 1 | 2.2 to 1 | 1.3 to 1 |
| Revolving Credit Notes and Other Long-Term Debt | 10.3 | 7.5 | 3.6 |
| Convertible Subordinated Debentures | 73.3 | 73.3 | 73.3 |
| Senior Notes | 341.3 | 321.4 | 125.0 |
| Stockholders' equity | 454.6 | 434.7 | 411.5 |
| Purchase of property and equipment | 28.3 | 20.2 | 19.1 |
| Proceeds from sale of property and equipment | 2.8 | 5.9 | 3.3 |
| Depreciation and amortization | 35.3 | 41.9 | 44.3 |

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The purchasing and processing activities of our business are seasonal. Our need for capital fluctuates accordingly and, at any one of several seasonal peaks, our outstanding indebtedness may be significantly greater or less than at year end. We historically have needed capital in excess of cash flow from operations to finance inventory and accounts receivable. We also prefinance tobacco crops in certain foreign countries, including Argentina, Brazil, Greece, Turkey and Indonesia, by making cash advances to growers prior to and during the growing season.

Our working capital increased slightly from \$429.0 million at June 30, 2002 to \$436.6 million at June 30, 2003. Our current ratio was 2.1 to 1 at June 30, 2003 compared to 2.2 to 1 at June 30, 2002. At June 30, 2003, our current assets had increased \$47.8 million and current liabilities had increased \$40.2 million from June 30, 2002. The \$47.8 million increase in current assets is primarily due to a \$51.8 million increase in inventories and advances on purchases of tobacco and a \$10.2 million increase in prepaid expenses partially offset by a \$20.1 million decrease in cash. Increases in current liabilities relate primarily to increases of \$28.6 million in notes payable to banks and a \$7.5 million increase in advances from customers. The increase in inventories correlates to increases in committed inventory for our customers. Increases in inventory in Europe, Africa and Asia are partially offset by decreases in Brazil. The changes in cash and notes payable to banks are related to financing the higher inventory levels.

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Cash flows from operating activities were \$9.7 million in 2003 compared to \$67.1 million in 2002 and \$149.8 million in 2001. The decrease in cash flows from operations in 2003 compared to 2002 is due primarily to \$30.0 million more cash used for inventory and advances on purchases of tobacco, \$17.8 million more cash used for accounts payable and accrued expenses and \$8.5 million less cash provided by accounts receivable. The changes in these accounts relates primarily to higher levels of inventory committed to customers.

The decrease in cash flows from operations in 2002 compared to 2001 is primarily due to decreases of cash provided from customer advances of \$72.1 million and decreases in cash provided by accounts receivable of \$25.4 million, which are partially offset by increases of \$23.5 million from changes in deferred items. The changes in customer advances and accounts receivable relate primarily to the delay of shipments of tobacco from Brazil from the fourth quarter of 2001 to the first quarter of 2002. The changes in deferred items are primarily attributable to the change in the fair value of non-qualifying interest rate swap instruments and changes in deferred income taxes.

Cash flows used by investing activities were \$31.5 million in 2003, \$10.9 million in 2002 and \$14.5 million in 2001. The increased cash used in investing activities in 2003 compared to 2002 is due in part to higher purchases of property and equipment and lower proceeds from the sale of property and equipment. In addition, in 2003, there was a \$5.0 million purchase of a 25% interest in a newly formed company in North Carolina that purchases, processes and sells kenaf, a renewable agricultural product. Other uses of cash amounted to \$4.3 million and relate primarily to the purchase of a 75% interest in an Indonesian tobacco processing subsidiary, life insurance premiums and Brazilian escrow taxes paid, offset in part by tax deposits recovered in Italy. The decreased cash used in investing activities in 2002 compared to 2001 was due to higher proceeds from the sale of property and equipment and higher repayments of notes receivable offset partially by higher purchases of property and equipment.

Cash flows from financing activities provided \$2.4 million in 2003 compared to \$36.4 million in 2002 and a usage of \$147.3 million in 2001. The lower provision of cash in 2003 compared to 2002 is due to issuance of \$125 million Senior Notes in 2003 compared to issuance of \$200 million Senior notes in 2002 and a \$165 million syndicated bank credit facility that was entered into in 2002. The decreased provisions from 2002 to 2003 were somewhat offset by repayments of borrowings in 2002 that were issued under an older \$250 million credit facility. The provision of cash in 2002 as opposed to the usage in 2001 was due to both the \$200 million Senior Note issuance and the \$165 million syndicated bank credit facility, which are described below, offset by repayments related to our previous \$250 million credit facility.

At June 30, 2003, we had seasonally adjusted lines of credit of \$480.4 million of which \$210.1 million was outstanding with a weighted average interest rate of 3.48%. Unused short-term lines of credit amounted to \$234.0 million. Total maximum borrowings, excluding the long-term credit agreements, during the fiscal year were \$337.7 million. At June 30, 2003, we had \$16.7 million of letters of credit outstanding and an additional \$19.5 million of letters of credit lines available.

Cash dividends paid to stockholders during 2003 increased by \$3.4 million, reflecting an increase in the quarterly dividend rate from \$.05 per share to \$.075 per share per quarter beginning with the declaration of the December 2002 dividend. The increased rate recognizes the improvement in our financial performance and cash flow position since the superceded rate was established in 1999.

Availability of Short-Term Uncommitted Bank Credit Facilities

We generally rely on a broad group of global and regional lenders to provide economical crop financing in each significant source country. The availability of such credit facilities can be negatively affected by ongoing consolidation within the banking industry, changing lender policies regarding the tobacco industry, and geopolitical instability. To mitigate the risk associated with our reliance on short-term uncommitted bank credit facilities, we have accessed capital markets to obtain long-term debt funding, and maintain a substantially undrawn syndicated bank

facility.

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Customer Arrangements For Committed Inventories

We hold substantial amounts of inventories that are committed to specific customers and, to the extent that those customers do not provide advance funding, we must provide financing for such inventories. We have experienced a trend of increasing levels of customer funding for committed inventories in recent years. However, a reversal of that trend could negatively affect our short-term liquidity.

Long-Term Debt

During fiscal years 2002 and 2003 we completed two strategic refinancing transactions that, in aggregate, have expanded our sources and available amounts of liquidity, extended the average maturity of our debt portfolio from 3.2 years to 8.0 years, and significantly reduced our dependence on short-term uncommitted debt facilities.

On October 30, 2001, we issued \$200 million principal amount of 9⁵/₈% Senior Notes due 2011. The proceeds of this Note issuance were used to repay certain existing indebtedness, including all amounts drawn under our \$250 million syndicated credit facility then existing. The financial covenants of the Senior Notes are substantially similar to those for the \$125 million principal amount of 8⁷/₈% Senior Notes due 2006, that were outstanding at that time. Concurrent with the completion of the Note issuance, we entered into a derivative financial instrument to swap the entire \$200 million notional amount to a floating interest rate equal to LIBOR plus 4.11%, set six months in arrears. The effective rate at June 30, 2003 was 5.23%.

Also, on October 31, 2001, we closed on a three-year \$165 million syndicated bank credit facility with a group of five banks. The credit facility is subject to certain commitment fees and covenants that, among other things, require us to maintain minimum working capital and tangible net worth amounts, require specific liquidity and long-term solvency ratios, including certain borrowing base restrictions, and restrict acquisitions. We continuously monitor our compliance with these covenants. The credit facility's initial term expires on October 31, 2004, and, subject to approval by the lenders, may be extended. The rates of interest are based on our published credit rating and vary according to the type of loan requested by us. During the life of the agreement, the interest rate could be the prime rate or the LIBOR rate adjusted. The primary advance rate is the agent bank's base lending rate (4.0% at June 30, 2003). We pay a commitment fee of 1% per annum on any unused portion of the facility. Decisions relative to drawings and repayments are made based on circumstances then existing, including our judgment as to the most effective utilization of funds. Based on forecast working capital needs, we do not anticipate making significant draws on this facility in the near term.

On May 30, 2003, we issued \$125 million principal amount of 7³/₄% Senior Notes due 2013. The proceeds of this Note issuance were used to redeem in full \$125 million of our outstanding 8⁷/₈% Senior Notes due 2006. The financial covenants of the Senior Notes are substantially similar to those for the aforementioned \$200 million principal amount of 9⁵/₈% Senior Notes due 2011. Concurrent with the completion of the Note issuance, we entered into a derivative financial instrument to swap the entire \$125 million notional amount to a floating interest rate equal to LIBOR plus 3.69%, set six months in arrears. The effective rate at June 30, 2003 was 4.81%. The existing 8⁷/₈% Senior Notes due 2006 were fully redeemed at June 30, 2003.

The indentures governing our Senior Notes contain certain covenants that, among other things, limit our ability to (i) transfer or issue shares of capital stock of subsidiaries to third parties, (ii) pay dividends or make certain other payments, (iii) incur additional indebtedness, (iv) issue preferred stock, (v) incur liens to secure our indebtedness, (vi) apply net proceeds from certain asset sales, (vii) enter into certain transactions with affiliates, (viii) merge with or into any other person or (ix) enter into certain sale and leaseback transactions.

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For all of the derivative financial instruments mentioned above, the notional amount, maturity, and payment dates of the derivative financial instruments match those of the Notes. In accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, the derivatives qualify for hedge accounting treatment. See also Notes D and O to the Notes to Consolidated Financial Statements.

We have historically financed our operations through a combination of short-term lines of credit, revolving credit arrangements, customer advances, cash from operations and equity and equity-linked securities. At June 30, 2003, we had no material capital expenditure commitments. We believe that these sources of funds will be sufficient to fund our anticipated needs for fiscal year 2004. There can be no assurance, however, that these sources of capital will be available in the future or, if available, that any such sources will be available on favorable terms.

Table of Contents**Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

We have summarized in the table below our contractual cash obligations and other commercial commitments as of June 30, 2003.

| (in millions) | Payments / Expirations by Period | | | | |
|---|----------------------------------|-----------------|----------------|----------------|----------------------|
| | Total | Year 1 | Years 2-3 | Years 4-5 | More than 5 Years |
| Long-Term Debt | \$ 421.4 | \$ 0.7 | \$ 3.3 | \$ 74.4 | \$ 343.0 |
| Capital Lease Obligations | 6.0 | 0.9 | 1.6 | 1.4 | 2.1 |
| Operating Leases | 27.1 | 5.3 | 6.7 | 2.9 | 12.2 |
| Tobacco Purchase Obligations | 419.8 | 417.6 | 2.2 | | |
| Grower Financing Guarantees | 103.9 | 80.8 | 14.1 | 7.9 | 1.1 |
| Total Contractual Obligations and Other Commercial Commitments | \$ 978.2 | \$ 505.3 | \$ 27.9 | \$ 86.6 | \$ 358.4 |

We do not have any off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources, as defined under the rules of SEC Release No. FR-67.

Lease Obligations

We have both capital and operating leases. In accordance with accounting principles generally accepted in the United States, operating leases are not reflected in the accompanying Consolidated Balance Sheet. The operating leases are for land, buildings, automobiles and other equipment; the capital leases are primarily for production machinery and equipment. The capitalized lease obligations are payable through 2009. Operating assets that are of long-term and continuing benefit are generally purchased.

Tobacco Purchase Obligations and Grower Financing Guarantees

Tobacco purchase obligations result from contracts with growers, primarily in the United States and Brazil, to buy either specified quantities of tobacco or the grower's total tobacco production. Amounts shown as tobacco purchase obligations are estimates based on projected purchase prices of the future crop tobacco. Payment of these obligations is net of our advances to these growers. Our tobacco purchase obligations do not exceed our projected requirements over the related terms and are in the normal course of business. In certain non-U.S. markets, we provide growers with materials necessary to grow tobacco and may either directly loan or guarantee bank loans to growers to finance the crop. Under longer-term arrangements, we may also finance or guarantee financing on growers' construction of curing barns or other tobacco production assets. We are obligated to repay any guaranteed loan should the grower default. See also Note N to the Notes to Consolidated Financial Statements.

Tax and Repatriation Matters

We are subject to income tax laws in each of the countries in which we do business through wholly owned subsidiaries and through affiliates. We make a comprehensive review of the income tax requirements of each of our operations, file appropriate returns and make appropriate income tax planning analyses directed toward the minimization of our income tax obligations in these countries. Appropriate income tax provisions are determined on an individual subsidiary level and at the corporate level on both an interim and annual basis. These processes are followed using an appropriate combination of internal staff at both the subsidiary and corporate levels as well as independent outside advisors in review of the various tax laws and in compliance reporting for the various operations.

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Dividend distributions are made from certain subsidiaries while the undistributed earnings of certain other foreign subsidiaries are not subject to additional foreign income taxes nor considered to be subject to U.S. income taxes unless remitted as dividends. We intend to reinvest such undistributed earnings of foreign subsidiaries indefinitely; accordingly, no provision has been made for U.S. taxes on those earnings. We regularly review the status of the accumulated earnings of each of our U.S. and foreign subsidiaries and reevaluate the aforementioned dividend policy as part of our overall financing plans.

Factors that May Affect Future Results

The following important factors, among other things, in some cases have affected, and in the future could affect, our actual operating and financial results and could cause our actual results for 2004 and beyond to differ materially from those expressed in any forward-looking statements made by us.

Risks Relating To Our Operations

Our financial results will vary according to growing conditions, customer indications and other factors, which also reduces your ability to gauge our performance and increases the risk of an investment in our securities.

Our financial results, particularly the quarterly financial results, may be significantly affected by fluctuations in tobacco growing seasons and crop sizes. The cultivation period for tobacco is dependent upon a number of factors, including the weather and other natural events, such as hurricanes or tropical storms, and our processing schedule and results of operations can be significantly altered by these factors.

Further, the timing and unpredictability of customer indications, orders and shipments causes us to keep tobacco in inventory, increases our risk and results in variations in quarterly and annual financial results. We may from time to time in the ordinary course of business keep a significant amount of processed tobacco in inventory for our customers to accommodate their inventory management and other needs. Sales recognition by us and our subsidiaries is based on the passage of ownership, usually with shipment of product. Since individual shipments may represent significant amounts of revenue, our quarterly and annual financial results may vary significantly depending on our customers' needs and shipping instructions.

These fluctuations result in varying volumes and sales in given periods, which also reduces your ability to compare our financial results in different periods or in the same periods in different years.

Our adoption and application of certain standards in financial accounting could cause our annual and quarterly financial results to vary and will reduce your ability to gauge our performance, increasing the risk of an investment in our securities.

Effective July 1, 2000, we adopted Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. As a result of adoption of SFAS No. 133, we recognize all derivative financial instruments, such as interest rate swap contracts and foreign exchange contracts, in the consolidated financial statements at fair value regardless of the purpose or intent for holding the

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instrument. We use forward contracts to mitigate our exposure to changes in foreign currency exchange rates on forecasted transactions. The effective portion of unrealized gains and losses associated with forward contracts and the intrinsic value of option contracts are deferred as a component of accumulated other comprehensive income until the underlying hedge transactions are reported on our consolidated statement of earnings. We have traditionally used interest rate swaps to mitigate our exposure to changes in interest rates related to certain debt agreements. The swaps convert floating-rate debt to fixed-rate debt. Interest rate swaps, to the extent they are effective hedges, are accounted for as cash flow hedges, with the changes in the fair values of these instruments being recorded in accumulated other comprehensive income net of deferred taxes. Changes in the fair values of derivatives not qualifying as hedges are reported in net income. As a result of fluctuations in interest rates and volatility in market expectations, the fair market value of interest rate swap instruments can be expected to appreciate or depreciate over time. We plan to continue the practice of economically hedging various components of our debt. However, as a result of SFAS No. 133, certain swap instruments have and may continue to create volatility in future reported earnings.

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In addition, we have applied SFAS No. 142, Goodwill and Other Intangible Assets, beginning in the first quarter of fiscal 2003, and no longer amortize goodwill, resulting in increased earnings in comparison to prior periods in which goodwill was amortized. However, if we determine that there has been a material impairment to goodwill or other intangible assets with indefinite lives, we will recognize the amount of that impairment as a charge to earnings in the applicable reporting period. This could cause variances in our reported earnings in different quarters and years. See Management's Discussion and Analysis of Financial Condition and Results of Operations Accounting Matters and Notes D and O to the Notes to Consolidated Financial Statements.

The shift to direct contract buying of green tobacco by many of our U.S. customers affects your ability to compare our year-to-year results and could have an adverse effect on our results of operations.

Comparability of our sales revenues has been affected by the shift to direct contract buying in the United States. In the United States, prior to 2002, we took ownership of all green tobaccos we purchased, then processed and resold that tobacco to our customers. Concurrent with the shift from an auction system to a direct contract buying system in the United States, certain major U.S. customers began purchasing green tobacco directly from the growers. We no longer take ownership of that tobacco and no longer record revenues associated with its resale. In addition, we will still need to maintain buying personnel in the residual auction markets, which could affect our ability to manage our costs.

Our extension of credit to tobacco growers could have an adverse effect on our financial condition.

We make advances to tobacco growers in many countries to finance their growing of tobacco for sale to us. Crop advances to growers are generally secured by the grower's agreement to deliver green tobacco. In the event of crop failure, recovery of advances could be delayed until deliveries of future crops or indefinitely. The temporary or permanent loss of these advances to growers could have a material adverse effect on our financial condition or results of operations.

Competition could adversely affect our operating results.

The leaf tobacco industry is highly competitive. Competition among leaf tobacco merchants is based primarily on the price charged for products and services as well as the merchant's ability to meet customer specifications in the buying, processing and financing of tobacco. In addition, there is competition in all countries to buy the available tobacco and in many areas, total leaf tobacco processing capacity exceeds demand. There are three major global competitors in the leaf tobacco industry, and they are dependent upon a few large tobacco-manufacturing customers. The number of manufacturers has declined in recent years due to consolidation. The loss of, or a substantial reduction in the services provided to, any large or significant customer could have a material adverse effect on our financial condition or results of operations.

Our reliance on a small number of significant customers may adversely affect our results of operations.

Our customers are manufacturers of cigarettes and tobacco products. Several of these customers individually account for a significant portion of our sales in a normal year. Of our consolidated tobacco sales in 2003, 2002 and 2001, approximately 21%, 22% and 18%, respectively, were to various tobacco customers which we have been led to believe are owned by or under common control of Japan Tobacco Inc. and approximately 17%, 13% and 18%, respectively, were to various tobacco customers which we have been led to believe are owned by or under common control of the Altria Group, Inc. In addition, tobacco product manufacturers are currently experiencing a period of consolidation, and further consolidation among our customers could decrease such customer's demand for our leaf tobacco or processing services. The loss of any one or

more of such customers could have a material adverse effect on our financial condition or results of operations.

We face increased risks of doing business due to the extent of our international operations.

We do business in over 40 countries, many of which do not have stable economies or governments. Our international operations are subject to international business risks, including unsettled political conditions, expropriation, import and export restrictions, exchange controls, inflationary economies and currency risks and risks related to the restrictions on repatriation of earnings or proceeds from liquidated assets of foreign subsidiaries. These risks are exacerbated in countries where we have advanced substantial sums or guaranteed local loans or lines of credit for the purchase of tobacco from growers.

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We have significant investments in our purchasing, processing and exporting operations in Brazil, Malawi, Tanzania, Zimbabwe, Turkey, Italy and Thailand. In particular, we derive significant operating profit from our operations in Brazil and Zimbabwe. In recent years, these countries economic problems have received wide publicity related to devaluation of the local currency and inflation. Devaluation can affect our purchase costs of tobacco and our processing costs.

In addition, we do business in countries that have tax regimes in which the rules are not clear or not consistently applied. This is especially true with regard to international transfer pricing.

We face increased risk of doing business in Zimbabwe due to political instability and civil unrest.

Zimbabwe remains in a period of civil unrest in combination with a deteriorating economy. Should the current political situation continue, we could experience disruptions and delays associated with our Zimbabwe operations. The government's forced land resettlement program has caused disruptions to both tobacco and food farm production in Zimbabwe. The volume of the 2003 tobacco crop is projected to decline by approximately 49% in comparison to the prior year crop. If the political situation in Zimbabwe continues to deteriorate, our ability to recover our assets there could be impaired. Our Zimbabwe subsidiary has long-lived assets of approximately \$46.3 million as of June 30, 2003.

Fluctuations in foreign currency exchange and interest rates could adversely affect our results of operations.

Local country operating costs, including the purchasing and processing costs for tobaccos, are subject to the effects of exchange fluctuations of the local currency against the U.S. dollar. We attempt to minimize such currency risks by matching the timing of our working capital borrowing needs against the tobacco purchasing and processing funds requirements in the currency of the country where the tobacco is grown. Fluctuations in the value of foreign currencies can significantly affect our operating results.

In addition, the devaluation of foreign currencies, particularly Asian and Eastern European currencies, has resulted and may in the future result in reduced purchasing power from customers in these areas. We may incur a loss of business as a result of the devaluation of these currencies now or in the future.

Various outstanding interest-bearing instruments are sensitive to changes in interest rates. With respect to our variable-rate debt, a 10% change in interest rates would have the effect of increasing or decreasing our annual interest expense by \$1.6 million.

Our indentures and credit agreements contain, and in the future could contain additional, covenants and tests that would limit our ability to take actions or cause us to take actions we may not normally take.

Our existing indentures and credit agreements contain a number of significant covenants. These covenants will limit our ability to, among other things:

borrow additional money;

make capital expenditures and other investments;

merge, consolidate or dispose of our assets;

acquire assets in excess of certain dollar amounts; and

grant liens on our assets.

Our credit facility and existing indentures require, and any future indenture may require, us to meet certain financial tests. The failure to comply with these covenants and tests would cause a default under those agreements. A default, if not waived, could result in the debt under our credit facility and indentures becoming immediately due and payable and could result in a default or acceleration of our other indebtedness with cross-default provisions. If this occurs, we may not be able to pay our debt or borrow sufficient funds to refinance it. Even if new financing is available, it may not be on terms that are acceptable to us. Complying with these covenants and tests may cause us to take actions that we otherwise would not take or not take actions that we otherwise would take.

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Provisions in our indentures restrict our ability to make payments, including payments of dividends to our shareholders.

Under the terms of the Indentures relating to our 9⁵/₈% Senior Notes due 2011 and 7³/₄% Senior Notes due 2013, we will not be permitted to make certain payments that are restricted by such Indentures, including cash dividends on our common stock. We generally may make such restricted payments, provided that (1) we are not in default under the Indentures, (2) we are able to incur at least \$1.00 of additional indebtedness under a consolidated interest coverage ratio test set forth in the Indentures, and (3) the aggregate amount of the payments to be made is less than the total of (x) \$20.0 million, (y) 50% of our consolidated net income for the period from April 1, 1996, through the end of our most recent fiscal quarter and (z) the net cash proceeds from our sale of any equity securities or debt securities that are converted into equity securities. At June 30, 2003 and 2002, we were permitted to make restricted payments, including cash dividends on our common stock, of up to \$39.4 million and \$46.4 million, respectively.

Risks Relating to the Tobacco Industry

Reductions in demand for consumer tobacco products could adversely affect our results of operations.

The tobacco industry, both in the United States and abroad, continues to face a number of issues that may reduce the consumption of cigarettes and adversely affect our business, sales volume, results of operations, cash flows and financial condition.

These issues, some of which are more fully discussed below, include:

governmental actions seeking to ascribe to tobacco product manufacturers liability for adverse health effects associated with smoking and exposure to environmental tobacco smoke;

smoking and health litigation against tobacco product manufacturers;

tax increases on consumer tobacco products;

current and potential actions by state attorneys general to enforce the terms of the Master Settlement Agreement (MSA) between state governments in the United States and tobacco product manufacturers;

governmental and private bans and restrictions on smoking;

actual and proposed price controls and restrictions on imports in certain jurisdictions outside the United States;

restrictions on tobacco product manufacturing, marketing, advertising and sales;

the diminishing social acceptance of smoking;

increased pressure from anti-smoking groups; and

other tobacco product legislation that may be considered by Congress, the states and other countries.

Tobacco product manufacturer litigation may reduce demand for our services.

Our primary customers, the leading cigarette manufacturers, face thousands of lawsuits brought throughout the United States and, to a lesser extent, the rest of the world. The effects of the lawsuits on our customers could reduce their demand for tobacco from us. These lawsuits have been brought by plaintiffs, including (1) individuals and classes of individuals alleging personal injury and/or misleading advertising, (2) governments (including governmental and quasi-governmental entities in the United States and abroad) seeking recovery of health care costs allegedly caused by cigarette smoking, and (3) other groups seeking recovery of health care expenditures allegedly caused by cigarette smoking, including third-party health care payors, such as unions and health maintenance

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organizations. Damages claimed in some of the smoking and health cases range into the billions of dollars. In September 1999, the United States Department of Justice filed a lawsuit against the leading cigarette manufacturers, seeking to recover billions of dollars. There have been several jury verdicts in tobacco product litigation during the past several years. Additional plaintiffs continue to file lawsuits.

In November 1998, certain United States tobacco product manufacturers entered into the MSA with 46 states and certain territories to settle asserted and unasserted health care cost recovery and other claims. These manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota and an environmental tobacco smoke and health class action brought on behalf of airline flight attendants. The MSA has received final judicial approval in all 52 settling jurisdictions.

Key provisions of the MSA are as follows:

payments of approximately \$206 billion over 25 years from the cigarette manufacturers to the states;

marketing and advertising restrictions, including bans on cartoon characters, point-of-sale advertising, billboards, bus and taxi placards and sponsorships of most sporting events by brand names;

disbanding the Tobacco Institute, the Council for Tobacco Research and the Council for Indoor Air Research;

eliminating vending machine sales and requiring that all tobacco products be behind a counter; and

making payments of \$1.7 billion for educational efforts about the dangers of smoking and to discourage youth smoking.

The MSA and other state settlement agreements include provisions relating to advertising and marketing restrictions, public disclosure of industry documents, limitations on challenges to tobacco product control and underage use laws, lobbying activities and other provisions. The provisions of the Master Settlement Agreement and any similar settlement agreements could have a material adverse impact on our customer's purchase from us.

Legislative and regulatory initiatives could reduce consumption of consumer tobacco products and demand for our services.

In recent years, members of Congress have introduced legislation, some of which has been the subject of hearings or floor debate, that would subject cigarettes to various regulations under the Department of Health and Human Services or regulation under the Consumer Products Safety Act, establish anti-smoking educational campaigns or anti-smoking programs, or provide additional funding for governmental anti-smoking activities, further restrict the advertising of cigarettes, including requiring additional warnings on packages and in advertising, provide that the Federal Cigarette Labeling and Advertising Act and the Smoking Education Act could not be used as a defense against liability under state statutory or common law, allow state and local governments to restrict the sale and distribution of cigarettes, and eliminate or reduce the tax deductibility of tobacco product advertising. If any or all of the foregoing were to be implemented, our business, volume, results of operations, cash flows and financial condition could be materially adversely affected.

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A number of foreign nations also have taken steps to restrict or prohibit cigarette advertising and promotion, to increase taxes on cigarettes and to discourage cigarette smoking. In some cases, such restrictions are more onerous than those in the United States. For example, advertising and promotion of cigarettes has been banned or severely restricted for a number of years in Australia, Canada, Finland, France, Italy, Singapore and other countries. Further, in May of 2003, the World Health Organization adopted a treaty, the Framework Convention for Tobacco Control, which requires signatory nations to enact legislation that would require, among other things, specific actions to prevent youth smoking; restrict or prohibit tobacco product marketing; inform the public about the health consequences of smoking and the benefits of quitting; regulate the content of tobacco products; impose new package warning requirements including the use of pictorial or graphic images; eliminate cigarette smuggling and counterfeit cigarettes; restrict smoking in public places; increase and harmonize cigarette excise taxes; abolish duty-free tobacco sales; and permit and encourage litigation against tobacco product manufacturers. The treaty will take effect after forty countries ratify it, and must be implemented by national laws in the ratifying nations.

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Due to the present regulatory and legislative environment, a substantial risk exists that past growth trends in tobacco product sales may not continue and that existing sales may decline.

We have been, and continue to be, subject to governmental investigations into, and litigation concerning, leaf tobacco industry buying practices.

The leaf tobacco industry, from time to time, has been the subject of government investigations regarding trade practices. For example, in 1998 we were the subject of an investigation by the Antitrust Division of the United States Department of Justice into certain buying practices alleged to have occurred in the industry. More recently, we have been a named defendant in the DeLoach, et al. v. Philip Morris Companies Inc., et al., antitrust class action litigation alleging a conspiracy to rig bids in the tobacco auction markets.

In addition, certain other, similar investigations are ongoing. In October 2001, the Directorate General for Competition (DGCOMP) of the European Commission (EC) began conducting an administrative investigation into certain tobacco buying and selling practices alleged to have occurred within the leaf tobacco industry in Spain and Italy. We believe that the DGCOMP may be conducting similar investigations in other countries. Our subsidiaries in Spain (Agroexpansion) and Italy (DIMON Italia) have been the subject of those investigations. Based on our understanding of the facts pertaining to the activities of Spanish and Italian tobacco processors, including Agroexpansion and DIMON Italia, respectively, we believe there have been infringements of EU law. The EC is not expected to issue a ruling (Statement of Objection) concerning either of these investigations until later in 2003. We expect that administrative penalties will be assessed, and those penalties could be material to our earnings. However, we are not able to make an assessment of the amount of any such penalties at this time.

In September 2002, the Argentina National Commission for Defense of Competition (NCDC) began an administrative inquiry into the tobacco and cigarette industry in Argentina including our subsidiary, DIMON Argentina S.A.

Adverse determinations in these or similar proceedings may negatively impact our future results.

Risks Relating to Owning Our Stock

Anti-takeover provisions could discourage a takeover that you consider to be in your best interest or prevent the removal of our current directors and management.

We have adopted a number of provisions that could have anti-takeover effects or prevent the removal of our current directors and management. We have adopted a shareholder protection rights plan, commonly referred to as a poison pill. The rights plan is intended to deter an attempt to acquire our company in a manner or on terms not approved by our Board of Directors. The rights plan will not prevent an acquisition that is approved by our Board of Directors. See also Note M to the Notes to Consolidated Financial Statements.

Our Articles of Incorporation authorize the Board of Directors to determine the terms of up to 10,000,000 shares of undesignated preferred stock and issue such stock without stockholder approval. The issuance of preferred stock could make it more difficult for a third party to acquire, or

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discourage a third party from acquiring, voting control of our company in order to remove our current directors and management. These provisions could make more difficult the removal of our current directors and management or a takeover of our company, even if the events would be beneficial to our stockholders. These provisions could also limit the price that investors might be willing to pay for our common stock.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Derivatives Policies: Hedging interest rate exposure using swaps and hedging foreign exchange exposure using forward contracts are specifically contemplated to manage risk in keeping with management's policies. We may use derivative instruments, such as swaps or forwards, which are based directly or indirectly upon interest rates and currencies to manage and reduce the risks inherent in interest rate and currency fluctuations. See also Note D to the Notes to Consolidated Financial Statements.

We do not utilize derivatives for speculative purposes, and we do not enter into market risk sensitive instruments for trading purposes. Derivatives are transaction specific so that a specific debt instrument, contract, or invoice determines the amount, maturity, and other specifics of the hedge.

Foreign exchange rates: Our business is generally conducted in U.S. dollars, as is the business of the tobacco industry as a whole. However, local country operating costs, including the purchasing and processing costs for tobaccos, are subject to the effects of exchange fluctuations of the local currency against the U.S. dollar. We attempt to minimize such currency risks by matching the timing of our working capital borrowing needs against the tobacco purchasing and processing funds requirements in the currency of the country where the tobacco is grown. Also, in some cases, our sales pricing arrangements with our customers allow adjustments for the effect of currency exchange fluctuations on local purchasing and processing costs. Fluctuations in the value of foreign currencies can significantly affect our operating results. We have recognized exchange losses in our statements of income of \$3.5 million, \$4.4 million and \$3.6 million in 2003, 2002 and 2001, respectively.

Our consolidated selling, general and administrative (SG&A) expenses denominated in foreign currencies are subject to translation risks from currency exchange fluctuations. These foreign denominated expenses are primarily denominated in the Euro, (U.K.) Sterling and Brazilian real and accounted for approximately \$35 million of our total SG&A expenses in 2003. A 10% increase or decrease in the value of the U.S. dollar relative to those currencies would have caused the reported value of those expenses to change by approximately \$(3.2) and \$3.7 million respectively.

Interest rates: We manage our exposure to interest rate risk through the proportion of fixed rate and variable rate debt in our total debt portfolio. A ten percentage-point change in interest rates would increase our interest cost by approximately \$1.6 million. Substantially all of our long-term borrowings are denominated in U.S. dollars and carry fixed interest rates.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****STATEMENTS OF CONSOLIDATED INCOME AND COMPREHENSIVE INCOME**

DIMON Incorporated and Subsidiaries

| <i>(in thousands, except per share data)</i> | Years Ended June 30 | | |
|---|---------------------|------------------|------------------|
| | 2003 | 2002 | 2001 |
| Sales and other operating revenues | \$ 1,271,683 | \$ 1,259,720 | \$ 1,400,955 |
| Cost of goods and services sold | 1,061,270 | 1,054,255 | 1,209,931 |
| | 210,413 | 205,465 | 191,024 |
| Selling, administrative and general expenses | 116,075 | 109,363 | 103,537 |
| Restructuring recovery | | | (1,384) |
| Recovery from litigation settlements | | | (3,923) |
| Operating Income | 94,338 | 96,102 | 92,794 |
| Interest expense | 46,887 | 47,877 | 53,574 |
| Current charge derivative financial instruments | 12,409 | 10,202 | 4,680 |
| Income before income taxes, equity in net income (loss) of investee companies, cumulative effect of accounting changes and extraordinary item | 35,042 | 38,023 | 34,540 |
| Income taxes | 9,111 | 10,202 | 9,272 |
| Income before equity in net income (loss) of investee companies, cumulative effect of accounting changes and extraordinary item | 25,931 | 27,821 | 25,268 |
| Equity in net income (loss) of investee companies | 349 | (345) | (271) |
| Income before cumulative effect of accounting changes and extraordinary item | 26,280 | 27,476 | 24,997 |
| Cumulative effect of accounting changes: | | | |
| Reporting period of subsidiaries | | | 284 |
| Derivative financial instruments, net of \$(191) income tax | | | (387) |
| Extraordinary item - Iraqi receivable recovery, net of \$957 income tax | 1,777 | | |
| NET INCOME | \$ 28,057 | \$ 27,476 | \$ 24,894 |
| Other Comprehensive Income: | | | |
| Net Income | \$ 28,057 | \$ 27,476 | \$ 24,894 |
| Equity Currency Conversion Adjustment | 3,668 | 637 | (2,962) |
| Additional Minimum Pension Liability Adjustment, net of tax \$(1,111) in 2003, \$(468) in 2002, and \$(186) in 2001 | (1,745) | (736) | (292) |
| Reclassification of Derivative Financial Instruments into Earnings, net of tax \$202 in 2003 and \$2,112 in 2002 | 418 | 4,192 | |
| Derivative Financial Instruments Adjustment, net of tax \$602 in 2003 and \$(2,423) in 2001 | 1,220 | | (4,828) |
| TOTAL COMPREHENSIVE INCOME | \$ 31,618 | \$ 31,569 | \$ 16,812 |

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DIMON Incorporated and Subsidiaries

| | <u>Years Ended June 30</u> | | |
|--|----------------------------|----------------|----------------|
| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
| <i>(in thousands, except per share data)</i> | | | |
| <hr/> | | | |
| Basic Earnings Per Share | | | |
| Income before cumulative effect of accounting changes and extraordinary item | \$.59 | \$.62 | \$.56 |
| Cumulative effect of accounting changes | | | |
| Extraordinary item Iraqi receivable recovery | .04 | | |
| | <hr/> | <hr/> | <hr/> |
| Net Income | \$.63 | \$.62 | \$.56 |
| | <hr/> | <hr/> | <hr/> |
| Diluted Earnings Per Share | | | |
| Income before cumulative effect of accounting changes and extraordinary item | \$.58* | \$.61* | \$.56* |
| Cumulative effect of accounting changes | | | |
| Extraordinary item Iraqi receivable recovery | .04* | | |
| | <hr/> | <hr/> | <hr/> |
| Net Income | \$.62* | \$.61* | \$.56* |
| | <hr/> | <hr/> | <hr/> |

See notes to consolidated financial statements

* Assumed conversion of Convertible Debentures at the beginning of the period has an antidilutive effect on earnings per share.

Table of Contents**CONSOLIDATED BALANCE SHEET**

DIMON Incorporated and Subsidiaries

| <i>(in thousands)</i> | June 30 | |
|--|---------------------|---------------------|
| | 2003 | 2002 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 88,932 | \$ 108,991 |
| Notes receivable | 2,619 | 4,400 |
| Trade receivables (net of allowances of \$1,693 in 2003 and \$1,935 in 2002) | 179,532 | 173,576 |
| Inventories: | | |
| Tobacco | 464,360 | 391,112 |
| Other | 24,747 | 19,215 |
| Advances on purchases of tobacco | 40,748 | 67,769 |
| Current deferred and recoverable income taxes | 11,349 | 9,736 |
| Prepaid expenses and other assets | 27,481 | 17,239 |
| Total current assets | 839,768 | 792,038 |
| Investments and other assets | | |
| Equity in net assets of investee companies | 6,061 | 1,072 |
| Other investments | 2,919 | 1,941 |
| Notes receivable | 3,832 | 5,354 |
| Other | 37,856 | 24,566 |
| | 50,668 | 32,933 |
| Goodwill and intangible assets | | |
| Goodwill | 151,772 | 151,772 |
| Production and supply contracts | 12,543 | 3,938 |
| Pension asset | 2,002 | 1,664 |
| | 166,317 | 157,374 |
| Property, plant and equipment | | |
| Land | 19,902 | 18,676 |
| Buildings | 187,926 | 178,987 |
| Machinery and equipment | 203,061 | 210,769 |
| Allowances for depreciation | (158,394) | (151,148) |
| | 252,495 | 257,284 |
| Deferred taxes and other deferred charges | 43,904 | 37,461 |
| | \$ 1,353,152 | \$ 1,277,090 |

Table of Contents**CONSOLIDATED BALANCE SHEET**

DIMON Incorporated and Subsidiaries

| <i>(in thousands)</i> | June 30 | | |
|---|----------------|----------------|----------|
| | 2003 | 2002 | |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | |
| Current liabilities | | | |
| Notes payable to banks | \$ 210,162 | \$ 181,629 | |
| Accounts payable: | | | |
| Trade | 53,394 | 55,277 | |
| Officers and employees | 10,521 | 13,553 | |
| Other | 9,602 | 7,964 | |
| Advances from customers | 75,119 | 67,616 | |
| Accrued expenses | 28,275 | 24,797 | |
| Income taxes | 14,926 | 11,015 | |
| Long-term debt current | 1,225 | 1,128 | |
| Total current liabilities | 403,224 | 362,979 | |
| Long-term debt | | | |
| Revolving Credit Notes and other | 10,250 | 7,521 | |
| Convertible Subordinated Debentures | 73,328 | 73,328 | |
| Senior Notes (net of fair value adjustment of \$16,319 in 2003 and (\$3,638) in 2002) | 341,319 | 321,362 | |
| | 424,897 | 402,211 | |
| Deferred credits: | | | |
| Income taxes | 4,128 | 9,243 | |
| Compensation and other | 65,252 | 67,205 | |
| | 69,380 | 76,448 | |
| Minority interest in subsidiaries | 1,078 | 789 | |
| Commitments and contingencies | | | |
| | 2003 | 2002 | |
| Stockholders equity | | | |
| Preferred stock no par value: | | | |
| Authorized shares | 10,000 | 10,000 | |
| Issued shares | | | |
| Common stock no par value: | | | |
| Authorized shares | 125,000 | 125,000 | |
| Issued shares | 44,737 | 44,640 | 183,361 |
| Retained earnings | | | 264,148 |
| Accumulated other comprehensive income | | | (12,253) |

| | | |
|--|-----------------------------|-----------------------------|
| | 454,573 | 434,663 |
| | <u> </u> | <u> </u> |
| | \$ 1,353,152 | \$ 1,277,090 |
| | <u> </u> | <u> </u> |

See notes to consolidated financial statements

Table of Contents**STATEMENT OF STOCKHOLDERS EQUITY**

DIMON Incorporated and Subsidiaries

| | Accumulated | | | | | |
|--|----------------------------|----------------------|-------------------------|--|---|---------------------------------|
| | Other Comprehensive Income | | | | | |
| <i>(in thousands, except per share amounts)</i> | Common Stock | Retained Earnings | Currency Conversions | Equity | Derivative | Total Stockholders Equity |
| | | | | Pension Liability, Net of Tax | Financial Instruments, Net of Tax | |
| Balance, June 30, 2000 | \$ 182,143 | \$ 229,625 | \$ (7,912) | \$ (352) | \$ | \$ 403,504 |
| Net income for the year | | 24,894 | | | | 24,894 |
| Cash dividends - \$.20 per share. | | (8,918) | | | | (8,918) |
| Issue of 50,000 shares of restricted stock | 141 | | | | | 141 |
| Conversion of foreign currency financial statements | | | (2,962) | | | (2,962) |
| Adjustment in the minimum pension liability | | | | (292) | | (292) |
| Adjustment in derivative financial instruments | | | | | (4,828) | (4,828) |
| Balance, June 30, 2001 | \$ 182,284 | \$ 245,601 | \$ (10,874) | \$ (644) | \$ (4,828) | \$ 411,539 |
| Net income for the year | | 27,476 | | | | 27,476 |
| Cash dividends - \$.20 per share. | | (8,929) | | | | (8,929) |
| Issue of 65,000 shares of restricted stock | 484 | | | | | 484 |
| Conversion of foreign currency financial statements | | | 637 | | | 637 |
| Adjustment in the minimum pension liability | | | | (736) | | (736) |
| Reclassification of derivative financial instruments into earnings | | | | | 4,192 | 4,192 |
| Balance, June 30, 2002 | \$ 182,768 | \$ 264,148 | \$ (10,237) | \$ (1,380) | \$ (636) | \$ 434,663 |
| Net income for the year | | 28,057 | | | | 28,057 |
| Cash dividends - \$.275 per share | | (12,301) | | | | (12,301) |
| Issue of 82,000 shares of restricted stock | 512 | | | | | 512 |
| Exercise of employee stock options | 81 | | | | | 81 |
| Conversion of foreign currency financial statements | | | 3,668 | | | 3,668 |
| Adjustment in the minimum pension liability | | | | (1,745) | | (1,745) |
| Reclassification of derivative financial instruments into earnings | | | | | 418 | 418 |
| Adjustment in derivative financial statements | | | | | 1,220 | 1,220 |
| Balance, June 30, 2003 | \$ 183,361 | \$ 279,904 | \$ (6,569) | \$ (3,125) | \$ 1,002 | \$ 454,573 |

See notes to consolidated financial statements

Table of Contents**STATEMENT OF CONSOLIDATED CASH FLOWS**

DIMON Incorporated and Subsidiaries

| <i>(in thousands)</i> | Years Ended June 30 | | |
|---|---------------------|-----------------|-----------------|
| | 2003 | 2002 | 2001 |
| Operating Activities | | | |
| Net Income | \$ 28,057 | \$ 27,476 | \$ 24,894 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 35,261 | 41,865 | 44,310 |
| Restructuring recovery | | | (1,384) |
| Recovery from litigation settlement | | | (3,923) |
| Deferred items | 2,734 | 8,822 | (14,675) |
| Loss on foreign currency transactions | 3,507 | 4,411 | 3,621 |
| Loss (gain) on disposition of fixed assets | (1,380) | (902) | 230 |
| Bad debt expense | 94 | 477 | 70 |
| Decrease (increase) in accounts receivable | (437) | 8,048 | 33,467 |
| Increase in inventories and advances on purchases of tobacco | (47,131) | (17,108) | (1,464) |
| Decrease (increase) in current deferred and recoverable taxes | (1,482) | (4,856) | 5,068 |
| Increase in prepaid expenses | (9,389) | (5,673) | (4,376) |
| Increase (decrease) in accounts payable and accrued expenses | (8,421) | 9,363 | (4,823) |
| Increase (decrease) in advances from customers | 4,752 | (6,796) | 65,312 |
| Increase in income taxes | 3,597 | 1,608 | 3,730 |
| Other | (54) | 362 | (213) |
| Net cash provided by operating activities | 9,708 | 67,097 | 149,844 |
| Investing activities | | | |
| Purchase of property and equipment | (28,312) | (20,180) | (19,061) |
| Proceeds from sale of property and equipment | 2,761 | 5,911 | 3,255 |
| Payments received on notes receivable and receivable from investees | 5,425 | 5,442 | 4,014 |
| Issuance of notes receivables | (2,027) | (1,884) | (2,694) |
| Purchase of equity in net assets of investee | (5,000) | | |
| Other | (4,312) | (199) | 27 |
| Net cash used by investing activities | (31,465) | (10,910) | (14,459) |

See notes to consolidated financial statements

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DIMON Incorporated and Subsidiaries

| <i>(in thousands)</i> | Years Ended June 30 | | |
|---|---------------------|-------------------|------------------|
| | 2003 | 2002 | 2001 |
| Financing activities | | | |
| Net change in short-term borrowings | \$ 18,627 | \$ (30,129) | \$ (14,134) |
| Proceeds from long-term borrowings | 130,087 | 266,253 | 146,584 |
| Repayment of long-term borrowings | (131,356) | (183,251) | (270,813) |
| Debt issuance cost | (2,631) | (7,566) | |
| Cash dividends paid to DIMON Incorporated stockholders | (12,301) | (8,929) | (8,918) |
| Net cash provided (used) by financing activities | 2,426 | 36,378 | (147,281) |
| Effect of exchange rate changes on cash | (728) | 1,832 | (759) |
| Increase (decrease) in cash and cash equivalents | (20,059) | 94,397 | (12,655) |
| Cash and cash equivalents at beginning of year | 108,991 | 14,594 | 27,249 |
| Cash and cash equivalents at end of year | \$ 88,932 | \$ 108,991 | \$ 14,594 |
| Other information: | | | |
| Cash paid during the year: | | | |
| Interest | \$ 48,502 | \$ 42,049 | \$ 51,603 |
| Income taxes | 16,674 | 12,301 | 14,609 |

See notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DIMON Incorporated and Subsidiaries

(in thousands)

Note A Significant Accounting Policies

Consolidation

The accounts of the Company and its consolidated subsidiaries are included in the consolidated financial statements after elimination of significant intercompany accounts and transactions. The Company uses the equity method of accounting for its investments in affiliates, which are owned 50% or less.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, the price to the customer is fixed, collectibility is reasonably assured and title and risk of ownership is passed to the customer, which is usually upon shipment. However, certain customers traditionally have requested to take title and risk of ownership prior to shipment. Revenue for these transactions is recognized only when:

- (1) Title and risk of ownership have passed to the customer;
- (2) The Company has obtained a written fixed purchase commitment;
- (3) The customer has requested the transaction be on a bill and hold basis;
- (4) The customer has provided a delivery schedule;
- (5) All performance obligations related to the sale have been completed;
- (6) The tobacco has been processed to the customer's specifications, accepted by the customer and made ready for shipment; and
- (7) The tobacco is segregated and is not available to fill other orders.

The remittance terms for bill and hold transactions are consistent with all other sales by the Company.

The Company also processes tobacco owned by its customers, and revenue is recognized when the processing is completed.

Shipping and Handling

Shipping and handling costs are included in cost of goods and services sold in the Statement of Consolidated Income.

Cash and Cash Equivalents

Cash equivalents are defined as temporary investments of cash with maturities of less than 90 days.

Inventories

Inventories are valued at the lower of cost or market. Inventories are reviewed and adjusted for changes in market value based on assumptions related to future demand and worldwide and local market conditions. If actual demand and market conditions vary from those projected by management, adjustments to lower of cost or market value may be required.

Costs of tobacco inventories are generally determined by the average cost method while costs of other inventories are generally determined by the first-in, first-out method. Costs included in tobacco inventory include both the cost of raw material as well as direct and indirect costs that are related to the processing of the product. Tobacco inventory is substantially finished goods. Costs included in other inventories are costs of spare parts, packing materials, non-tobacco agricultural products and agricultural supplies including seed, fertilizer, herbicides and pesticides. Interest and other carrying charges on the inventories are expensed in the period in which they are incurred.

Table of Contents**Goodwill and Other Intangibles**

Effective July 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 eliminates the amortization of goodwill and certain intangible assets with indefinite useful lives. Instead it requires at least an annual assessment of these assets for impairment by applying a fair-value-based test. Intangible assets with finite useful lives will continue to be amortized over their useful lives.

In the year of adoption, SFAS No. 142 required the Company to perform an initial assessment for impairment. The Company completed this initial assessment as of July 1, 2002 in the first quarter of 2003 and determined that goodwill was not impaired. SFAS No. 142 also requires that goodwill be tested for impairment annually, or more frequently if events or circumstances change. The Company has chosen the first day of the last quarter of its fiscal year as the date to perform its annual goodwill impairment test. The Company found no indication of impairment at its annual review. Any subsequent impairment losses, if any, will be reflected in operating income in the statement of operations.

The carrying value of production and supply contracts was \$12,543 and \$3,938 as of June 30, 2003 and 2002, net of accumulated amortization of \$6,130 and \$4,609, respectively. Production and supply contracts increased during the year by \$10,214. The increase resulted from the combination of two small business acquisitions and the entry into a new production contract. The new contracts had a weighted average amortization period of eight years. Supply contracts are amortized primarily on a straight-line basis over the term of the contract ranging from three to five years. Production contracts are amortized on a straight-line basis ranging from five to ten years. The amortization period is the term of the contract or, if no term is specified in the contract, management's best estimate of the useful life based on past experience. The Company reviews the estimated useful lives of its intangibles at the end of each reporting period. If events and circumstances warrant a change in the estimated useful life, the remaining carrying amount will be amortized over the revised estimated useful life. Amortization expense associated with these intangible assets was \$1,609, \$3,197 and \$5,850 for the years ended June 30, 2003, 2002 and 2001, respectively. Annual amortization expense for each of the next five years for these production and supply contracts is expected to be \$2,769 in 2004; \$2,432 in 2005; \$2,378 in 2006; \$1,860 in 2007 and \$1,028 in 2008.

The adoption of SFAS No. 142 resulted in the elimination of pretax goodwill amortization expense in the amount of \$6.2 million for the year ended June 30, 2003. The following table provides a reconciliation of net income and net income per share, reflecting the impact of the adoption of SFAS No. 142 on a pro forma basis for the years ended June 30, 2002 and 2001.

| <i>(in thousands, except per share data)</i> | Years Ended June 30 | | |
|--|----------------------------|-------------|-------------|
| | 2003 | 2002 | 2001 |
| Reported net income | \$ 28,057 | \$ 27,476 | \$ 24,894 |
| Amortization of goodwill (net of \$41 tax for 2002 and 2001) | | 6,497 | 6,561 |
| Adjusted net income | \$ 28,057 | \$ 33,973 | \$ 31,455 |
| Reported basic earnings per share | \$ 0.63 | \$ 0.62 | \$ 0.56 |
| Amortization of goodwill (net of tax) | | 0.14 | 0.15 |
| Adjusted basic earnings per share | \$ 0.63 | \$ 0.76 | \$ 0.71 |

Long-Lived Assets

The carrying value of long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate that an impairment of value exists. If an evaluation is required, the projected future undiscounted operating cash flows of the related business unit is compared to the carrying value of the long-lived assets to determine if a writedown to fair value is required. The Company also evaluates the remaining useful lives to determine whether events and circumstances warrant revised estimates of such lives. The Company believes that no impairment of long-lived assets existed at June 30, 2003.

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Property, Plant and Equipment

Property, plant and equipment is accounted for on the basis of cost. Provisions for depreciation are computed on a straight-line basis at annual rates calculated to amortize the cost of depreciable properties over their estimated useful lives. Buildings, machinery and equipment and technological equipment are depreciated over ranges of 20 to 40 years, 5 to 10 years and 3 to 5 years, respectively. The consolidated financial statements do not include fully depreciated assets. Depreciation expense for 2003, 2002 and 2001 was \$31,090, \$29,654 and \$28,513, respectively.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under SFAS No. 109, deferred tax assets and liabilities are determined based on the difference between the financial statements and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse.

Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, which provided a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. In June 1999, the FASB issued SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS No. 133, which delayed implementation of SFAS No. 133 until years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, which amended SFAS No. 133. Effective July 1, 2000, the Company adopted SFAS No. 133 as amended. See Notes D and O to the Notes to Consolidated Financial Statements.

Effective July 1, 2000, four of the Company's European subsidiaries changed their fiscal year end from March 31 to June 30. More efficient financial reporting routines have allowed the Company to eliminate the traditional fiscal quarter lag associated with the inclusion of these subsidiaries in the Company's consolidated financial statements. For the quarter ended September 30, 2000, income of \$284 earned by the affected subsidiaries during the period between April 1, 2000 and June 30, 2000 has been recognized as the cumulative effect of an accounting change. See Note O to the Notes to Consolidated Financial Statements.

In June 2001, the FASB issued SFAS No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with the Statements. The Company has chosen the first day of the last quarter as the date for its annual review. Other intangible assets continue to be amortized over their useful lives.

The Company applied the new rules of accounting for goodwill and other intangible assets beginning the first quarter of fiscal 2003. Application of the non-amortization provisions of the Statement resulted in an increase in net income of approximately \$6.2 million for the year. In accordance with SFAS No. 142, the Company evaluated its goodwill and found no indication of impairment in fiscal 2003.

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In October 2001, FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. As required by SFAS No. 144, the Company adopted this new accounting standard on July 1, 2002. The adoption of SFAS No. 144 did not have a material impact on the Company's financial statements.

In April 2002, FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This Statement eliminates an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and establishes that gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria of extraordinary. There was no material impact on the Company's financial statements as a result of adopting SFAS No. 145.

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In June 2002, FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The Company adopted this standard by the required December 2002 deadline. The financial statements were not impacted by the adoption of this Statement.

In November 2002, FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This Interpretation requires a guarantor to include disclosure of certain guarantees that it has issued and if applicable, at inception of the guarantee, to recognize a liability for the fair value of the obligation undertaken in issuing a guarantee. The recognition and measurement requirements of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of this Interpretation did not have a material impact on the Company's financial statements. The Company does not anticipate a material increase in liabilities in future periods due to the adoption of this Interpretation.

In December 2002, FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, an amendment of FASB Statement No. 123. This Statement amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As required under SFAS No. 148, the Company adopted these disclosure requirements in fiscal 2003.

In January 2003, FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*. This Interpretation requires that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities and results of the activities of the variable interest entity should be included in consolidated financial statements of the business enterprise. This Interpretation applies immediately to variable interest entities created after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of this Interpretation were effective beginning in the Company's third quarter of fiscal 2003. The Company does not believe that it has any significant variable interest entities requiring consolidation or further disclosure. Therefore, the adoption of this Interpretation did not have a material impact on its financial statements.

In April 2003, FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This Statement will become effective in fiscal 2004 for contracts entered into or modified after June 30, 2003. The Company will adopt the provisions under SFAS No. 149 beginning on July 1, 2003 and does not expect any material impact on its financial statements.

In May 2003, FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. Under the provisions of SFAS No. 150 certain financial instruments that previously could be accounted for as equity must be presented as liabilities, and in some cases assets, on the balance sheet. The Company will adopt this new standard beginning July 1, 2003 and does not expect it to have any material effect on its financial statements.

Earnings Per Share

Basic earnings per share are computed by dividing earnings by the weighted average number of common shares outstanding. The diluted earnings per share calculation assumes that all of the outstanding Convertible Subordinated Debentures outstanding during the periods presented

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were converted into Common Stock at the beginning of the reporting period, or as of the date of issue, thereby increasing the weighted average number of shares considered outstanding during each period and reducing the after-tax interest expense. The weighted average number of shares outstanding are further increased by common stock equivalents on employee stock options and restricted shares outstanding. Certain potentially dilutive options outstanding at June 30, 2003, 2002, and 2001, were not included in the computation of earnings per diluted share because their exercise prices were greater than the average market

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price of the common shares during the period, and accordingly, their effect is antidilutive. These shares totaled 2,032 at a weighted-average exercise price of \$14.41 per share for 2003, 2,300 shares at a weighted-average exercise price of \$15.08 per share in 2002, and 1,853 shares at a weighted-average exercise price of \$16.45 per share in 2001.

DIMON and Subsidiaries Computation of Earnings Per Common Share

| (in thousands, except per share data) | Years Ended June 30 | | |
|--|---------------------|------------------|------------------|
| | 2003 | 2002 | 2001 |
| BASIC EARNINGS | | | |
| Income before cumulative effect of accounting changes and extraordinary item | \$ 26,280 | \$ 27,476 | \$ 24,997 |
| Cumulative effect of accounting changes | | | (103) |
| Extraordinary item: Iraqi receivable recovery | 1,777 | | |
| Net Income | \$ 28,057 | \$ 27,476 | \$ 24,894 |
| SHARES | | | |
| Weighted Average Number of Shares Outstanding | 44,532 | 44,525 | 44,525 |
| BASIC EARNINGS PER SHARE | | | |
| Income before cumulative effect of accounting changes and extraordinary item | \$.59 | \$.62 | \$.56 |
| Cumulative effect of accounting changes | | | |
| Extraordinary item: Iraqi receivable recovery | .04 | | |
| Net Income | \$.63 | \$.62 | \$.56 |

DIMON and Subsidiaries Computation of Earnings Per Common Share

| (in thousands, except per share data) | Years Ended June 30 | | |
|--|---------------------|--------------------|--------------------|
| | 2003 | 2002 | 2001 |
| DILUTED EARNINGS | | | |
| Income before cumulative effect of accounting changes and extraordinary item | \$ 26,280 | \$ 27,476 | \$ 24,997 |
| Add after tax interest expense applicable to 6 1/4% | | | |
| Convertible Debentures issued April 1, 1997 | * | * | * |
| Income before cumulative effect of accounting changes and extraordinary item | \$ 26,280 | \$ 27,476 | \$ 24,997 |
| Cumulative effect of accounting changes | | | (103) |
| Extraordinary item: Iraqi receivable recovery | 1,777 | | |
| Net Income as Adjusted | \$ 28,057 * | \$ 27,476 * | \$ 24,894 * |

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| | | | |
|--|-----------------|-----------------|-----------------|
| Weighted average number of common shares outstanding | 44,532 | 44,525 | 44,525 |
| Restricted shares issued and shares applicable to stock options, net of shares assumed to be purchased from proceeds at average market price | 534 | 522 | 313 |
| Assuming conversion of 6 1/4% Convertible Debentures at the beginning of the period | * | * | * |
| Average Number of Shares Outstanding | 45,066 * | 45,047 * | 44,838 * |
| DILUTED EARNINGS PER SHARE | | | |
| Income before cumulative effect of accounting changes and extraordinary item | \$.58* | \$.61* | \$.56* |
| Cumulative effect of accounting changes | | | |
| Extraordinary item Iraqi receivable recovery | .04* | | |
| Net Income as Adjusted | \$.62* | \$.61* | \$.56* |

* Assumed conversion of Convertible Debentures at the beginning of the period has an antidilutive effect on earnings per share.

Stock-Based Compensation

The Company's stock option plans are described more fully in Note I to the Notes to Consolidated Financial Statements. The Company accounts for its plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Net income, as reported, includes compensation expense related to restricted stock. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

| <i>(in thousands, except per share data)</i> | Years Ended June 30 | | |
|---|---------------------|------------------|------------------|
| | 2003 | 2002 | 2001 |
| Net income, as reported | \$ 28,057 | \$ 27,476 | \$ 24,894 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (1,035) | (742) | (408) |
| Pro forma net income | \$ 27,022 | \$ 26,734 | \$ 24,486 |
| Earnings per share: | | | |
| Basic as reported | \$ 0.63 | \$ 0.62 | \$ 0.56 |
| Basic pro forma | 0.61 | 0.60 | 0.55 |
| Diluted as reported | \$ 0.62 | \$ 0.61 | \$ 0.56 |
| Diluted pro forma | 0.60 | 0.59 | 0.55 |

Related Parties

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During fiscal 2003, 2002 and 2001, the Company paid \$3,382, \$2,741 and \$2,387, respectively, in leasing arrangements for storage facilities and equipment. The primary owners of the lessor are current and former employees of a subsidiary of the Company in Zimbabwe.

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Restructuring

In fiscal 2001, the Company recovered \$1,384 primarily related to the disposals of fixed assets.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates may change with future events.

Note B Extraordinary Item

On May 1, 2003, the Company received \$2,734 from the United Nations Compensation Commission in connection with a claim filed by a predecessor company, Monk-Austin, Incorporated. The claim arose from an uncollected trade receivable from the Iraqi Tobacco Monopoly, which related to transactions that occurred prior to Iraq's invasion of Kuwait in August 1990. The predecessor company charged off the entire receivable, net of tax, as a \$5,202 extraordinary loss during its fiscal year 1991. The extraordinary gain of \$1,777 is recorded net of tax of \$957.

Note C Foreign Currency Translation

The financial statements of foreign entities included in the consolidated financial statements have been translated to U.S. dollars in accordance with SFAS No. 52, Foreign Currency Translation.

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

The financial statements of foreign subsidiaries, for which the U.S. dollar is the functional currency and which have certain transactions denominated in a local currency, are remeasured into U.S. dollars. The remeasurement of local currencies into U.S. dollars creates remeasurement adjustments that are included in net income. Exchange losses in 2003, 2002 and 2001 were \$3,507, \$4,411 and \$3,621,

respectively and are included in the respective statements of income.

Note D Derivative and Other Financial Instruments

Fair Value of Derivative Financial Instruments

Effective July 1, 2000, the Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. As a result of adoption of SFAS No. 133, the Company recognizes all derivative financial instruments, such as interest rate swap contracts and foreign exchange contracts, in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in shareholders' equity as a component of comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Changes in fair values of derivatives accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive income net of deferred taxes. Changes in fair values of derivatives not qualifying as hedges are reported in income.

The fair value estimates presented herein are based on information available to management and were determined using quoted market prices and the discounted value of future cash flows.

During the fiscal year ended June 30, 2003, accumulated other comprehensive income increased by \$1,638, net of deferred taxes of \$804 due to the reclassification of \$418, net of taxes of \$202, which was reclassified into earnings, primarily as cost of goods and services sold, due to the fulfillment of transactions. The remaining \$1,220,

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net of tax of \$602, was due to the issuance of new cash flow hedges during the year. During the fiscal year ended June 30, 2002, accumulated other comprehensive income decreased by \$4,192, net of deferred taxes of \$2,112, due to the reclassification of net losses on derivative instruments to earnings. Of this amount, \$994, net of taxes of \$535, was reclassified into earnings as a result of the discontinuance of a cash flow hedge that had been deemed effective. During the fiscal year ended June 30, 2001, accumulated other comprehensive income decreased by \$4,828, net of deferred taxes of \$2,423, related specifically to accumulated unrealized net losses on forward contracts and interest rate swap agreements accounted for as cash flow hedges.

At June 30, 2003, the Company expects to reclassify approximately \$1,002 of gains on derivative instruments, net of deferred taxes of \$494, from accumulated other comprehensive income to earnings during the next twelve months due to the actual fulfillment of forecasted transactions. The Company is hedging its exposure to the variability of future cash flows for forecasted transactions over various time periods not exceeding ten years.

The carrying value and estimated fair value of the Company's long-term debt are \$426,122 and \$449,522, respectively, as of June 30, 2003 and \$403,339 and \$402,977, respectively, as of June 30, 2002.

The counterparties to all of the Company's derivative financial instruments are a diverse group of major financial institutions with which the Company also has other financial relationships. These counterparties expose the Company to credit loss in the event of non-performance. If a counterparty fails to meet the terms of an agreement, the Company's exposure is limited to the net amount that would have been received, if any, over the agreement's remaining life. The Company does not anticipate non-performance by the counterparties, given their high credit ratings, and no material loss would be expected from non-performance by any one of such counterparties.

Fixed to Floating Rate Interest Swaps

Concurrent with the private issuance of \$200 million principal amount of 9⁵/₈% Senior Notes on October 30, 2001, the Company entered into a derivative financial instrument to swap the entire \$200 million notional amount of the Senior Notes to a floating interest rate equal to LIBOR plus 4.11%, set six months in arrears. Also, concurrent with the private issuance of \$125 million principal amount of 7³/₄% Senior Notes on May 30, 2003, the Company entered into a derivative financial instrument to swap the entire \$125 million notional amount of Senior Notes to a floating interest rate equal to LIBOR plus 3.69%, set six months in arrears. See also Note F to the Notes to Consolidated Financial Statements.

The maturity, payment dates, and other fundamental terms of these derivative financial instruments match those of the related Senior Notes. In accordance with SFAS No. 133, these derivatives qualify for hedge accounting treatment. They are accounted for as fair value hedges. Changes in the fair value of these derivative financial instruments, as well as offsetting changes in the fair value of the Senior Notes, are being recognized in current period earnings. As of June 30, 2003 and 2002, the fair value of the debt increased the Senior Notes liability by \$16,319 and decreased the liability by \$3,638, respectively, with a corresponding change in the fair value of the derivative financial instruments reflected in Deferred Credits Compensation and Other.

Floating to Fixed Rate Interest Swaps

Prior to the implementation of SFAS No. 133, the Company entered into multiple interest swaps to convert a portion of its worldwide debt portfolio from floating to fixed interest rates, to reduce its exposure to interest rate volatility. At June 30, 2003, the Company held instruments of

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this type with an aggregate notional value of \$265 million, bearing interest at rates between 4.29% and 6.22%, and with maturity dates ranging from September 15, 2003 to September 15, 2008. The implementation of SFAS No. 133 eliminated hedge accounting treatment for these instruments because they do not meet certain criteria. Accordingly, the Company is required to reflect the full amount of all changes in their fair value, without offset, in its current earnings. These fair value adjustments have caused substantial volatility in the Company's reported earnings. For the fiscal years ended June 30, 2003, 2002 and 2001, the Company recognized non-cash charges before income taxes of \$12,409, \$10,202 and \$4,680, respectively, from the change in the fair value of these derivative financial instruments. With the recognition of each charge or credit relating to these instruments, a corresponding amount is recognized in Deferred Credits - Compensation and Other. At June 30, 2003, there was an aggregate credit of \$27,884 relating to these instruments accumulated in this balance sheet classification, all of which will reverse through future earnings over the remaining life of the instruments.

Table of Contents**Forward Currency Contracts**

The Company periodically enters into forward currency contracts to protect against volatility associated with certain non-U.S. dollar denominated forecasted transactions. In accordance with SFAS No. 133, these derivatives qualify for hedge accounting treatment. They are accounted for as cash flow hedges. During their term, changes in the fair value of these forward currency contracts, net of deferred taxes, are recognized in Other Comprehensive Income and are included in earnings in the period in which earnings are affected by the hedged item.

Note E Short-Term Borrowing Arrangements

Excluding all long-term credit agreements, the Company has lines of credit arrangements with a number of banks under which the Company may borrow up to a total of \$480,394 at June 30, 2003 (\$450,412 at June 30, 2002). These lines bear interest at a weighted average rate of 3.48% for the year ending June 30, 2003. Unused lines of credit at June 30, 2003, amounted to \$234,031 (\$210,696 at June 30, 2002), net of \$36,201 of available letters of credit lines. Certain non-U.S. borrowings of approximately \$18,327 have inventories of approximately \$18,327 as collateral. There were no compensating balance agreements at June 30, 2003 or 2002.

Note F Long-Term Debt

Such debt is comprised of:

| | <u>2003</u> | | <u>2002</u> | |
|--|-----------------|-------------------|-----------------|-------------------|
| | <u>Maturing</u> | <u>Maturing</u> | <u>Maturing</u> | <u>Maturing</u> |
| | <u>within</u> | <u>after</u> | <u>within</u> | <u>after</u> |
| | <u>One Year</u> | <u>One Year</u> | <u>One Year</u> | <u>One Year</u> |
| Senior Notes (Net of Fair Value Adjustment of \$16,319 in 2003 and ((\$3,638) in 2002) | \$ | \$ 341,319 | \$ | \$ 321,362 |
| Convertible Subordinated Debentures | | 73,328 | | 73,328 |
| Revolving Credit Notes | | | | |
| Other Long-Term Debt | 655 | 6,076 | 584 | 2,814 |
| | <u>655</u> | <u>420,723</u> | <u>584</u> | <u>397,504</u> |
| Capitalized Lease Obligations | 570 | 4,174 | 544 | 4,707 |
| | <u>\$ 1,225</u> | <u>\$ 424,897</u> | <u>\$ 1,128</u> | <u>\$ 402,211</u> |

Payments of the debt are scheduled as follows:

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| | Senior | Convertible Subordinated | Revolving Credit | Other Long-Term | Total |
|-------------|-------------------|-----------------------------|---------------------|--------------------|-------------------|
| | Notes | Debentures | Notes | Debt | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | |
| 2004 | \$ | \$ | \$ | \$ 655 | \$ 655 |
| 2005 | | | | 1,735 | 1,735 |
| 2006 | | | | 1,568 | 1,568 |
| 2007 | | 73,328 | | 608 | 73,936 |
| 2008 | | | | 441 | 441 |
| 2009 | | | | 181 | 181 |
| Later years | 341,319 | | | 1,543 | 342,862 |
| | <u>\$ 341,319</u> | <u>\$ 73,328</u> | <u>\$</u> | <u>\$ 6,731</u> | <u>\$ 421,378</u> |

On May 29, 1996, the Company issued \$125 million in 8^{7/8}% Senior Notes (the 8^{7/8}% Notes) due 2006. The 8^{7/8}% Notes were general unsecured obligations of the Company and ranked equally in right of payment with all other unsubordinated indebtedness (including the \$165 million credit facility discussed below) of the Company. The Company used the net proceeds to repay certain existing short-term indebtedness and for other corporate purposes. The 8^{7/8}% Notes included a call provision enabling the Company to redeem them on or after June 1, 2001, in whole or in part, at established redemption prices, plus accrued and unpaid interest, if any, to the

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date of redemption. There were no sinking fund requirements for the 8^{7/8}% Notes. The 8^{7/8}% Notes were subject to certain covenants that, among other things, required specific liquidity and long-term solvency ratios and, under certain circumstances, restricted payment of dividends by the Company. The Company generally may make such restricted payments, provided that (1) the Company is not in default under the Indenture, (2) the Company is able to incur at least \$1.00 of additional indebtedness under a consolidated interest coverage ratio test set forth in the Indenture, and (3) the aggregate amount of the payments to be made is less than the total of (x) \$20,000, (y) 50% of the Company's consolidated net income for the period from April 1, 1996, through the end of the Company's most recent fiscal quarter and (z) the net cash proceeds from the sale by the Company of any equity securities or debt securities that are converted into equity securities.

On May 30, 2003, the Company completed a private issuance of \$125 million principal amount of 7^{3/4}% Senior Notes (the 7^{3/4}% Notes) due 2013 pursuant to Rule 144A under the Securities Act of 1933, and issued a redemption notice for all \$125 million of the outstanding 8^{7/8}% Notes. The financial covenants of the 7^{3/4}% Notes are substantially similar to those for the other existing Notes, including restrictions on certain payments. Concurrent with the completion of the 7^{3/4}% Note issuance, the Company entered into a derivative financial instrument to swap the entire \$125 million notional amount to a floating interest rate equal to LIBOR plus 3.69%, set six months in arrears. The effective rate at June 30, 2003 was 4.81%. The outstanding 8^{7/8}% Notes were fully redeemed at June 30, 2003.

On April 1, 1997, DIMON Incorporated issued \$73,328 of 6^{1/4}% Convertible Subordinated Debentures due on March 31, 2007 (the Debentures), net of the cancellation of \$50,000 in fiscal 1999 settlement of the Intabex litigation. The Debentures are convertible into approximately 2,549 shares of the Company's Common Stock at a conversion price of \$28.77 per share at any time prior to maturity. The Debentures are subordinated in right of payment to all existing and future senior indebtedness, as defined, of the Company, and do not have a cross-default provision. The Debentures are redeemable at the option of the Company under certain circumstances on or after April 1, 2000.

On October 30, 2001, the Company completed a private issuance of \$200 million principal amount of 9^{5/8}% Senior Notes (the 9^{5/8}% Notes) due 2011 pursuant to Rule 144A under the Securities Act of 1933. The financial covenants of the 9^{5/8}% Notes are substantially similar to those for the 8^{7/8}% Notes, including restrictions on certain payments. The proceeds from the 9^{5/8}% Notes were used to repay certain existing indebtedness of the Company, including all amounts drawn under the Company's then-existing \$250 million syndicated credit facility then existing.

Concurrent with the completion of the 9^{5/8}% Note issuance, the Company entered into a derivative financial instrument to swap the entire \$200 million notional amount to a floating interest rate equal to LIBOR plus 4.11%, set six months in arrears. The effective rate at June 30, 2003 was 5.23%.

On October 31, 2001, the Company closed on a three-year \$165 million syndicated bank credit facility with a group of five banks. The credit facility is subject to certain commitment fees and covenants that, among other things, require DIMON to maintain minimum working capital and tangible net worth amounts, require specific liquidity and long-term solvency ratios, including certain borrowing base restrictions, and restrict acquisitions. The Company continuously monitors its compliance with these covenants. The credit facility's initial term expires on October 31, 2004, and, subject to approval by the lenders, may be extended. The rates of interest are based on the Company's published credit rating and vary according to the type of loan requested by the Company. During the life of the agreement, the interest rate could be the prime rate or the LIBOR rate adjusted. The primary advance rate is the agent bank's base lending rate (4.0% at June 30, 2003). The Company pays a commitment fee of 1% per annum on any unused portion of the facility.

At June 30, 2003, the Company was permitted to make restricted payments, including cash dividends on its Common Stock, of up to \$39.4 million.

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Other long-term debt consists of obligations of DIMON Incorporated and the tobacco operations in Brazil, Italy and Macedonia, and is payable at interest rates varying from 2.50% to 15.52%.

Table of Contents**Note G** Long-Term Leases

The Company has both capital and operating leases. The operating leases are for land, buildings, automobiles and other equipment; the capital leases are primarily for production machinery and equipment. The capitalized lease obligations are payable through 2009. Interest rates are imputed at 3.25% to 12.50%. Amortization is included in depreciation expense. Minimum future obligations and capitalized amounts are as follows:

| | Capital | Operating |
|--|-----------------|------------------|
| | Leases | Leases |
| 2004 | \$ 856 | \$ 5,278 |
| 2005 | 829 | 4,768 |
| 2006 | 767 | 1,974 |
| 2007 | 717 | 1,469 |
| 2008 | 713 | 1,396 |
| Remaining | 2,131 | 12,240 |
| | <u>\$ 6,013</u> | <u>\$ 27,125</u> |
| Less amount representing interest and deposits | 1,269 | |
| Present value of net minimum lease payments | \$ 4,744 | |
| Less current portion of obligations under capital leases | 570 | |
| Long-term obligations under capital leases | <u>\$ 4,174</u> | |
| Capitalized amounts: | | |
| Buildings | \$ 81 | |
| Machinery and equipment, primarily vehicles | 5,257 | |
| Accumulated amortization | (1,005) | |
| | <u>\$ 4,333</u> | |

Note H Preferred Stock

The Board of Directors is authorized to issue shares of Preferred Stock in series with variations as to the number of shares in any series. The Board of Directors also is authorized to establish the rights and privileges of such shares issued, including dividend and voting rights. At June 30, 2003, no shares had been issued.

Note I Stock Incentive Plan

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The Incentive Plan authorizes the issuance of up to a total of 4.266 million shares of common stock. This amount is subject to increase annually by 3% of the number of shares of common stock issued during such year, other than pursuant to the Incentive Plan or shares issued in the event of a stock dividend, stock split, subdivision or combination or other similar change in the capital structure of the Company, or any other event that, in the judgment of the Executive Compensation Committee (the Committee), necessitates adjustment of the maximum number of shares available. The Incentive Plan authorizes the issuance of various stock incentives to any employee of the Company or any subsidiary and any member of the Board that the Committee determines has contributed to the profits or growth of the Company or its affiliates, including nonqualified or incentive stock options, stock appreciation rights, shares of restricted stock, performance shares and incentive awards.

Stock options granted under the Incentive Plan allow for the purchase of common stock at prices determined at the time the option is granted by the Committee. Stock appreciation rights (SARs) may be granted under the Incentive Plan in relation to option grants or independently of option grants. SARs generally entitle the participant to receive in cash the excess of the fair market value of a share of common stock on the date of exercise over the value of the SAR at the date of grant. Restricted stock is common stock that is both nontransferable and forfeitable unless and until certain conditions are satisfied. The shares pay dividends and have ordinary voting rights but are forfeitable if employment terminates before the three-year vesting period. As of June 30, 2003, 197

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thousand shares of restricted stock had been awarded under the Incentive Plan. Performance shares granted under the Incentive Plan are an award, stated with respect to a specified number of shares of common stock that entitles the holder to receive shares of common stock, cash or a combination of both. As of June 30, 2003, no performance shares had been awarded under the Incentive Plan. Incentive awards granted under the Incentive Plan allow for selected individuals to receive cash payments upon attainment of stated performance objectives determined by the Committee. No awards may be granted under the Incentive Plan, as amended, after February 8, 2015.

The options and SARs become exercisable on various dates as originally determined for the grants assumed by DIMON. Under the Incentive Plan, the Committee will determine the dates that the options and SARs become exercisable.

At the 1998 Annual Stockholders Meeting, shareholders approved the DIMON Incorporated Directors Stock Plan (the Directors Plan), which replaced the existing Nonemployee Directors Stock Option Plan effective January 1, 1999. The Directors Plan is administered by the Executive Committee of the Board of Directors, with all grants approved by the Board. The Directors Plan authorizes the grant of common stock, performance shares and options to purchase common stock to any director who is not an employee of the Company (or any subsidiary) and any person who provides services to the Company (or any subsidiary) in a capacity other than as an employee if the Executive Committee, with the approval of the Board, determines that such person has contributed significantly or can be expected to contribute significantly to the profits or growth of the Company. The option price will be equal to the fair market value of DIMON common stock on the date of grant. The maximum number of shares to be issued under the Directors Plan is 70 thousand shares. Options granted under the Directors Plan are immediately exercisable. As of June 30, 2003, options to purchase 60 thousand shares had been granted and were outstanding under the Directors Plan and options to purchase 24 thousand shares had been granted and were outstanding under the Nonemployee Directors Stock Option Plan.

The Company accounts for the costs of SARs as compensation charges to the income statement with quarterly adjustments for market price fluctuations. All other options are treated as equivalent shares outstanding. There was a \$270 charge to income in 2003, \$218 credit to income in 2002 and \$807 charge to income in 2001 arising from adjustments in fair market values of the SARs.

Certain potentially dilutive options outstanding at June 30, 2003, 2002, and 2001, were not included in the computation of earnings per diluted share because their exercise prices were greater than the average market price of the common shares during the period, and accordingly, their effect is antidilutive. These shares totaled 2,032 at a weighted-average exercise price of \$14.41 per share for 2003; 2,300 shares at a weighted-average exercise price of \$15.08 per share in 2002; and 1,853 shares at a weighted-average exercise price of \$16.45 per share in 2001.

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Information with respect to options and SARs follows:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|--------------|--------------|--------------|
| Options and SARs outstanding at beginning of year | 3,716 | 3,253 | 2,818 |
| Options and SARs granted | 738 | 670 | 664 |
| Options and SARs exercised | (22) | | |
| Options and SARs cancelled | (295) | (207) | (229) |
| Options and SARs outstanding at end of year | <u>4,137</u> | <u>3,716</u> | <u>3,253</u> |
| SARs included as outstanding at end of year | <u>750</u> | <u>637</u> | <u>537</u> |
| Options available for future grants at end of year | <u>853</u> | <u>1,377</u> | <u>1,905</u> |
| Options and SARs exercisable at end of year | <u>2,221</u> | <u>2,277</u> | <u>1,825</u> |
| Option and SAR exercise prices per share: | | | |
| Date of grant | | | |
| (at lowest price) | \$ 6.25 | \$ 7.44 | \$ 2.81 |
| (at highest price) | 6.25 | 7.44 | 6.00 |
| Exercised | | | |
| (at lowest price) | 4.63 | | |
| (at highest price) | 4.63 | | |
| Cancelled | | | |
| (at lowest price) | 2.81 | 2.81 | 4.63 |
| (at highest price) | <u>22.31</u> | <u>22.31</u> | <u>22.31</u> |

Weighted average option exercise price information for the years 2003, 2002 and 2001 follows:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---------------------------|--------------|--------------|--------------|
| Outstanding at July 1 | \$ 11.08 | \$ 12.03 | \$ 14.63 |
| Granted during the year | 6.25 | 7.44 | 2.86 |
| Exercised during the year | 4.63 | | |
| Cancelled during the year | 18.79 | 14.29 | 16.81 |
| Outstanding at June 30 | 9.73 | 11.08 | 12.03 |
| Exercisable at June 30 | <u>13.35</u> | <u>14.93</u> | <u>17.47</u> |

Option groups outstanding at June 30, 2003 and related weighted average price and life information follows:

| Grant Date | Options | Options | Exercise | Remaining Life |
|----------------|-------------|-------------|----------|----------------|
| by Fiscal Year | Outstanding | Exercisable | Price | (Fiscal Years) |
| 1994 | 131 | 131 | \$ 16.67 | |
| 1995 | 253 | 253 | 13.97 | 1 |

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| | | | | |
|------|--------------|--------------|-------|---|
| 1996 | 281 | 281 | 16.97 | 2 |
| 1997 | 305 | 305 | 18.18 | 3 |
| 1998 | 325 | 325 | 22.33 | 4 |
| 1999 | 626 | 626 | 7.72 | 5 |
| 2000 | 170 | 170 | 4.62 | 6 |
| 2001 | 651 | 35 | 2.86 | 7 |
| 2002 | 658 | 45 | 7.44 | 8 |
| 2003 | 737 | 50 | 6.25 | 9 |
| | <u>4,137</u> | <u>2,221</u> | | |

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The weighted average fair value at date of grant for options granted during 2003 and 2002 was \$1.97 and \$3.26 per option, respectively. The fair value of options at date of grant was estimated using the Black-Scholes model with the following weighted average assumptions:

| Black-Scholes Assumptions | 2003 | 2002 |
|---------------------------|--------|--------|
| Expected Life in Years | 7 | 7 |
| Interest Rate | 4.04% | 4.62% |
| Volatility | 55.01% | 63.10% |
| Dividend Yield | 4.80% | 2.69% |

Note J Income Taxes

The components of income before income taxes, equity in net income (loss) of investee companies, cumulative effect of accounting changes and extraordinary item consisted of the following:

| | 2003 | 2002 | 2001 |
|---------|-------------|-------------|-------------|
| U.S | \$ (39,684) | \$ (46,095) | \$ (20,552) |
| Foreign | 74,726 | 84,118 | 55,092 |
| | \$ 35,042 | \$ 38,023 | \$ 34,540 |

The details of the amount shown for income taxes in the Statements of Consolidated Income and Comprehensive Income follow:

| | 2003 | 2002 | 2001 |
|-----------------|-------------|-----------|------------|
| Current | | | |
| Federal | \$ 1,165 | \$ 688 | \$ |
| State | | | |
| Foreign | 23,742 | 9,524 | 11,386 |
| | \$ 24,907 | \$ 10,212 | \$ 11,386 |
| Deferred | | | |
| Federal | \$ (10,779) | \$ (505) | \$ 3,074 |
| State | (959) | | (160) |
| Foreign | (4,058) | 495 | (5,028) |
| | \$ (15,796) | \$ (10) | \$ (2,114) |
| Total | \$ 9,111 | \$ 10,202 | \$ 9,272 |

The reasons for the difference between income tax expense based on income before income taxes, equity in net income (loss) of investee companies, cumulative effect of accounting changes and extraordinary item and the amount computed by applying the statutory Federal income tax rate to such income are as follows:

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| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|-----------------|------------------|-----------------|
| Computed expected tax expense | \$ 12,265 | \$ 13,308 | \$ 12,089 |
| Effect of foreign income taxes | 223 | (10,805) | (4,279) |
| U.S. taxes on foreign income, net of tax credits | 4,520 | 7,207 | 8,027 |
| Permanent items | (7,897) | 492 | (6,565) |
| Actual tax expense | <u>\$ 9,111</u> | <u>\$ 10,202</u> | <u>\$ 9,272</u> |

The deferred tax liabilities (assets) are comprised of the following:

| | <u>2003</u> | <u>2002</u> |
|-----------------------------------|--------------------|--------------------|
| Deferred tax liabilities: | | |
| Foreign taxes | \$ 3,550 | \$ 4,393 |
| Fixed assets | 12,202 | 14,434 |
| Total deferred tax liabilities | <u>\$ 15,752</u> | <u>\$ 18,827</u> |
| Deferred tax assets: | | |
| Reserves and accruals | \$ (10,642) | \$ (6,400) |
| Restructuring accruals | (1,091) | (1,726) |
| Tax credits | (8,242) | (20,351) |
| Tax loss carryforwards | (20,407) | (22,524) |
| Derivative transactions | (10,848) | (6,328) |
| Postretirement and other benefits | (15,696) | (12,731) |
| Other | (4,757) | (3,727) |
| Gross deferred tax assets | <u>(71,683)</u> | <u>(73,787)</u> |
| Valuation allowance | 16,504 | 30,696 |
| Total deferred tax assets | <u>\$ (55,179)</u> | <u>\$ (43,091)</u> |
| Net deferred tax asset | <u>\$ (39,427)</u> | <u>\$ (24,264)</u> |

The following table presents the breakdown between current and non-current (assets) liabilities:

| | <u>2003</u> | <u>2002</u> |
|------------------------|--------------------|--------------------|
| Current asset | \$ (8,875) | \$ (5,025) |
| Non current asset | (34,680) | (28,482) |
| Non current liability | 4,128 | 9,243 |
| Net deferred tax asset | <u>\$ (39,427)</u> | <u>\$ (24,264)</u> |



The current portion of the deferred tax asset is included in current deferred and recoverable income taxes and the non current asset is included in deferred taxes and other deferred charges.

For the year ended June 30, 2003, the valuation allowance decreased by \$14,192 due primarily to utilization of foreign tax credit carryovers in the US, and for June 30, 2002, the valuation allowance increased by

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\$3,201 due primarily to increases in net operating loss carryovers. At June 30, 2003, the Company has net operating tax loss carryforwards of approximately \$44,794 from foreign operations and \$120,639 from U.S. operations for state income tax purposes that expire in 2004 and thereafter. Valuation allowances of \$16,504 and \$30,696 remain at the end of fiscal 2003 and 2002 respectively, primarily related to state and foreign net operating losses, which begin expiring in 2004, and foreign tax credits that will expire in 2004.

Realization of deferred tax assets is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely that not that all of the deferred tax assets, net of applicable valuation allowances, will be realized. The amount of the deferred tax assets considered realizable could be reduced or increased if estimates of future taxable income change during the carryforward period.

Consolidated retained earnings at June 30, 2003 include undistributed earnings of \$229,138 from certain foreign consolidated subsidiaries which are neither subject to additional foreign income taxes nor considered to be subject to U.S. income taxes unless remitted as dividends. The Company considers these undistributed earnings to be permanently reinvested abroad, and accordingly, has made no provision for U.S. taxes on such earnings. It is not practicable to estimate the income tax liability that might be incurred if such earnings were remitted to the United States; however, it is not anticipated that any incremental U.S. tax would result due to the ability to offset with foreign tax credits.

Note K Employee Benefits**Retirement Benefits**

The Company has a Cash Balance Plan that provides retirement benefits for substantially all U.S. salaried personnel based on years of service rendered, age and compensation. The Company also maintains an Excess Benefit Plan that provides individuals who participated in the former Dibrell Defined Benefit Pension Plan the difference between the benefits they could have potentially accrued under the Defined Benefit Pension Plan and the benefits that would have actually been paid as limited by regulations imposed by the Internal Revenue Code. The Company funds these plans in amounts consistent with the funding requirements of Federal Law and Regulations.

Additional non-U.S. plans sponsored by certain subsidiaries cover substantially all of the full-time employees located in Germany, Greece, Italy and Turkey.

A reconciliation of benefit obligations, plan assets and funded status of the plans at June 30 was as follows:

| | <u>2003</u> | <u>2002</u> |
|-------------------------------|-------------|-------------|
| Change in Benefit Obligation | | |
| Benefit obligation, beginning | \$ 60,248 | \$ 56,809 |
| Service cost | 2,467 | 1,912 |
| Interest cost | 4,294 | 4,235 |
| Actuarial loss | 7,181 | 2,975 |
| Benefits paid | (5,616) | (5,683) |

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| | | |
|--|-------------|-------------|
| Benefit obligation, ending | \$ 68,574 | \$ 60,248 |
| Change in Plan Assets | | |
| Fair value of plan assets, beginning | \$ 35,951 | \$ 43,174 |
| Actual return on plan assets | 967 | (2,950) |
| Company contribution | 1,838 | 1,656 |
| Benefits paid | (5,616) | (5,929) |
| Fair value of plan assets, ending | \$ 33,140 | \$ 35,951 |
| Funded status of plan | | |
| Unrecognized actuarial loss | 9,423 | 331 |
| Unrecognized prior service cost | 2,609 | 3,088 |
| Unrecognized net transition obligation | | (218) |
| Net amount recognized | \$ (23,402) | \$ (21,096) |

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| | <u>2003</u> | <u>2002</u> |
|--|-------------------|-------------------|
| Amounts Recognized in the Consolidated Balance Sheet Consist of: | | |
| Prepaid benefit cost | \$ | \$ |
| Accrued benefit liability | (30,519) | (25,018) |
| Intangible asset | 2,002 | 1,664 |
| Accumulated other comprehensive income | 5,115 | 2,258 |
| | <u> </u> | <u> </u> |
| Net amount recognized | \$ (23,402) | \$ (21,096) |
| | <u> </u> | <u> </u> |

Net periodic pension costs included the following components:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|------------------------------------|-------------------|-------------------|-------------------|
| Service cost | \$ 2,467 | \$ 1,912 | \$ 1,799 |
| Interest expense | 4,294 | 4,235 | 4,224 |
| Expected return on plan assets | (3,039) | (3,625) | (3,824) |
| Amortization of prior service cost | 316 | 283 | 291 |
| Amortization of transition amount | (252) | (348) | (311) |
| Actuarial loss (gain) | 291 | (225) | (449) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net periodic pension cost | \$ 4,077 | \$ 2,232 | \$ 1,730 |
| | <u> </u> | <u> </u> | <u> </u> |

For the U.S. plans, benefit obligations for the Retirement Plan and the Excess Benefit Plan were determined using assumed discount rates of 6.00% for 2003, 7.25% for 2002 and 7.75% for 2001. Assumed compensation increases were 3.5% for 2003 and 4.0% for 2002 and 2001 for the Retirement Plan and for the Excess Benefit Plan. The assumed long-term rate of return on plan assets for all three years was 9% for the Retirement Plan. Plan assets consist principally of common stock and fixed income securities. For non-U.S. plans, discount rates and assumed compensation increases are in accordance with locally accepted practice. No assumed long-term rate of return is made for non-U.S. plan assets as these plans are generally not funded.

The projected benefit obligation and accumulated benefit obligation for those plans in which the accumulated benefit obligation was in excess of plan assets were \$68,574 and \$64,007, respectively, for 2003 and \$24,785 and \$21,135, respectively, for 2002. These plans hold no assets.

The Company also sponsors a 401-k savings plan for most of its salaried employees located in the United States. The Company's contributions to the plan were \$401 in 2003, \$396 in 2002 and \$405 in 2001.

Postretirement Health and Life Insurance Benefits

The Company provides certain health and life insurance benefits to retired U.S. employees (and their eligible dependents) who meet specified age and service requirements. Plan assets consist of paid-up life insurance policies on certain current retirees. The Company retains the right,

subject to existing agreements, to modify or eliminate the medical benefits.

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A reconciliation of benefit obligations, plan assets and funded status of the plans at June 30 was as follows:

| | <u>2003</u> | <u>2002</u> |
|---|-------------------|-------------------|
| Change in Benefit Obligation | | |
| Benefit obligation, beginning | \$ 14,503 | \$ 13,729 |
| Service cost | 342 | 199 |
| Interest cost | 1,357 | 1,004 |
| Actuarial loss | 7,924 | 2,065 |
| Benefits paid | (2,078) | (2,494) |
| | <u> </u> | <u> </u> |
| Benefit obligation, ending | \$ 22,048 | \$ 14,503 |
| | <u> </u> | <u> </u> |
| Change in Plan Assets | | |
| Fair value of plan assets, beginning | \$ 95 | \$ 174 |
| Actual return on plan assets | (8) | 38 |
| Company contribution | 185 | 178 |
| Benefits paid | (118) | (295) |
| | <u> </u> | <u> </u> |
| Fair value of plan assets, ending | \$ 154 | \$ 95 |
| | <u> </u> | <u> </u> |
| Funded status of plan | | |
| Unrecognized actuarial loss | \$ (21,894) | \$ (14,408) |
| Unrecognized prior service cost | 8,004 | 261 |
| | <u> </u> | <u> </u> |
| Net amount recognized | \$ (16,122) | \$ (16,687) |
| | <u> </u> | <u> </u> |
| Amounts Recognized in the Consolidated Balance Sheet Consist of: | | |
| Prepaid benefit cost | \$ | \$ |
| Accrued benefit liability | (16,122) | (16,687) |
| Intangible asset | | |
| Accumulated other comprehensive income | | |
| | <u> </u> | <u> </u> |
| Net amount recognized | \$ (16,122) | \$ (16,687) |
| | <u> </u> | <u> </u> |

For measurement purposes, a 10.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003. The rate was assumed to decrease gradually to 5.0% by the year 2010.

Net periodic benefit costs included the following components:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--------------------------------|-------------|-------------|-------------|
| Service cost | \$ 342 | \$ 199 | \$ 284 |
| Interest expense | 1,357 | 1,004 | 1,210 |
| Expected return on plan assets | (5) | (10) | (2) |

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| | | | |
|------------------------------------|-------------------|-------------------|-------------------|
| Amortization of prior service cost | (308) | (308) | (217) |
| Actuarial (gain)/loss | 194 | (33) | (113) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net pension cost | \$ 1,580 | \$ 852 | \$ 1,162 |
| | <u> </u> | <u> </u> | <u> </u> |

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Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| | 1-Percentage- Point Increase | 1-Percentage- Point Decrease |
|---|---|---|
| | <u> </u> | <u> </u> |
| Effect on total of service and interest cost components | \$ 101 | \$ (88) |
| Effect on postretirement benefit obligation | 1,118 | (990) |
| | <u> </u> | <u> </u> |

The Company continues to evaluate ways to better manage these benefits and control the costs. Any changes in the plan or revisions to assumptions that affect the amount of expected future benefits may have a significant effect on the amount of the reported obligation and annual expense.

Employees in operations located in certain foreign countries are covered by various foreign postretirement life insurance benefit arrangements. There are no postretirement health benefits due to coverage ceasing at retirement or coverage continuing through a national health system. For these foreign plans, the cost of benefits charged to income was not material in 2003, 2002 and 2001.

Note L Segment Information

The Company operates in one segment, the tobacco business: purchasing, processing, selling and storing leaf tobacco. The Company purchases tobacco in more than 40 countries and ships tobacco to approximately 90 countries.

Geographic information as to sales and other operating revenues is based on the destination of the product sold. Long-lived assets are classified based on the location of the asset.

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| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|---------------------|---------------------|---------------------|
| Sales and Other Operating Revenues: | | | |
| United States | \$ 239,207 | \$ 248,620 | \$ 437,256 |
| Germany | 175,700 | 186,480 | 208,218 |
| Japan | 133,418 | 133,861 | 128,424 |
| Other | 723,358 | 690,759 | 627,057 |
| | <u>\$ 1,271,683</u> | <u>\$ 1,259,720</u> | <u>\$ 1,400,955</u> |

Sales and Other Operating Revenues to Major Customers:

Of the 2003, 2002 and 2001 sales and other operating revenues, approximately 38%, 35% and 36%, respectively, were to various tobacco companies which management has reason to believe are now owned by or under the common control of two companies. (The following table summarizes the net sales to each customer for the periods indicated:)

| | | | |
|------------|-------------------|-------------------|-------------------|
| Customer A | \$ 215,988 | \$ 166,675 | \$ 251,929 |
| Customer B | 264,547 | 275,487 | 248,078 |
| | <u>\$ 480,535</u> | <u>\$ 442,162</u> | <u>\$ 500,007</u> |

Long-Lived Assets:

| | | | |
|---------------|-------------------|-------------------|-------------------|
| United States | \$ 37,503 | \$ 44,599 | \$ 56,516 |
| Brazil | 40,262 | 38,979 | 38,985 |
| Malawi | 25,566 | 28,107 | 29,721 |
| Tanzania | 22,582 | 24,470 | 26,391 |
| Zimbabwe | 46,292 | 49,418 | 52,382 |
| South America | 1,769 | 1,970 | 2,388 |
| Europe | 51,693 | 42,805 | 41,200 |
| Asia | 7,043 | 7,306 | 7,316 |
| Other | 19,785 | 19,630 | 15,409 |
| | <u>\$ 252,495</u> | <u>\$ 257,284</u> | <u>\$ 270,308</u> |

Note M Shareholder Rights Plan

Pursuant to a Rights Agreement, dated as of March 31, 1995, between the Company and First Union National Bank of North Carolina, as Rights Agent, one right to purchase common stock is attached to each share of DIMON common stock. Each right entitles the holder thereof to purchase from the Company one share of common stock at a price of \$65.00 per share only after the date on which any person or group of affiliated persons acquires additional shares of common stock representing 10% or more of the outstanding common stock (a Triggering Event). After a Triggering Event, each holder of a right will have the right to receive common stock (or, in certain circumstances, cash, property or other securities of the Company) having a value equal to two times the exercise price of the right, and all rights that are beneficially owned by such acquiring person (or certain related parties) will be null and void. If the Company is acquired in a merger or other business combination, each right will entitle the holder, other than the acquiring person, to purchase securities of the surviving company having a market value equal to twice the exercise price of the rights. Following the acquisition by any person of more than the threshold percentage of the Company's outstanding common stock but less than 50% of such stock, the Company may exchange one share of common stock for each right (other than rights held by such acquiring person). Until the rights become exercisable, they may be redeemed by the Company at a price of one cent per right. The rights expire on March 31, 2005.

Note N - Contingencies and Other Information

In 1993, the Company received notices from Brazilian tax authorities of proposed adjustments to the income tax returns of the Company's entities located in Brazil for the calendar years ending 1988 through 1992. In August 1996, the Company also received notices of adjustments from Brazilian tax authorities proposing adjustments to the income taxes for calendar year 1992 based on the Company's recalculation of monetary correction as allowed under Law 8200. The Company successfully defeated many of the proposed adjustments in litigation and settled the other issues under REFIS and Tax Amnesty programs. During the twelve months ended June 30, 2003, the Company resolved an additional \$2,000 of tax, penalties and interest. As of June 30, 2003, tax, penalties and interest relating to still unresolved issues is approximately \$1,600, before related tax benefits for future deductions, and deduction of interest if the Company failed to prevail on these issues.

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On October 31, 2002, the Company received an assessment from the tax authorities in Germany regarding the taxable gain from the sale of its flower operations, Florimex, in September 1998. The report concluded the values of the real estate located in Germany were greater than those arrived at with the buyer of the flower operation. The proposed adjustment to income tax is equivalent to approximately \$4,500. The Company has challenged this finding with valuations that support the values used in the original filings and is currently discussing the issue with the tax officials in Germany.

In September 2002, the Company's Tanzanian operation received an assessment for income taxes equivalent to approximately \$1,000. The company has filed a protest and an appeal and is awaiting a reply.

The Company believes it has properly reported its income and paid its taxes in Brazil, Germany and Tanzania in accordance with applicable laws and intends to vigorously contest the proposed adjustments. The Company expects the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated balance sheet or results of operations.

DeLoach, et al. v. Philip Morris Companies Inc., et al., is a lawsuit pending in the United States District Court for the Middle District of North Carolina (Case No. 00-CV-1235). On April 3, 2002, the Court issued an opinion and order certifying a class of plaintiffs. As certified, the class consists of persons who, at any time from March 1, 1996 through February 28, 2001, held a quota to grow or produced and sold U.S. flue-cured and burley tobacco. The plaintiffs allege that the defendants, which include cigarette manufacturers and leaf tobacco dealers, including the Company, violated the antitrust laws by conspiring to rig bids at auction and undermine the federal government quota and price support program. The plaintiffs seek injunctive relief, treble damages in an unspecified amount, pre- and post-judgment interest, attorneys' fees and costs of litigation. The Company and the other defendants have asserted a number of defenses to the allegations made.

On May 15, 2003, the Company entered into a conditional settlement agreement to resolve its involvement in the DeLoach class action litigation. The Settlement Agreement was signed by the plaintiffs, on behalf of themselves and the class of plaintiffs they represent, the Company, and all but one of the other defendants in the case. Under the terms of the Settlement Agreement, the Company will pay \$6 million of the approximately \$210 million of cash settlement payments to be paid by the settling defendants, and will not be obligated to pay any portion of the plaintiffs' attorneys' fees or other costs or expenses awarded by the Court, which will be paid by certain other settling defendants. Because management expects that the court will ultimately approve the settlement agreement, the Company has recorded its share of the settlement as of June 30, 2003. In addition, certain other settling defendants who are cigarette manufacturers have agreed to purchase certain minimum amounts of U.S. grown tobacco over the next ten years. In exchange, the plaintiffs and the members of the class will release the settling defendants, including the Company and its affiliates, from any and all claims, damages, or liabilities of any nature whatsoever, known or unknown, under state or federal law, that any plaintiff or member of the class has or had, that was or could have been alleged as a class action in the DeLoach litigation.

The Settlement Agreement expressly recognizes the Company's continued denial of wrongdoing and liability, and does not constitute an admission of any of the claims or allegations made by the plaintiffs in the case, or any admission or evidence of a violation of any law or other wrongdoing by any of the settling defendants.

The Settlement Agreement has received preliminary approval from the Court, and consummation of the settlement is subject to final approval of the Court following a required notice to the members of the class of plaintiffs. It is expected that any such final approval will occur in mid to late September. Certain members of the potential class of plaintiffs may opt out of the settlement in accordance with the rules governing class action litigation. The DeLoach litigation will continue against the non settling defendant.

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In October 2001, the Directorate General for Competition (DGCOMP) of the European Commission (EC) began conducting an administrative investigation into certain tobacco buying and selling practices alleged to have occurred within the leaf tobacco industry in Spain and Italy. The Company believes that the DGCOMP may be conducting similar investigations in other countries. The Company subsidiaries in Spain (Agroexpansion) and Italy (DIMON Italia) are cooperating with the DGCOMP. Based on the Company's understanding of the facts pertaining

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to the activities of Spanish and Italian tobacco processors, including Agroexpansion and DIMON Italia, respectively, the Company believes there have been infringements of EU law. Agroexpansion and DIMON Italia believe that there are mitigating circumstances in the structure and traditional operation of tobacco production and processing in these markets. The EC is not expected to issue a ruling (Statement of Objection) concerning either of these investigations until later in 2003. The Company expects that administrative penalties will be assessed, and those penalties could be material to our earnings. However, the Company is not able to make an assessment of the amount of any such penalties at this time. The Company understands that the cooperation of its subsidiaries with the DGCOMP during its investigations could result in a reduction of the amount of penalties imposed.

In September 2002, the Argentina National Commission for Defense of Competition (NCDC) began an administrative inquiry into the tobacco and cigarette industry in Argentina. The Company subsidiary in Argentina, DIMON Argentina S.A., is cooperating with the NCDC. The Company cannot predict whether the inquiry will result in any further action by the NCDC.

The Company and certain of its foreign subsidiaries guarantee bank loans to growers to finance their crop. Under longer-term arrangements, the Company may also guarantee financing on growers' construction of curing barns or other tobacco production assets. The Company also guarantees bank loans to certain tobacco cooperatives to assist with the financing of their growers' crops. Guaranteed loans are generally repaid concurrent with the delivery of tobacco to the Company. The Company is obligated to repay any guaranteed loan should the grower or tobacco cooperative default. If default occurs, the Company has recourse against the grower or cooperative. At June 30, 2003, the Company is guarantor of an amount not to exceed \$136,799 with \$105,576 outstanding under these guarantees. The majority of the current outstanding guarantees expire within the respective annual crop cycle. The Company considers the risk of significant loss under these guarantees and other contingencies to be remote, and the accrual recorded for exposure under them was not material at June 30, 2003.

On August 21, 2001, the Company's subsidiary in Brazil won a claim related to certain excise taxes (IPI credit bonus) for the years 1983 through 1990 and is now pursuing collection. The collection procedures are not clear and the total realization process could potentially be over many years. The Company is unable to estimate the realizable value of this claim as of June 30, 2003.

Zimbabwe remains in a period of civil unrest in combination with a deteriorating economy. Should the current political situation continue, the Company could experience disruptions and delays associated with its Zimbabwe operations. If the political situation in Zimbabwe continues to deteriorate, the Company's ability to recover its assets there could be impaired. The Company's Zimbabwe subsidiary has long-lived assets of approximately \$46,292 as of June 30, 2003.

The Company's subsidiary in Spain, Compania General de Tabacos de Filipinas (CdF), was the plaintiff in a lawsuit regarding the alleged breach of contract in CdF's sale of a building located in Barcelona in 1991. CdF successfully concluded the lawsuit in February, 2001, and the Company realized a gain of \$3,923.

Note O - Cumulative Effect of Changes in Accounting Principles

Reporting Period of Subsidiaries

Effective July 1, 2000, four of the Company's European subsidiaries changed their fiscal year end from March 31 to June 30. More efficient financial reporting routines have allowed the Company to eliminate the traditional fiscal quarter lag associated with the inclusion of these

subsidiaries in its consolidated financial statements. For the quarter ended September 30, 2000, income of \$284 earned by the affected subsidiaries during the period between April 1, 2000 and June 30, 2000 has been recognized as the cumulative effect of an accounting change.

Derivative Financial Instruments

Effective July 1, 2000, the Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. In accordance with the transition provisions of SFAS No. 133, the Company recorded a cumulative effect loss adjustment of \$100, net of applicable taxes of \$37, in other comprehensive income to recognize the fair value of all derivatives designated as cash-flow hedging instruments. Also, in accordance with the transition provisions, the Company recorded as the cumulative effect of an accounting change a \$387 loss, net of applicable taxes of \$191, in the statement of operations, for the unrealized fair market value depreciation of certain interest rate swap instruments not designated as hedges.

Table of Contents**Note P - Selected Quarterly Financial Data (Unaudited)**

Summarized quarterly financial information is as follows:

| | <u>First Quarter</u> | <u>Second Quarter</u> | <u>Third Quarter</u> | <u>Fourth Quarter</u> | <u>Fiscal Year</u> |
|---------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|------------------------|
| 2003 | | | | | |
| Sales and Other Operating | | | | | |
| Revenue | \$ 270,944 | \$ 305,721 | \$ 301,404 | \$ 393,614 | \$ 1,271,683 |
| Gross Profit | 55,586 | 44,172 | 41,103 | 69,552 | 210,413 |
| Net Income before Extraordinary Items | 5,058 | 6,272 | 2,670 | 12,280 | 26,280 |
| Per Share of Common Stock: | | | | | |
| Basic Earnings | .11 | .14 | .06 | .32 | .63 |
| Diluted Earnings | .11* | .14* | .06* | .31 | .62* |
| Cash Dividends per Share | .05 | .075 | .075 | .075 | .275 |
| Market Price - High | 7.00 | 6.60 | 7.50 | 7.44 | 7.50 |
| - Low | 5.45 | 5.35 | 5.60 | 5.69 | 5.35 |
| 2002 | | | | | |
| Sales and Other Operating | | | | | |
| Revenue | \$ 288,721 | \$ 376,363 | \$ 257,065 | \$ 337,571 | \$ 1,259,720 |
| Gross Profit | 52,612 | 47,596 | 39,360 | 65,897 | 205,465 |
| Net Income | 3,918 | 6,201 | 4,690 | 12,667 | 27,476 |
| Per Share of Common Stock: | | | | | |
| Basic Earnings | .09 | .14 | .11 | .28 | .62 |
| Diluted Earnings | .09* | .14* | .10* | .28 | .61* |
| Cash Dividends per Share | .05 | .05 | .05 | .05 | .20 |
| Market Price - High | 10.18 | 7.50 | 8.29 | 7.94 | 10.18 |
| - Low | 5.49 | 5.35 | 6.35 | 6.35 | 5.35 |

* Assumed conversion of Convertible Debentures at the beginning of each period has an antidilutive effect on earnings per share.

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Report of Independent Accountants

To the Board of Directors and Shareholders of DIMON Incorporated

We have audited the accompanying consolidated balance sheets of DIMON Incorporated and subsidiaries as of June 30, 2003 and 2002, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2003. Our audits also included the financial statement schedule listed in the Index at Item 16(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of DIMON Incorporated and subsidiaries at June 30, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note O to the consolidated financial statements, in 2001 the Company changed its consolidated reporting period for four European subsidiaries and also changed its method of accounting for derivative financial instruments. As discussed in Note A to the consolidated financial statements, in 2003 the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Intangible Assets*.

/s/ Ernst & Young LLP

Greensboro, North Carolina

August 15, 2003

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in the Proxy Statement in the table entitled "Company Nominees for Directors" under the caption "Election of Directors" is incorporated herein by reference thereto. See "Additional Information - Executive Officers of the Company" at the end of Item I above for information about the executive officers of the Company.

ITEM 11. EXECUTIVE COMPENSATION AND TRANSACTIONS

The information contained in the Proxy Statement under the caption "Compensation of Executive Officers and Directors" is incorporated herein by reference thereto.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained in the Proxy Statement under the caption "Stock Ownership of Certain Beneficial Owners and Management" is incorporated herein by reference thereto.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained in the Proxy Statement under the caption "Compensation of Executive Officers and Directors" "Employment and Consulting Agreements" is incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

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Based on their most recent evaluation, which was completed within 90 days of the filing of this Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Exchange Act Rule 13a-14(c)) are effective to ensure that the information required to be disclosed in our filings with the SEC under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

ITEM 15. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information contained in the Proxy Statement under the caption "Audit and Non-Audit Fees" is incorporated herein by reference.

PART IV

ITEM 16. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) and (2)

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

Statements of Consolidated Income and Comprehensive Income Years ended June 30, 2003, 2002 and 2001

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Consolidated Balance Sheet June 30, 2003 and 2002
 Statement of Stockholders Equity Years ended June 30, 2003, 2002 and 2001
 Statement of Consolidated Cash Flows Years ended June 30, 2003, 2002 and 2001
 Notes to Consolidated Financial Statements
 Report of Ernst & Young LLP

Financial Statement Schedules:
 Schedule II - Valuation and Qualifying Accounts

| | | |
|---------------------------------|---|--|
| (b) Current Reports on Form 8-K | - | August 19, 2002 - Item 7, DIMON's Earnings for Fiscal Year 2002 Increase 43% Earnings Performance is Expected to Continue in 2003 and Item 9, Regulation FD Disclosure |
| | - | August 29, 2002 - Item 9, Regulation FD Disclosure A. Sworn Statements and B. 906 Certification Statements |
| | - | August 30, 2002 - Item 5 and 7, DIMON Announces Quarterly Dividend |
| | - | October 30, 2002 - Item 5 and 7, DIMON Announces 50% Increase in Quarterly Dividend |
| | - | October 30, 2002 - Item 5, DIMON Holds Annual Shareholder Meeting |
| | - | November 5, 2002 - Item 7, DIMON's First Quarter Earnings Increase 21% Company Confirms Fiscal 2003 Earnings Guidance and Item 9, Regulation FD Disclosure |
| | - | November 5, 2002 - Item 9, Regulation FD Disclosure A. 906 Certification Statements |
| | - | February 4, 2003 - Item 7, DIMON's Second Quarter Earnings Rise to Reflect Continued Business Progress Company Confirms Fiscal 2003 Earnings Guidance and Item 9, Regulation FD Disclosure |
| | - | February 21, 2003 - Item 5 and 7, DIMON Announces Quarterly Dividend |
| | - | February 24, 2003 - Item 5, DIMON Names Steven B. Daniels President and Chief Operating Officer |
| | - | May 7, 2003 - Item 7, DIMON Reports Third Quarter Earnings, Company Confirms Fiscal 2003 Earnings Guide and Item 9, Regulation FD Disclosure |
| | - | May 16, 2003 - Item 9, DIMON Announces Conditional Settlement of DeLoach Class Action Litigation |
| | - | May 20, 2003 - Item 9, DIMON Estimates Earnings Effect From Settlement |
| | - | May 22, 2003 - Item 5 and 7, DIMON Announces Quarterly Dividend |
| | - | May 27, 2003 - Item 9, DIMON Inc. Announces Private Offering of Senior Notes |
| | - | June 3, 2003 - Item 9, DIMON Announces Successful Refinancing Transaction Issues \$125 Million of Ten-Year 7 ³ / ₄ % Senior Notes Will Retire \$125 Million of 8 ⁷ / ₈ % Senior Notes Due 2006 |
| | - | June 25, 2003 - Item 8, Change in Fiscal Year |
| | - | June 25, 2003 - Item 7 and 9, DIMON Announces Change of Fiscal Year-End Reiterates Previously Articulated Guidance for Fiscal Year 2003 Provides Earnings Guidance for Shortened Fiscal Year 2004 |
| | - | August 19, 2003 - Item 7, DIMON Reports Fiscal Year 2003 Earnings Company Confirms Fiscal 2004 Earnings Guidance and Item 12, Regulation FD Disclosure |
| | - | August 26, 2003 - Item 5 and 7, DIMON Names Two Additional Directors and Announces Regular Quarterly |

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(c) Exhibits

The following documents are filed as exhibits to this Form 10-K pursuant to Item 601 of Regulation S-K:

- 3.01 Amended and Restated Articles of Incorporation of DIMON Incorporated (incorporated by reference to Appendix VII to DIMON Incorporated's Joint Proxy Statement filed pursuant to Rule 424(b) in connection with DIMON Incorporated's Registration Statement on Form S-4 (file 33-89780))
- 3.02 Amended and Restated Bylaws, as amended, of DIMON Incorporated effective February 20, 2001 (incorporated by reference to Exhibit 3 to DIMON Incorporated's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001)
- 4.01 Specimen of Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to DIMON Incorporated's Registration Statement on Form S-4 (file 33-89780))
- 4.02 Article III of the Amended and Restated Articles of Incorporation of DIMON Incorporated (filed as Exhibit 3.01)
- 4.03 Article III of the Amended and Restated By-Laws of DIMON Incorporated (filed as Exhibit 3.02)
- 4.04 Rights Agreement, dated as of March 31, 1995, between DIMON Incorporated and First Union National Bank of North Carolina, as Rights Agent (incorporated by reference to Exhibit 4 to DIMON Incorporated Current Report on Form 8-K, dated April 1, 1995)
- 4.05 Indenture, dated May 29, 1996 among DIMON Incorporated as issuer, DIMON International, Inc. and Florimex Worldwide, Inc. as guarantors and Crestar Bank, as trustee (incorporated by reference to Exhibit 4.05 to DIMON Incorporated's Annual Report on Form 10-K for the year ended June 30, 1996)
- 4.06 Indenture, dated October 30, 2001, between DIMON Incorporated as issuer, and SunTrust Bank as trustee (incorporated by reference to Exhibit 4.1 to DIMON Incorporated's Form 10-Q filed for the quarterly period ended September 30, 2001)
- 4.07 Indenture, dated May 30, 2003, between DIMON Incorporated as issuer and SunTrust Bank as trustee. *
- 4.08 Registration Rights Agreement, dated as of May 30, 2003, between DIMON Incorporated and Wachovia Securities, Inc., as Rights Agent. *
- 4.09 Form of Global Note for 7³/₄% Senior Notes due 2013 (included in Exhibit 4.07 as Exhibit A thereof).
- 10.01 DIMON Incorporated Omnibus Stock Incentive Plan (1995) (incorporated herein by reference to Exhibit 10.1 to DIMON Incorporated's Registration Statement on Form S-4 (file No. 33-89780))
- 10.02 Dibrell Brothers, Incorporated Retirement Plan (Excess Benefit Plan) (incorporated herein by reference to Exhibit 10.4 to Dibrell Brothers, Incorporated's Annual Report on Form 10-K for the year ended June 30, 1987)
- 10.03 Dibrell Brothers, Incorporated Pension Equalization Plan (Benefit Assurance Plan) (incorporated herein by reference to Exhibit 10.13 to Dibrell Brothers, Incorporated's Annual Report on Form 10-K for the year ended June 30, 1991)

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| | |
|-------|--|
| 10.04 | Early Retirement Agreement, dated May 17, 1999, between DIMON Incorporated and Claude B. Owen, Jr. (incorporated by reference to Exhibit 10.13 to DIMON Incorporated's Annual Report on Form 10-K for the year ended June 30, 1999) |
| 10.05 | Indenture, dated as of April 1, 1997, by DIMON Incorporated to LaSalle National Bank, relating to 6 1/4% Convertible Subordinated Debentures due March 31, 2007 (incorporated by reference herein to Exhibit 10.2 to DIMON Incorporated's Current Report on Form 8-K dated April 16, 1997) |
| 10.06 | Employment Agreement dated January 3, 1997, with Brian J. Harker (incorporated by reference to Exhibit 10 to DIMON Incorporated's Quarterly Report on Form 10-Q dated February 14, 1997) |
| 10.07 | First Amendment to Employment Agreement, dated April 22, 1999, between DIMON Incorporated and Brian J. Harker (incorporated by reference to Exhibit 10.22 to DIMON Incorporated's Annual Report on Form 10-K for the year ended June 30, 1999) |
| 10.08 | Employment Agreement, dated July 1, 1994, between Monk-Austin International, Inc. and Larry R. Corbett (incorporated by reference to Exhibit 10.7 to Monk-Austin, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 1994) (incorporated by reference to Exhibit 10.23 to DIMON Incorporated's Annual Report on Form 10-K for the year ended June 30, 1999) |
| 10.09 | Amendment to Employment Agreement, dated August 10, 1995, between DIMON International, Inc. and Larry R. Corbett (incorporated by reference to Exhibit 10.24 to DIMON Incorporated's Annual Report on Form 10-K for the year ended June 30, 1999) |
| 10.10 | Amended DIMON Incorporated Supplemental Retirement Plan dated July 30, 1998 and effective January 1, 1997 (incorporated by reference to Exhibit 10.22 to DIMON Incorporated's Annual Report on Form 10-K for the year ended June 30, 1998) |
| 10.11 | DIMON Incorporated Directors' Stock Plan (incorporated by reference to Exhibit 10.28 to DIMON Incorporated's Annual Report on Form 10-K for the year ended June 30, 1999) |
| 10.12 | Settlement Agreement, dated May 24, 1999, between DIMON Incorporated and Tabex (Private) Limited, Folium Inc., Blair Investments (Private) Limited, Tabacalera S.A., Anthony C. B. Taberer, Paul A.B. Taberer, and Charles M.B. Taberer (incorporated by reference to Exhibit 10.29 to DIMON Incorporated's Annual Report on Form 10-K for the year ended June 30, 1999) |
| 10.13 | Amended 1995 DIMON Incorporated Omnibus Stock Incentive Plan, adopted at the Annual Meeting of Shareholders on November 12, 1999 (incorporated by reference to Exhibit 10.23 to DIMON Incorporated's Annual Report on Form 10-K for the year ended June 30, 2000) |
| 10.14 | Credit Agreement dated as of October 31, 2001, among DIMON Incorporated, First Union National Bank as Lender and Administrative Agent and Deutsche Bank AG - Amsterdam Branch, ING Bank - London Branch, Natexis Banque Populaires and SunTrust Bank (incorporated by reference to Exhibit 10.1 to DIMON Incorporated's Form 10-Q filed for the quarterly period ended September 30, 2001) |
| 10.15 | Compensation Deferral Plan* |
| 12 | Ratio of Earnings to Fixed Charges* |
| 21 | List of Subsidiaries* |
| 23.1 | Consent of Ernst & Young LLP (filed herewith) |
| 23.2 | Consent of Ernst & Young LLP (filed herewith) |

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- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- (d) Financial Statement Schedules:

Schedule II, Valuation and Qualifying Accounts, appears on the following pages. The consolidated financial statement schedules listed in Item 14(a) appear on the following pages. All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are not applicable and, therefore, have been omitted.

* Filed as an exhibit to DIMON's Annual Report on Form 10-K filed on August 28, 2003.

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SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS

DIMON INCORPORATED AND SUBSIDIARIES

PERIODS ENDED JUNE 30

| <u>COL. A</u> | <u>COL. B</u> | <u>COL. C</u> | | <u>COL. D</u> | <u>COL. E</u> |
|---------------------------------|---------------------|-------------------|----------------|---------------------|---------------------|
| <u>DESCRIPTION</u> | | <u>ADDITIONS</u> | | | |
| | | (1) | (2) | | |
| | Balance at | Charged to | Charged to | | Balance at |
| | Beginning | Costs and | Other Accounts | Deductions | End of |
| | of Period | Expenses | -Describe | -Describe | Period |
| Year ended June 30, 2001 | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | \$ 7,263,980 | \$ 70,348 | \$ | \$ 6,103,961(A) | \$ 1,230,367 |
| Total | <u>\$ 7,263,980</u> | <u>\$ 70,348</u> | <u>\$</u> | <u>\$ 6,103,961</u> | <u>\$ 1,230,367</u> |
| Year ended June 30, 2002 | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | \$ 1,230,367 | \$ 982,794 | \$ | \$ 277,967(B) | \$ 1,935,194 |
| Total | <u>\$ 1,230,367</u> | <u>\$ 982,794</u> | <u>\$</u> | <u>\$ 277,967</u> | <u>\$ 1,935,194</u> |
| Year ended June 30, 2003 | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | \$ 1,935,194 | \$ 94,594 | \$ | \$ 337,021(B) | \$ 1,692,767 |
| Total | <u>\$ 1,935,194</u> | <u>\$ 94,594</u> | <u>\$</u> | <u>\$ 337,021</u> | <u>\$ 1,692,767</u> |

(A) Currency translation and direct write-off, \$2,840,467; recovery from litigation settlement, \$3,263,494.

(B) Currency translation and direct write-off.

Certain prior year amounts have been reclassified to conform to the current year presentation.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on January 12, 2004.

DIMON INCORPORATED (Registrant)

By /s/ Brian J. Harker

Brian J. Harker

Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on January 12, 2004.

By /s/ Brian J. Harker

Brian J. Harker

Chairman of the Board of Directors and Chief Executive Officer of DIMON Incorporated

By /s/ James E. Johnson, Jr.

James E. Johnson, Jr.

Director of DIMON Incorporated

By /s/ Steven B. Daniels

Steve B. Daniels

President and Chief Operating Officer of DIMON Incorporated

By /s/ Norman A. Scher

Norman A. Scher

Director of DIMON Incorporated

By /s/ James A. Cooley

James A. Cooley

Senior Vice President-Chief Financial Officer of DIMON Incorporated

By /s/ John M. Hines

John M. Hines

Director of DIMON Incorporated

By /s/ Joseph L. Lanier, Jr.

Joseph L. Lanier, Jr.

Director of DIMON Incorporated

By _____

R. Stuart Dickson

Director of DIMON Incorporated

By /s/ Albert C. Monk III

Albert C. Monk III

By /s/ Martin R. Wade III

Martin R. Wade III

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Director of DIMON Incorporated
By /s/ Thomas F. Keller

Thomas F. Keller

Director of DIMON Incorporated
By /s/ Henry F. Frigon

Henry F. Frigon

Director of DIMON Incorporated

Director of DIMON Incorporated
By _____

Hans B. Amell

Director of DIMON Incorporated
By /s/ Thomas G. Reynolds

Thomas G. Reynolds

Vice President-Controller (Principal Accounting Officer) of
DIMON Incorporated

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By _____
William R. Slee
Director of DIMON Incorporated

By _____
C. Richard Green, Jr.
Director of DIMON Incorporated

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| <u>Exhibits</u> | <u>Page No.</u> |
|------------------------|---|
| 3.01 | Amended and Restated Articles of Incorporation of DIMON Incorporated (incorporated by reference to Appendix VII to DIMON Incorporated's Joint Proxy Statement filed pursuant to Rule 424(b) in connection with DIMON Incorporated's Registration Statement on Form S-4 (file 33-89780)) |
| 3.02 | Amended and Restated Bylaws, as amended, of DIMON Incorporated effective February 20, 2001 (incorporated by reference to Exhibit 3 to DIMON Incorporated's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001) |
| 4.01 | Specimen of Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to DIMON Incorporated's Registration Statement on Form S-4 (file 33-89780)) |
| 4.02 | Article III of the Amended and Restated Articles of Incorporation of DIMON Incorporated (filed as Exhibit 3.01) |
| 4.03 | Article III of the Amended and Restated By-Laws of DIMON Incorporated (filed as Exhibit 3.02) |
| 4.04 | Rights Agreement, dated as of March 31, 1995, between DIMON Incorporated and First Union National Bank of North Carolina, as Rights Agent (incorporated by reference to Exhibit 4 to DIMON Incorporated Current Report on Form 8-K, dated April 1, 1995) |
| 4.05 | Indenture, dated May 29, 1996 among DIMON Incorporated as issuer, DIMON International, Inc. and Florimex Worldwide, Inc. as guarantors and Crestar Bank, as trustee (incorporated by reference to Exhibit 4.05 to DIMON Incorporated's Annual Report on Form 10-K for the year ended June 30, 1996) |
| 4.06 | Indenture, dated October 30, 2001, between DIMON Incorporated as issuer, and SunTrust Bank as trustee (incorporated by reference to Exhibit 4.1 to DIMON Incorporated's Form 10-Q filed for the quarterly period ended September 30, 2001) |
| 4.07 | Indenture, dated May 30, 2003, between DIMON Incorporated as issuer and SunTrust Bank as trustee. * |
| 4.08 | Registration Rights Agreement, dated as of May 30, 2003, between DIMON Incorporated and Wachovia Securities, Inc., as Rights Agent. * |
| 4.09 | Form of Global Note for 7 ³ / ₄ % Senior Notes due 2013 (included in Exhibit 4.07 as Exhibit A thereof). |
| 10.01 | DIMON Incorporated Omnibus Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to DIMON Incorporated's Registration Statement on Form S-4 (file No. 33-89780)) |
| 10.02 | Dibrell Brothers, Incorporated Retirement Plan (Excess Benefit Plan) (incorporated herein by reference to Exhibit 10.4 to Dibrell Brothers, Incorporated's Annual Report on Form 10-K for the year ended June 30, 1987) |

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- 10.03 Dibrell Brothers, Incorporated Pension Equalization Plan (Benefit Assurance Plan) (incorporated herein by reference to Exhibit 10.13 to Dibrell Brothers, Incorporated s Annual Report on Form 10-K for the year ended June 30, 1991)
- 10.04 Early Retirement Agreement, dated May 17, 1999, between DIMON Incorporated and Claude B. Owen, Jr. (incorporated by reference to Exhibit 10.13 to DIMON Incorporated s Annual Report on Form 10-K for the year ended June 30, 1999)
- 10.05 Indenture, dated as of April 1, 1997, by DIMON Incorporated to LaSalle National Bank, relating to 6 1/4% Convertible Subordinated Debentures due March 31, 2007 (incorporated by reference herein to Exhibit 10.2 to DIMON Incorporated s Current Report on Form 8-K dated April 16, 1997)
- 10.06 Employment Agreement dated January 3, 1997, with Brian J. Harker (incorporated by reference to Exhibit 10 to DIMON Incorporated s Quarterly Report on Form 10-Q dated February 14, 1997)
- 10.07 First Amendment to Employment Agreement, dated April 22, 1999, between DIMON Incorporated and Brian J. Harker (incorporated by reference to Exhibit 10.22 to DIMON Incorporated s Annual Report on Form 10-K for the year ended June 30, 1999)
- 10.08 Employment Agreement, dated July 1, 1994, between Monk-Austin International, Inc. and Larry R. Corbett (incorporated by reference to Exhibit 10.7 to Monk-Austin, Inc. s Quarterly Report on Form 10-Q for the quarter ended December 31, 1994) (incorporated by reference to Exhibit 10.23 to DIMON Incorporated s Annual Report on Form 10-K for the year ended June 30, 1999)
- 10.09 Amendment to Employment Agreement, dated August 10, 1995, between DIMON International, Inc. and Larry R. Corbett (incorporated by reference to Exhibit 10.24 to DIMON Incorporated s Annual Report on Form 10-K for the year ended June 30, 1999)
- 10.10 Amended DIMON Incorporated Supplemental Retirement Plan dated July 30, 1998 and effective January 1, 1997 (incorporated by reference to Exhibit 10.22 to DIMON Incorporated s Annual Report on Form 10-K for the year ended June 30, 1998)
- 10.11 DIMON Incorporated Directors Stock Plan (incorporated by reference to Exhibit 10.28 to DIMON Incorporated s Annual Report on Form 10-K for the year ended June 30, 1999)
- 10.12 Settlement Agreement, dated May 24, 1999, between DIMON Incorporated and Tabex (Private) Limited, Folium Inc., Blair Investments (Private) Limited, Tabacalera S.A., Anthony C. B. Taberer, Paul A.B. Taberer, and Charles M.B. Taberer (incorporated by reference to Exhibit 10.29 to DIMON Incorporated s Annual Report on Form 10-K for the year ended June 30, 1999)

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| 10.13 | Amended 1995 DIMON Incorporated Omnibus Stock Incentive Plan, adopted at the Annual Meeting of Shareholders on November 12, 1999 (incorporated by reference to Exhibit 10.23 to DIMON Incorporated's Annual Report on Form 10-K for the year ended June 30, 2000) |
| 10.14 | Credit Agreement dated as of October 31, 2001, among DIMON Incorporated, First Union National Bank as Lender and Administrative Agent and Deutsche Bank AG - Amsterdam Branch, ING Bank - London Branch, Natexis Banque Populaires and SunTrust Bank (incorporated by reference to Exhibit 10.1 to DIMON Incorporated's Form 10-Q filed for the quarterly period ended September 30, 2001) |
| 10.15 | Compensation Deferral Plan* |
| 12 | Ratio of Earnings to Fixed Charges* |
| 21 | List of Subsidiaries* |
| 23.1 | Consent of Ernst & Young LLP (filed herewith) |
| 23.2 | Consent of Ernst & Young LLP (filed herewith) |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith) |

* Filed as an exhibit to DIMON's Annual Report on Form 10-K filed on August 28, 2003.