

ALLIANCE ONE INTERNATIONAL, INC.
Form 10-K
June 22, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

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

ACT OF 1934 FOR THE FISCAL YEAR ENDED March 31, 2007

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

Alliance One International, Inc.

Virginia

001-13684

54-1746567

(State or other jurisdiction of Incorporation)

(Commission File Number)

(I.R.S. Employer Identification No.)

8001 Aerial Center Parkway
Morrisville, North Carolina 27560-8417
(Address of principal executive offices)

Telephone Number (919) 379-4300
(Registrant's telephone number, including area code)

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) | New York Stock Exchange |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes

No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of September 30, 2006 the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$331 million based on the closing sale price of the common stock as reported on the New York Stock Exchange. As of May 29, 2007, there were 96,583,000 shares of Common Stock outstanding (no par value), including 7,853,000 shares owned by a wholly-owned subsidiary.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Shareholders (to be held August 16, 2007) of the registrant is incorporated by reference into Part III hereof.

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PART I

ITEM 1. BUSINESS

In this section, unless the context indicates otherwise, the terms Alliance One, we, us and our refer to the combined business of DIMON and Standard after completion of the merger of Standard with and into DIMON on May 13, 2005. The term DIMON refers to DIMON Incorporated and its subsidiaries prior to the merger. The term Standard refers to Standard Commercial Corporation and its subsidiaries prior to the merger.

AVAILABLE INFORMATION

Our website address is www.aointl.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 information contained on our website shall not be deemed part of this annual report on Form 10-K for any reason.

OVERVIEW

Alliance One is one of only two global independent leaf tobacco merchants, each with substantially similar global market shares. We have broad geographic processing capabilities, a diversified product offering and an established customer base, including all of the major consumer tobacco product manufacturers. We select, purchase, process, store, pack and ship tobacco grown in more than 45 countries, serving manufacturers of cigarettes and other consumer tobacco products in more than 90 countries around the world. We process tobacco through a complex mechanized threshing and separating operation and then dry it to meet precise moisture levels in accordance with the customer's specifications. The processing of leaf tobacco facilitates shipping and prevents spoilage and is an essential service to our customers because the quality of processed leaf tobacco substantially affects the quality of the manufacturer's end product. In an increasing number of important markets, we also provide agronomy expertise for growing leaf tobacco.

Alliance One holds a leading position in most tobacco growing regions in the world, including the principal export markets for flue-cured, burley and oriental tobacco: the United States, Brazil, Malawi, Turkey, Argentina, India and Thailand. In addition, we process tobacco in more than 50 owned and third party facilities around the world. We sell our processed tobacco primarily to large multinational cigarette manufacturers, including Philip Morris, Japan Tobacco, British American Tobacco, Altadis, Imperial Tobacco, R. J. Reynolds Tobacco, Gallaher, Lorillard, Eastern and others.

Alliance One is a Virginia corporation, and our common stock has been traded on the New York Stock Exchange since 1995. Through our predecessor companies, we have a long operating history in the leaf tobacco industry and have maintained relationships with many of our major customers for more than 50 years, with some of these relationships beginning in the early 1900s. Our company was renamed Alliance One International, Inc. on May 13, 2005 concurrent with the merger of Standard with and into DIMON, the third largest and second largest global independent leaf tobacco merchants, respectively. Accordingly, the information contained herein regarding our fiscal year ended March 31, 2005 and for any other time prior to the completion of the merger relates only to DIMON.

Product

The world's large multinational cigarette manufacturers, with one exception, rely primarily on independent leaf tobacco merchants such as Alliance One to supply the majority of their leaf tobacco needs. Leaf tobacco merchants select, purchase, process, store, pack and ship tobacco and, in a growing number of markets, provide agronomy expertise. Our revenues are primarily comprised of sales of processed tobacco and fees charged for processing and related services to manufacturers of tobacco products around the world. Processing and other revenues are less than 5% of our total revenues. 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 include Virginia cigarettes that contain only flue-cured tobaccos as well as American blend cigarettes. American blend cigarettes contain approximately 50% flue-cured, 35% burley and 15% 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. Several of the large multinational cigarette manufacturers have expanded their operations throughout the world, particularly in Asia, Eastern Europe and the former Soviet Union, in order to increase their access to and penetration of international brand cigarette markets.

Product (Continued)

As cigarette manufacturers continue to 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 beneficial tariff rates and lower freight costs. We believe that the international expansion of the large multinational cigarette manufacturers will cause these manufacturers to place greater reliance on the services of 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. We own or have an interest in processing facilities in Argentina, Brazil, India, Tanzania and the United States, the most significant exporters of flue-cured tobacco; Brazil, Malawi and the United States, the leading exporters of burley tobacco, and Kyrgyzstan, Macedonia, Bulgaria and Turkey, the leading exporters of oriental tobacco. We also have processing facilities in Germany and Indonesia. We have historically contracted with third parties for the processing of tobacco in certain countries including Argentina, Canada, China, Guatemala, India, Thailand 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 other countries that produce export-quality flue-cured and burley tobacco, including Argentina, Canada, China, India, Indonesia and Thailand.

We purchase tobacco in more than 45 countries. During the twelve months ended March 31, 2007, approximately 35%, 12%, 7%, 6%, 6% and 6% of the dollar value of tobacco Alliance One purchased during 2007 was from Brazil, the United States, Argentina, China, Turkey and Malawi, respectively. The remaining 28% was purchased in more than 39 different countries with no single country accounting for more than 5% of the amount purchased.

The purchasing, processing, selling and storing of leaf tobacco is similar throughout our business. However, we maintain regional operating and financial management in North America, South America, Europe, Africa and Asia to monitor our various operations in these areas. In reviewing these operations, we have concluded that the economic characteristics of South America are dissimilar from the other operating regions. Based on this fact, we are disclosing South America separately and have aggregated the remaining four operating segments, Africa, Asia, Europe and North America into one reportable segment Other Regions. Our financial performance is reviewed at this level and these regions represent our operating segments. See Note N Segment Information to the Notes to Consolidated Financial Statements for further information.

Purchasing

Tobacco is now primarily purchased directly from growers ("direct contract buying") with small quantities still sold at auction. Prior to the 2004 crop in the United States, flue-cured and burley tobacco crops were purchased at public auction, but these markets have undergone a fundamental change. In addition to the leaf merchants, a number of our U.S. customers purchase green tobacco directly from the growers. Although our U.S. facilities continue to process the tobacco purchased directly from growers by these customers, we no longer take ownership of that tobacco and no longer record sales revenues associated with its resale. 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 required 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. When purchases are made from an auction system, tobaccos are purchased primarily to match specific customer orders.

Principal auction markets include Canada, India and Malawi. We usually purchase tobacco at those auction markets after receiving specific customer orders or indications of customers' upcoming needs. Our network of tobacco operations and 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.

Purchasing (Continued)

In non-auction markets such as Argentina, Brazil, Bulgaria, China, Greece, Guatemala, Indonesia, Kyrgyzstan, Tanzania, Turkey and Zambia, 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' capital assets. 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 China, 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 own and operate 23 tobacco processing facilities in 14 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 and scrap are 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. Throughout the processing, our technicians use quality control laboratory test equipment to ensure that the product meets all customer specifications.

During 2005 and in prior years, we processed tobacco acquired by various stabilization cooperatives under the domestic price support program in the United States. We derived significant revenues from the fees charged for these processing services, particularly in years when a substantial portion of the domestic tobacco crop is acquired by such cooperatives under the program. While these revenues were not material to our net sales, they resulted in additional recovery of fixed costs that may be significant to gross profit. In 2006 and 2007, as a result of the repeal of the federal tobacco price support and quota programs beginning with the 2005 crops under the The American Jobs Creation Act of 2004, we processed no stabilization cooperative tobacco.

Customers and Selling Arrangements

Customers

We ship tobacco to manufacturers of cigarettes and other consumer tobacco products located in more than 90 countries around the world. We ship to international locations designated by these manufacturers. A majority of the shipments of tobacco are to factories or storage facilities of these manufacturers that are located outside the United States. In certain countries we also use commissioned agents to supplement our selling efforts.

Customers and Selling Arrangements (Continued)

Customers (Continued)

The consumer tobacco business is dominated by a relatively small number of large multinational cigarette manufacturers and by government controlled entities. Of Alliance One's 2007, 2006 and 2005 sales and other operating revenues, approximately 19%, 18% and 15%, respectively, were to various tobacco customers which are owned by or under common control of Japan Tobacco Inc. and approximately 34%, 34% and 28%, respectively, were to various tobacco customers which are owned by or under common control of Altria Group, Inc. In 2007, Alliance One delivered approximately 17% of its tobacco sales to customers in the United States, approximately 50% to customers in Europe. One customer directs shipments to its Belgium storage and distribution center before shipment to its manufacturing facilities in Europe and Asia. In 2007, these Belgium sales accounted for 35% of sales to customers in Europe. The remaining sales are 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.

Generally, our agreements with customers establish a framework for pricing our services that is negotiated with respect to crop year, grade of tobacco leaf or type of service provided based on market prices. The majority 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, some of the larger customers advance payments to us throughout the buying and processing season as we purchase and process tobacco for the customers' accounts.

Seasonality

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

During the purchasing, processing and sales seasons, 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. At March 31, the end of our fiscal year, the seasonal components of our working capital reflect primarily the operations related to foreign grown tobacco.

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.

In addition to the primary global independent leaf tobacco merchants, the cigarette manufacturers increasingly buy tobacco directly from farmers, and other independent leaf merchants with low fixed costs and overhead who have entered the leaf purchasing and processing business on a local basis.

Alliance One is one of only two global independent leaf tobacco merchants, with substantially similar global market shares. We expect to maintain a major position in most major tobacco growing regions in the world, including the principal export markets for flue-cured, burley and oriental tobacco and, as a result of our scale, global reach, and financial resources, we believe we are well-suited to serve the needs of all cigarette manufacturers.

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.

Alliance One Employees

Alliance One's consolidated entities employed approximately 4,700 persons, excluding seasonal employees, in our worldwide operations at March 31, 2007. In the U.S. operations, Alliance One's consolidated entities employed approximately 400 employees at March 31, 2007. During processing periods the seasonal employees in the United States would number approximately 700. Most U.S. seasonal employees are covered by collective bargaining agreements. None of Alliance One's full-time employees are covered by collective bargaining agreements with the exception of approximately 150 factory personnel. In the non-U.S. operations, Alliance One's consolidated entities employed approximately 4,300 persons, excluding approximately 11,900 seasonal employees, at March 31, 2007. We consider Alliance One's employee relations to be satisfactory.

Government Regulation and Environmental Compliance

See Item 1A. Risk Factors for a discussion of government regulation. Currently there are no material estimated capital expenditures related to environmental control facilities.

EXECUTIVE OFFICERS OF ALLIANCE ONE INTERNATIONAL, INC.

The following information is furnished with respect to the Company's executive officers as of April 1, 2007 and the capacities in which they serve. These officers serve at the pleasure of the Board of Directors and are elected at each annual organizational meeting of the Board.

| NAME | AGE | TITLE |
|---------------------|-----|--|
| Robert E. Harrison | 53 | President and Chief Executive Officer |
| James A. Cooley | 56 | Executive Vice President - Chief Financial Officer |
| Hilton Kappaun | 47 | Executive Vice President - Global Operations |
| J. Pieter Sikkel | 43 | Executive Vice President - Business Strategy and Relationship Management |
| Henry C. Babb | 62 | Senior Vice President - Chief Legal Officer and Secretary |
| Michael K. McDaniel | 57 | Senior Vice President - Human Resources |
| William D. Pappas | 54 | Senior Vice President - Chief Information Officer |

The business experience summaries provided below for the Company's executive officers describe positions held by the named individuals during the last five years.

Robert E. Harrison has served as President and Chief Executive Officer since January 2007 and served as President and Chief Operating Officer of Alliance One International, Inc. from May 2005 to January 2007. Previously, he was President and Chief Executive Officer of Standard Commercial Corporation from August 1996, and its Chairman from August 2003 to May 2005.

James A. Cooley has served as Executive Vice President - Chief Financial Officer of Alliance One International, Inc. since May 2005. Previously, he served as Senior Vice President - Chief Financial Officer of DIMON Incorporated from March 1999 to May 2005.

Hilton Kappaun has served as Executive Vice President - Global Operations since April 2007. Previously, he served as Regional Director of South America for Alliance One International, Inc from May 2005 to April 2007 and served as Regional Executive of South America for DIMON Incorporated from January 2002 to May 2005.

J. Pieter Sikkel has served as Executive Vice President - Business Strategy and Relationship Management since April 2007. Previously, he served as Regional Director of Asia for Alliance One International, Inc from May 2005 to April 2007, Senior Vice President of Asia for Standard Commercial Corporation from April 2004 to May 2005 and Regional Manager of Asia from 1999 to April 2004.

Henry C. Babb has served as Senior Vice President - Chief Legal Officer and Secretary of Alliance One International, Inc. since May 2005. Previously, he served as Senior Vice President - Public Affairs, General Counsel and Secretary of Standard Commercial Corporation from April 2004 to May 2005 and served as Secretary from June 1998 to April 2004.

Michael K. McDaniel has served as Senior Vice President - Human Resources of Alliance One International, Inc. since May 2005. Previously, he served as Senior Vice President - Human Resources of Standard Commercial Corporation from April 2004 to May 2005 and served as Vice President - Human Resources from June 1997 to April 2004.

William D. Pappas has served as Senior Vice President - Chief Information Officer of Alliance One International, Inc. since May 2005. Previously, he served as Chief Information Officer of DIMON Incorporated from December 2004 to May 2005 and served as Vice President - Chief Technology Officer from October 2001 to December 2004.

ITEM 1A. RISK FACTORS

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained in this Annual Report on Form 10-K. Any of the following risks could materially adversely affect our business, our operating results, our financial condition and the actual outcome of matters as to which forward-looking statements are made in this Annual Report.

We may from time to time make written or oral forward-looking statements, including statements contained in filings with the SEC, in reports to stockholders and in press releases and investor calls and webcasts. You can identify these forward-looking statements by use of words such as strategy, expects, continues, plans, anticipates, b will, estimates, intends, projects, goals, targets and other words of similar meaning. You can also identify the fact that they do not relate strictly to historical or current facts.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest in or remain invested in Alliance One International, Inc. securities. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important risk factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by us; any such statement is qualified by reference to the following cautionary statements. We elaborate on these and other risks we face throughout this document. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties. We do not undertake to update any forward-looking statement that we may make from time to time.

Risks Relating to Our Operations

Global shifts in sourcing customer requirements may negatively impact our organizational structure and asset base.

The global leaf tobacco industry is experiencing shifts in the sourcing of customer requirements for tobacco. For example, significant tobacco production volume decreases have occurred and may continue to occur in the United States, Zimbabwe and Western Europe from historical levels. At the same time, production volumes in other sourcing origins, such as Brazil and other areas of Africa, are stabilizing. A shift in sourcing origins in Europe is influenced by modifications to the tobacco price support system in the European Union (EU). The Agricultural Counsel of the EU implemented changes in the quota and volume programs across the EU that may result in material reductions in production volumes in certain EU countries in the future. The implementation of these new programs will vary significantly by each EU country. Customer requirements are changing due to these variations in production, therefore

influencing our ability to plan effectively for the longer term in Europe.

We may not be able to timely or efficiently adjust to these shifts in sourcing origins, and adjusting to these shifts may require changes in our production facilities in certain origins and changes in our fixed asset base. We have incurred, and may continue to incur, restructuring charges as we continue to adjust to these shifts in sourcing. Adjusting our capacity and adjusting to these shifts in sourcing may have an adverse impact on our ability to manage our costs, and could have an adverse effect on our financial performance.

Our financial results will vary according to growing conditions, customer indications and other factors, which reduces your ability to gauge our quarterly and annual financial performance.

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 cause us to keep tobacco in inventory, increase our risk and result in variations in quarterly and annual financial results. The timing of shipments can be materially impacted by shortages of containers and vessels for shipping as well as infrastructure and accessibility issues in ports we use for shipment. For example, shortages in shipping containers was a major factor in shipping delays in Brazil during our 2006 fiscal year. In the current fiscal year, infrastructure and accessibility issues have materially delayed shipments from the African port of Beira, from which we ship much of the tobacco we source in Malawi and other African origins. 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.

ITEM 1A. RISK FACTORS *(Continued)*

Risks Relating to Our Operations *(Continued)*

Our extension of credit to tobacco growers could expose us to losses.

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 result in losses.

When we purchase tobacco directly from growers, we bear the risk that the tobacco will not meet our customers' quality and quantity requirements.

In countries where we contract directly with tobacco growers, including Argentina, Brazil, the United States and certain African countries, we bear the risk that the tobacco delivered will not meet quality and quantity requirements of our customers. If the tobacco does not meet such market requirements, we may not be able to sell the tobacco we agreed to buy and may not be able to meet all of our customers' orders, which would have an adverse effect on profitability and results of operations.

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

Like other agricultural products, the quality of tobacco is affected by weather and the environment, which can change the quality or size of the crop. If a weather event is particularly severe, such as a major drought or hurricane, the affected crop could be destroyed or damaged to an extent that it would be less desirable to our customers, which would result in a reduction in revenues. If such an event is also widespread, it could affect our ability to acquire the quantity of products required by customers. In addition, other items can affect the marketability of tobacco, including, among other things, the presence of:

- non-tobacco related material;
- genetically modified organisms; and
-

excess residues of pesticides, fungicides and herbicides.

A significant event impacting the condition or quality of a large amount of any of the tobacco crops we buy could make it difficult for us to sell such tobacco or to fill our customers' orders.

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

Our customers are manufacturers of cigarette and other tobacco products. Several of these customers individually account for a significant portion of our sales in a normal year.

Approximately 19%, 18% and 15%, respectively, of our consolidated tobacco sales in 2007, 2006 and 2005, were to various tobacco customers which are owned by or under common control of Japan Tobacco Inc. and approximately 34%, 34% and 28%, respectively, were to various tobacco customers which are owned by or under common control of Altria Group, Inc. No other customer accounts for more than 10% of our sales.

In addition, tobacco product manufacturers are experiencing consolidation and further consolidation among our customers could decrease such customers' 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 more than 45 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, 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.

We have expanded our international operations in areas where the export of tobacco has increased due to increased demand for lower priced tobacco. We have significant investments in our purchasing, processing and exporting operations in Argentina, Brazil, Malawi, Tanzania and Turkey.

In recent years, economic problems in Zimbabwe and Brazil have received wide publicity related to devaluation and appreciation of the local currency and inflation. Devaluation and appreciation can affect our purchase costs of tobacco and our processing costs.

ITEM 1A. RISK FACTORS *(Continued)*

Risks Relating to Our Operations *(Continued)*

We face increased risks of doing business due to the extent of our international operations. *(Continued)*

Zimbabwe remains in a period of civil unrest and has a deteriorating economy. At March 31, 2006, as a result of the political environment, economic instability, foreign currency controls and governmental regulations, we deconsolidated our subsidiaries and recorded an impairment charge of \$47.9 million to reduce our investment in Zimbabwe to its estimated fair value. Governmental authorization is required before any dividends can be paid from a Zimbabwe operation. Our Zimbabwe operations had tried unsuccessfully to pay dividends in prior years due to certain unattainable criteria set by the Reserve Bank of Zimbabwe and the government not granting the necessary authorizations. We do not consider any further dividends from our Zimbabwe subsidiary in the near future a possibility. Current economic and political conditions continued to decline in fiscal 2007 as inflation, lending rates and investment rates have deteriorated. General farming operations are being negatively impacted by the lack of foreign exchange to buy crop inputs and fuel. As a result, several significant operational changes were made including the closure of the Zimbabwe processing factory, outsourcing the 2006 crop tobacco processing and a significant reduction in permanent personnel. During fiscal 2007, we evaluated the fair value of the Zimbabwe operations and determined that the net investment in the Zimbabwe operations exceeded the estimated fair value. Accordingly, we recorded an additional non-cash impairment charge of \$13.2 million to write down the net investment in the Zimbabwe operations to zero.

Farmers in Malawi have recently protested the current crop auction pricing levels. Any disruption in the marketing of the crop in Malawi would have a significant impact on world supply of burley tobacco and on our financial results.

We are subject to potentially inconsistent actions by the governments of certain foreign countries in which we operate which may have significant impact on our financial results. In 2006, our concession to promote tobacco production in the Chifunde district of Mozambique was terminated by the government. We assessed our remaining Mozambique operations without the Chifunde district and determined that it was not in our economic interest to remain in Mozambique without this strategic district. Consequently, we discontinued our operations within Mozambique after the 2006 crop.

Our exposure to changes in foreign tax regimes could adversely impact our business.

We do business in countries that have tax regimes in which the rules are not clear, are not consistently applied and are subject to sudden change. This is especially true with regard to international transfer pricing. Our earnings could be reduced by the uncertain and changing nature of these tax regimes.

Effective January 1, 2005, the government of Rio Grande do Sul, the state in which our subsidiaries operate in Brazil, adopted changes in their Imposto Sobre Circulacao de Mercadorias e Servicos (ICMS), a tax on the transfer of goods and services between states within Brazil. Prior to this change, our transfers of leaf tobacco and processed tobacco inventory between states in Brazil was taxed, but these transfers generated tax credits that were used to offset ICMS tax obligations or were transferred to third parties. Pursuant to the change, the credits generated from the payment of ICMS taxes could not be used to reduce the overall tax exposure by third parties by more than 10% of the generating company's tax liability in any tax year, severely reducing the ability to sell excess tax credits to others. In conjunction with this change, we recorded a reserve against the \$25.1 million of ICMS credits recorded as a receivable as of March 31, 2006. This reserve remained as we entered into negotiations with the government of Rio Grande do Sul.

Effective on May 23, 2006, we entered into an agreement with the government of Rio Grande do Sul which provided for the sale of a certain amount of ICMS credits each month through 2011. Based on our evaluation of the agreement and the ability to sell ICMS credits to third parties each month, the reserve was reversed during the quarter ended June 30, 2006 as it related to inventory that had already been sold.

On January 1, 2007, a new government took office in the state of Rio Grande do Sul. The government requested a review of the terms to the agreement entered into in May 23, 2006. In March 2007, we renegotiated the terms related to the ICMS credits that the government will allow to be sold to third parties on a monthly basis.

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

We conduct our business in many countries around the world. Our business is generally conducted in U.S. dollars, as is the business of the leaf tobacco industry as a whole. However, we generally must purchase tobacco in non-U.S. countries using local currency. As a result, 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.

ITEM 1A. RISK FACTORS *(Continued)*

Risks Relating to Our Operations *(Continued)*

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

In particular, the devaluation of the U.S. dollar against the Brazilian real has recently increased the cost of our inventory and operating costs generally in Brazil, only a portion of which can be passed on to our customers. As the international leaf industry continues to place greater emphasis on Brazil, the weakness of the U.S. dollar in relation to the Brazilian real will increasingly impact our consolidated operating results and operating margins, and we do not foresee a reversal of this trend occurring in the immediate future. In addition, the historically weak real in relation to the dollar has tended to offset the normal escalation in crop prices in Brazil, which will have a more significant impact to the extent the real is stronger against the dollar.

In recent years, economic problems in Zimbabwe have resulted in significant devaluation of the local currency and inflation. If we are unable to minimize Zimbabwe currency risk by effectively matching the timing of our working capital borrowing needs against the tobacco purchasing and processing funds requirements in the local currency then devaluation can have a material affect on our tobacco purchase and processing costs.

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.

Competition could erode our earnings.

The leaf tobacco industry is highly competitive. DIMON was one of three global leaf tobacco merchants, and when it completed the merger with Standard, Alliance One became one of two global competitors in the leaf tobacco industry, each with approximately equal market share. Competition among leaf tobacco merchants is based primarily on the prices 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. The loss or substantial reduction of any large or significant customer could reduce our earnings.

In addition to the primary global independent leaf tobacco merchants, the cigarette manufacturers increasingly buy tobacco directly from farmers, and new independent leaf merchants are entering the leaf purchasing and processing business. We face increasing competition from new local and regional independent leaf merchants with low fixed costs and overhead and good customer connections at the local level. These new independent merchants are buying an increasing portion of the crops in certain international markets, particularly Brazil, where the new entrants have been able to capitalize in the global transition to that market. In the United States, the Flue-Cured Tobacco

Stabilization Cooperative (FCTSC) has purchased the Vector facility in Roxboro, North Carolina. That facility enables the FCTSC to process tobacco and manufacture cigarettes. The FCTSC also has a specialty products operation at this facility which competes with our specialty products operations. In addition, the FCTSC and burley stabilization pools received inventory in lieu of cash from the Commodity Credit Corporation under the congressional quota buyout bill. Any of these sources of new competition may result in less tobacco available for us to purchase and process in the applicable markets.

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.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 prescribes a "more likely than not" threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. FIN 48 requires us to establish reserves for uncertain tax positions if it is not "more likely than not" that we will prevail on the merits if audited and challenged. FIN 48 will be applicable to us beginning April 1, 2007. The effect of FIN 48 is being reviewed, and it could have a material impact on our financial performance because we do business in countries that do not have clear tax rules concerning transfer pricing and other tax matters. This lack of clarity in the tax rules creates uncertainty which cannot be easily analyzed or predicted. As a result, we may have tax presence liabilities that could give rise to accruals under FIN 48 that will never reverse.

ITEM 1A. RISK FACTORS *(Continued)*

Risks Relating to Our Operations *(Continued)*

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. *(Continued)*

In addition, we adopted SFAS No. 142, Goodwill and Other Intangible Assets, effective July 1, 2002. As a result of adoption of SFAS No. 142, we no longer amortize goodwill. However, if we determine that there has been a material impairment to goodwill, we will recognize the amount of that impairment as a charge to earnings in the applicable reporting period. As a result of certain reporting units failing Step 1 during our 2006 annual test for impairment of goodwill, we measured the impairment loss, if any, by comparing the implied fair value of the reporting unit with the carrying amount of goodwill (Step 2). The fair value of the reporting unit was estimated using the expected present value of future cash flows. Based on this analysis we recorded a total goodwill impairment charge of \$256.9 million during the fourth quarter of fiscal 2006 related to the operating segments of North America and South America.

Risks Relating to Our Capital Structure

We may not have access to available capital to finance our local operations in non-U.S. jurisdictions.

We have typically financed our non-U.S. local operations with uncommitted short term operating credit lines at the local level. These operating lines are typically seasonal in nature, normally extending for a term of 180 to 270 days corresponding to the tobacco crop cycle in that location. These facilities are typically uncommitted in that the lenders have the right to cease making loans or demand payment of outstanding loans at any time. In addition, each of these operating lines must be renewed with each tobacco crop season in that jurisdiction. Although our foreign subsidiaries are the borrowers under these lines, many of them are guaranteed by us.

As of March 31, 2007, we had approximately \$179.1 million drawn and outstanding on foreign seasonal lines totaling \$485.2 million. Additionally against these lines there was \$12.8 million available in unused letter of credit capacity with \$17.8 million issued but unfunded.

Because the lenders under these operating lines typically have the right to cancel the loan at any time and each line must be renewed with each crop season, there can be no assurance that this capital will be available to our subsidiaries. If a number of these lenders cease lending to our subsidiaries or dramatically decrease such lending, it could have a material adverse affect on our liquidity.

Failure of foreign banks in which our subsidiaries deposit funds or the failure to transfer funds or honor withdrawals may affect our results of operations.

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

ITEM 1A. RISK FACTORS *(Continued)*

Risks Relating to Our Capital Structure *(Continued)*

We have substantial debt which may adversely affect us by limiting future sources of financing, interfering with our ability to pay interest and principal on the notes and subjecting us to additional risks.

We have a significant amount of indebtedness and debt service obligations. As of March 31, 2007, we had approximately \$911.0 million of indebtedness. In addition, the indenture governing the notes allows us to incur additional indebtedness under certain circumstances. If we add new indebtedness to our current indebtedness levels, the related risks that we now face could increase.

Our substantial debt will have important consequences, including:

- that our indebtedness may make it more difficult for us to satisfy our obligations with respect to the notes and our other obligations;
- that our indebtedness may limit our ability to obtain additional financing on satisfactory terms and to otherwise fund working capital, capital expenditures, debt refinancing, acquisitions and other general corporate requirements;
- that a significant portion of our cash flow from operations must be dedicated to paying interest on and the repayment of the principal of our indebtedness. This reduces the amount of cash we have available for making principal and interest payments under the notes and for other purposes and makes us more vulnerable to a decrease in demand for leaf tobacco, increases in our operating costs or general economic or industry conditions;
- that our ability to adjust to changing market conditions and to compete with other global leaf tobacco merchants may be hampered by the amount of debt we owe;
- increasing our vulnerability to general adverse economic and industry conditions;
-

placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged;

-

limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

-

restricting us from making strategic acquisitions or exploiting business opportunities.

In addition, the indenture governing the notes and our senior secured credit facility each contain financial and other restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt. Also, a substantial portion of our debt, including borrowings under our senior secured credit facility, bears interest at variable rates. If market interest rates increase, variable-rate debt will create higher debt service requirements, which would adversely affect our cash flow. While we may enter into agreements limiting our exposure to higher debt service requirements, any such agreements may not offer complete protection from this risk.

Despite current indebtedness levels, we may still be able to incur substantially more debt. This could exacerbate further the risks associated with our significant leverage.

We may be able to incur substantial additional indebtedness in the future. The terms of the indenture governing the notes will restrict, but will not completely prohibit, us from doing so. Our senior secured credit facility provides for a \$240.0 million revolving credit line. There were no borrowings under this facility at March 31, 2007. If new debt is added to our current debt levels, the related risks we now face could intensify.

The indentures governing the notes and our senior secured credit facility contain, and in the future could contain additional, covenants and tests that limit our ability to take actions or cause us to take actions we may not normally take.

The indentures governing the notes and our senior secured credit facility contain a number of significant covenants. These covenants limit our ability to, among other things:

-

incur additional indebtedness;

-

issue preferred stock;

-

merge, consolidate or dispose of substantially all of our assets;

- grant liens on our assets;
- pay dividends, redeem stock or make other distributions or restricted payments;
- repurchase or redeem capital stock or prepay subordinated debt;
- make certain investments;
- agree to restrictions on the payment of dividends to us by our subsidiaries;
- sell or otherwise dispose of assets, including equity interests of our subsidiaries;
- enter into transactions with our affiliates; and
- enter into certain sale and leaseback transactions.

ITEM 1A. RISK FACTORS *(Continued)*

Risks Relating to Our Capital Structure *(Continued)*

The indentures governing the notes and our senior secured credit facility contain, and in the future could contain additional, covenants and tests that limit our ability to take actions or cause us to take actions we may not normally take. *(Continued)*

Our senior secured credit facility and the indentures require us to meet certain financial tests. 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. The failure to comply with these covenants and tests would cause a default under the credit facility and, under the indenture, would prevent us from taking certain actions, such as incurring additional debt, paying dividends or redeeming senior notes or subordinated debt. A default, if not waived, could result in the debt under our senior secured credit facility and the indenture 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.

We have had to obtain waivers and amendments under our existing financing arrangements to avoid future defaults or cure past defaults.

In the recent past, we have sought and obtained waivers and amendments under our existing financing arrangements to avoid future non-compliance with financial covenants and cure past defaults under restrictive covenants. We also paid significant fees to obtain these waivers and consents.

From October 28, 2005 to March 31, 2007, we amended our senior secured credit facility on six separate occasions. We sought these amendments to relax certain financial covenants and negative covenants, to enable us to engage in previously restricted sales of assets and to refinance our outstanding senior notes.

In October 2004, we determined that defaults had occurred under the limitation on restricted payments covenant in the indentures relating to both our then outstanding \$200.0 million 9 5/8% senior notes due 2011 and \$125.0 million 7 3/4% senior notes due 2013, and that, by definition, the defaults under these indentures created automatic defaults under our \$650.0 million syndicated credit facility then in effect and under certain operating lines of credit. The defaults related to the determination of amounts available to make certain restricted payments under these senior notes indentures. We solicited and, on November 1, 2004 obtained, consents from the holders of our notes to a waiver of the defaults under the senior notes indentures and an amendment of the related covenants to allow additional time to bring our operations into compliance.

You should consider the matters described above in evaluating our ability to comply with restrictive covenants in our debt instruments and the financial costs of our ability to do so.

We will require a significant amount of cash to service our indebtedness. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including the notes, and to fund planned capital expenditures will depend on our ability to generate cash in the future. This is subject to general economic, financial, competitive and other factors that may be beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our senior secured credit facility or otherwise in an amount sufficient to enable us to pay our indebtedness, including the notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the notes, on or before maturity. We cannot assure you that we will be able to refinance any of our debt, including our senior secured credit facility or the notes, on commercially reasonable terms or at all. Additionally, to the extent permitted under our senior secured credit agreement and indentures, we may repurchase, repay or tender for our bank debt, senior notes or senior subordinated notes, which may place pressure on future cash requirements to the extent that the debt repurchased, repaid or tendered cannot be redrawn.

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.

ITEM 1A. RISK FACTORS *(Continued)*

Risks Relating to the Tobacco Industry *(Continued)*

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

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, or 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;

-

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

-

the impact of consolidation among multinational cigarette manufacturers.

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 organizations. Damages claimed in some of the smoking and health cases range into the billions of dollars. The United States Department of Justice is currently engaged in 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.

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 customers' purchases 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, 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, or 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.

ITEM 1A. RISK FACTORS *(Continued)*

Risks Relating to the Tobacco Industry *(Continued)*

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

Reports with respect to the harmful physical effects of cigarette smoking have been publicized for many years, and the sale, promotion and use of cigarettes continue to be subject to increasing governmental regulation. Since 1964, the Surgeon General of the United States and the Secretary of Health and Human Services have released a number of reports linking cigarette smoking with a broad range of health hazards, including various types of cancer, coronary heart disease and chronic lung disease, and recommending various governmental measures to reduce the incidence of smoking. More recent reports focus upon the addictive nature of cigarettes, the effects of smoking cessation, the decrease in smoking in the United States, the economic and regulatory aspects of smoking in the Western Hemisphere, and cigarette smoking by adolescents, particularly the addictive nature of cigarette smoking in adolescence.

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. To date, 168 parties have signed the treaty, and 144 countries are parties to the treaty.

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 were

named defendants 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. We, along with all but one of the other defendants, entered into a settlement agreement with the plaintiffs which received final approval, and which accorded us a full release from all the claims. In exchange for such settlement, we contributed \$13.0 million towards a larger total settlement agreement.

Since October 2001, the Directorate General for Competition (DGCOMP) of the European Commission (EC) has been conducting an administrative investigation into certain tobacco buying and selling practices alleged to have occurred within the leaf tobacco industry in some countries within the European Union, including Spain, Italy, Greece and potentially other countries. Our subsidiaries in Spain, Italy and Greece have been subject to these investigations. In 2004, the EC fined us and our Spanish subsidiaries €4.4 million (\$5.7 million) solely relating to the investigations in Spain. In respect of the Italian investigation, in October 2005, the EC announced that we and Mindo (our former subsidiary) have been assessed a fine in the aggregate amount of €10.0 million (\$12.0 million) and that, in addition, we and Transcatab, a subsidiary of Standard prior to its merger into DIMON, have been assessed a fine in the aggregate amount of €14.0 million (\$16.8 million). Several tobacco processors, growers and agricultural associations that were the subject of the investigation in Italy were assessed fines in various amounts totaling €56.0 million (\$67.0 million), inclusive of the fines imposed on us and our subsidiaries. We, along with the applicable subsidiaries, have appealed the decisions of the EC with respect to Spain and Italy to the Court of First Instance of the EC for the annulment or modification of the decision; but the outcome of the appeals process as to both timing and results is uncertain.

In March 2005, the EC informed us that it had closed its investigation in relation to the Greek leaf tobacco industry buying and selling practices. In relation to these investigations into certain tobacco buying and selling practices, the DGCOMP could decide to pursue investigations into other countries and additional fines may be assessed in those countries.

We have recently been made aware of a review by the Malawi Government of the operation of its tobacco auction markets. Although the Government's preliminary report suggests that there may have been violations by the leaf dealer industry of certain Malawi competition laws, the review is at an early stage and it is not possible to predict its outcome or its possible impact on us. We will continue to cooperate with the relevant authorities and are conducting our own internal investigation.

ITEM 1A. RISK FACTORS *(Continued)*

Risks Relating to the Tobacco Industry *(Continued)*

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

In March 2004, we discovered potential irregularities with respect to certain bank accounts in southern Europe and central Asia. The Audit Committee of our Board of Directors engaged an outside law firm to conduct an investigation of activity relating to these accounts. That investigation revealed that, although the amounts involved were not material and had no material impact on our historical financial statements, there were payments from these accounts that may have violated the U.S. Foreign Corrupt Practices Act. In May 2004, we voluntarily reported the matter to the U.S. Department of Justice. Soon thereafter, we closed the accounts in question, implemented personnel changes and other measures designed to prevent similar situations in the future, including the addition of new finance and internal audit staff and enhancement of existing training programs, and disclosed these circumstances in our filings with the SEC. In August 2006, we learned that the SEC has issued a formal order of investigation of us and others to determine if these or other actions may have violated certain provisions of the Securities Exchange Act of 1934 and rules thereunder. We are cooperating fully with the SEC with respect to the investigation. If the U.S. authorities determine that there have been violations of federal laws, they may seek to impose sanctions on us that may include, among other things, injunctive relief, disgorgement, fines, penalties and modifications to business practices. It is not possible to predict at this time whether the authorities will determine that violations have occurred, and if they do, what sanctions they might seek to impose. It is also not possible to predict how the government's investigation or any resulting sanctions may impact our business, results of operations or financial performance. Any monetary penalty assessed may be material to our results of operations in the quarter in which it is imposed.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Following is a description of Alliance One's material properties as of March 31, 2007.

Corporate

Our corporate headquarters are located in Morrisville, North Carolina.

Facilities

We own a total of 23 processing facilities in 14 countries. 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 have been efficiently utilized, we continually compare our production capacity and organization with the transitions occurring in global sourcing of tobacco. 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.

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

| LOCATION | USE | AREA IN SQUARE FEET |
|------------------------------|-----------------|------------------------|
| SOUTH AMERICA SEGMENT | | |
| <u>SOUTH AMERICA</u> | | |
| VENANCIO AIRES, BRAZIL | FACTORY/STORAGE | 1,378,000 |
| SANTA CRUZ, BRAZIL | FACTORY/STORAGE | 2,111,000 |
| VERA CRUZ, BRAZIL | STORAGE | 311,000 |
| EL CARRIL, ARGENTINA | FACTORY/STORAGE | 389,000 |
| OTHER REGIONS SEGMENT | | |
| <u>UNITED STATES</u> | | |

| | | |
|----------------------|-----------------|-----------|
| WILSON, N.C. | FACTORY/STORAGE | 1,618,000 |
| FARMVILLE, N.C. | FACTORY/STORAGE | 895,000 |
| DANVILLE, VA | STORAGE | 907,000 |
| <u>AFRICA</u> | | |
| LILONGWE, MALAWI | FACTORY/STORAGE | 1,662,000 |
| MOROGORO, TANZANIA | FACTORY/STORAGE | 741,000 |
| <u>EUROPE</u> | | |
| IZMIR, TURKEY | FACTORY/STORAGE | 1,431,000 |
| THESSALONIKI, GREECE | FACTORY/STORAGE | 378,000 |
| KARLSRUHE, GERMANY | FACTORY/STORAGE | 236,000 |
| <u>ASIA</u> | | |
| NGORO, INDONESIA | FACTORY/STORAGE | 324,000 |

ITEM 3. LEGAL PROCEEDINGS

In March 2004, the Company discovered potential irregularities with respect to certain bank accounts in southern Europe and central Asia. The Audit Committee of the Company's Board of Directors engaged an outside law firm to conduct an investigation of activity relating to these accounts. That investigation revealed that, although the amounts involved were not material and had no material impact on the Company's historical financial statements, there were payments from these accounts that may have violated the U.S. Foreign Corrupt Practices Act (the "FCPA"). In May 2004, the Company voluntarily reported the matter to the U.S. Department of Justice. Soon thereafter, the Company closed the accounts in question, implemented personnel changes and other measures designed to prevent similar situations in the future, including the addition of new finance and internal audit staff and enhancement of existing training programs, and disclosed these circumstances in its filings with the U.S. Securities and Exchange Commission (the "SEC"). In August 2006, the Company learned that the SEC had issued a formal order of investigation of the Company and others to determine if these or other actions may have violated certain provisions of the Securities Exchange Act of 1934 and rules thereunder. The Company is cooperating fully with the SEC with respect to the investigation.

ITEM 3. LEGAL PROCEEDINGS *(Continued)*

If the U.S. authorities determine that there have been violations of federal laws, they may seek to impose sanctions on the Company that may include, among other things, injunctive relief, disgorgement, fines, penalties and modifications to business practices. It is not possible to predict at this time whether the authorities will determine that violations have occurred, and if they do, what sanctions they might seek to impose. It is also not possible to predict how the government's investigation or any resulting sanctions may impact the Company's business, results of operations or financial performance, although any monetary penalty assessed may be material to the Company's results of operations in the quarter in which it is imposed.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Alliance One's common stock is traded on the New York Stock Exchange, under the ticker symbol "AOI." Prior to our merger with Standard Commercial Corporation on May 13, 2005, our common stock had been traded on the New York Stock Exchange under the ticker symbol "DMN" since April 3, 1995.

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

| | | Alliance One Common Stock | |
|----------------------------------|--------|------------------------------|-----------------------|
| | High | Low | Dividends Declared |
| <u>Year Ended March 31, 2007</u> | | | |
| Fourth Quarter | \$9.35 | \$6.75 | \$.000 |
| Third Quarter | 7.31 | 3.97 | .000 |
| Second Quarter | 4.41 | 3.57 | .000 |
| First Quarter | 4.95 | 3.57 | .000 |
| <u>Year Ended March 31, 2006</u> | | | |
| Fourth Quarter | \$5.06 | \$3.59 | \$.000 |
| Third Quarter | 4.32 | 2.16 | .000 |
| Second Quarter | 6.30 | 3.28 | .030 |
| First Quarter | 6.80 | 5.61 | .075 |

As of March 31, 2007, there were approximately 7,612 shareholders, including approximately 6,364 beneficial holders of our common stock.

The payment of dividends by Alliance One is subject to the discretion of our board of directors and will depend on business conditions, compliance with debt agreements, achievement of anticipated cost savings, financial condition and earnings, regulatory considerations and other factors.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(Continued)

Alliance One International, Inc. Comparison of Cumulative Total Return to Shareholders

The following line graph and table presents the cumulative total shareholder return of a \$100 investment including reinvestment of dividends and price appreciation over the last five years in each of the following: Alliance One International, Inc. (AOI) common stock, the S&P 500 Index, the S&P 600 Small Cap Index and an index of peer companies. The sole company in the peer group is Universal Corporation (UVV).

Cumulative Total Return

| | Fiscal Year Ending | | | | | |
|---|--------------------|----------|----------|----------|----------|----------|
| | 6/30/02 | 6/30/03 | 3/31/04 | 3/31/05 | 3/31/06 | 3/31/07 |
| Alliance One International, Inc. | \$100.00 | \$107.97 | \$110.55 | \$102.14 | \$ 80.97 | \$153.78 |
| Custom Peer Group | \$100.00 | \$119.76 | \$147.53 | \$137.32 | \$114.75 | \$200.07 |
| S&P 500 | \$100.00 | \$100.25 | \$117.39 | \$125.25 | \$139.93 | \$156.49 |
| S&P Small Cap 600 | \$100.00 | \$ 96.42 | \$125.87 | \$142.34 | \$176.60 | \$185.95 |

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(Continued)

**EQUITY COMPENSATION PLAN INFORMATION
as of March 31, 2007**

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c) ⁽¹⁾ |
|--|--|--|---|
| Equity Compensation Plans Approved by Security Holders | 2,798,831 | 6.94 | 1,768,724 |
| Equity Compensation Plans Not Approved by Security Holders | 0 | Not Applicable | 0 |
| Total | 2,798,831 | 6.94 | 1,768,724 |

(1)

The 2003 Incentive Plan allows for certain of these shares to be issued in the form of restricted stock grants. Further, the Number of Securities Remaining Available for Future Issuance as set forth in this column (c) will increase by the Number of Securities to be Issued (as reflected in column (a)) which are associated with options, rights and warrants that are forfeited from time to time.

ITEM 6. SELECTED FINANCIAL DATA**FIVE-YEAR FINANCIAL STATISTICS**

Alliance One International, Inc. and Subsidiaries

The information presented in the table below includes periods ending prior to the completion of our merger with Standard Commercial Corporation on May 13, 2005. Accordingly, the information presented does not include any results of operations or other information related to Standard for periods ending March 31, 2005, nine months ended March 31, 2004 and June 30, 2003.

| (in thousands, except per share amounts and number of stockholders) | Years Ended March 31, | | | Nine Months Ended | Year Ended |
|--|-----------------------|-------------|-------------|-------------------------|------------------|
| | 2007 | 2006 | 2005 | March 31, 2004 (5) | June 30, 2003 |
| Summary of Operations | | | | | |
| Sales and other operating revenues | \$1,979,078 | \$2,112,685 | \$1,300,118 | \$ 797,525 | \$1,194,960 |
| Goodwill impairment | - | 256,916 | - | - | - |
| Restructuring and asset impairment charges | 29,773 | 85,411 | 2,836 | 16,398 | - |
| Debt retirement expense | 3,860 | 66,474 | - | - | - |
| Income (loss) from continuing operations | (2,615) | (423,342) | 24,441 | (17,511) | 28,482 |
| Loss from discontinued operations | (18,730) | (24,104) | (11,153) | (15,357) | (425) |
| Net income (loss) | (21,597) | (447,446) | 13,288 | (32,868) | 28,057 |
| Per Share Statistics | | | | | |
| Basic Earnings (Loss) Per Share: | | | | | |
| Income (loss) from continuing operations | \$(.03) | \$(5.21) | \$.55 | \$(.40) | \$.64 |
| Loss from discontinued operations | (.22) | (.30) | (.25) | (.33) | (.01) |
| Net income (loss) | (.25) | (5.51) | .30 | (.73) | .63 |
| Diluted Earnings (Loss) Per Share: | | | | | |
| | \$(.03) | \$(5.21) | \$.54 | \$(.40) | \$.63 |

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| | | | | | |
|--|-------|--------|-------|-------|-------|
| Income (loss) from continuing operations | | | | | |
| Loss from discontinued operations | (.22) | (.30) | (.25) | (.33) | (.01) |
| Net income (loss) (1) | (.25) | (5.51) | .29 | (.73) | .62 |
| Cash dividends paid | - | .105 | .30 | .225 | .275 |
| Book value | 2.55 | 2.46 | 9.13 | 9.19 | 10.16 |

Balance Sheet Data

| | | | | | |
|---------------------|------------|------------|------------|------------|------------|
| Working capital | \$ 531,983 | \$ 538,913 | \$ 473,063 | \$ 426,605 | \$ 444,401 |
| Total assets | 1,653,872 | 1,904,124 | 1,404,059 | 1,357,404 | 1,353,152 |
| Long-Term Debt | 726,625 | 744,494 | 486,412 | 421,009 | 424,897 |
| Stockholders equity | 225,546 | 214,187 | 414,312 | 414,885 | 454,573 |

Other Data

| | | | | | |
|---|--------|--------|--------|--------|--------|
| Ratio of Earnings to Fixed Charges (2) | 1.12 | - | 1.65 | - | 1.75 |
| Common shares outstanding at year end (3) | 96,467 | 94,963 | 45,368 | 45,162 | 44,737 |
| Number of stockholders at year end (4) | 7,612 | 7,658 | 7,641 | 5,945 | 5,946 |

- 1) For the year ended March 31, 2005, the nine months ended March 31, 2004 and the year ended June 30, 2003 the assumed conversion of Convertible Debentures at the beginning of the period has an antidilutive effect on earnings (loss) per share. In connection with the closing of the merger with Standard many of the Company's financing arrangements were refinanced, including in July of 2005, the Company's \$73,328 of convertible subordinated debentures due 2007. For the years ended March 31, 2007, March 31, 2006 and the nine months ended March 31, 2004, all outstanding restricted stock and stock options are excluded because their inclusion would have an antidilutive effect on the loss per share.

- 2) In 2006 and 2004, fixed charges exceeded earnings by approximately \$442,087 and \$17,312 respectively.

- 3) The years ended March 31, 2007 and March 31, 2006 include 7,853 shares owned by a wholly-owned subsidiary. This subsidiary does not receive dividends on these shares and it does not have the right to vote.

- 4) Includes the number of stockholders of record and non-objecting beneficial owners.

5) In June 2003, we changed our fiscal year to March 31. As a result of this change, we reported a nine month transition year ending March 31, 2004.

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

General

Our company was renamed Alliance One International, Inc. on May 13, 2005, concurrent with the merger of Standard Commercial Corporation with and into DIMON Incorporated, the third largest and second largest global independent leaf tobacco merchants, respectively. Accordingly, the information regarding our fiscal year ended March 31, 2005 and for any other time prior to the completion of our merger in Management's Discussion and Analysis of Financial Condition and Results of Operations relates only to DIMON Incorporated. The progression of functional and operational integration activities have made differentiation between former DIMON and former Standard results increasingly difficult which impairs the comparability of fiscal years 2006 and 2005 results.

Executive Overview

The following executive overview is intended to provide significant highlights of the discussion and analysis that follows.

Financial Results

Current year operating results improved significantly from the prior year, although increases in current year gross margin were eroded by the strength of local currencies against the U.S. dollar and farmer debt costs in certain areas, particularly in Brazil. Selling, administrative and general expenses continue to benefit from the continued focus on delivering the merger savings and from the deconsolidation of Zimbabwe operations and remain in line with a normalized run rate for the year. We had appropriate additional restructuring charges during the year as we completed the merger integration plan and continued to refine our operational footprint. Additional impairment charges were reflected relative to the deconsolidated Zimbabwe operations and closure of non-core business in Europe and Asia while we also took material charges to complete our exit from the Italian market. Overall, our 2007 fiscal year results demonstrated successful execution of our strategy.

Liquidity and Debt Refinancing

During the year we sold non-core assets and used the proceeds to further deleverage the balance sheet, which in turn reduced interest costs. We will continue these efforts in 2008, with particular attention paid to application of free cash flow for further debt reduction. We maintain appropriate levels of liquidity throughout the year utilizing long term commitments augmented by various international banking relationships for our continued seasonal credit needs.

On March 7, 2007 we initiated the first phase of our balance sheet partial refinancing by issuing \$150.0 million of new 8.5% Senior Notes due May 15, 2012 with a 0.5% original issue discount to yield 8.625%. Proceeds from the issuance were utilized to make prepayments on our term loans under the May 13, 2005 \$650.0 million Senior Secured Credit Agreement. Following the 8.5% Senior Note issuance, on March 30, 2007, we completed the final phase, refinancing outstanding term loans and remaining commitments under our \$650.0 million Senior Secured Credit Agreement with a new \$385.0 million Credit Agreement. Under the terms of the new credit agreement, we have a three and one half year \$240.0 million revolving credit facility and a four year \$145.0 million Term Loan B. There were no outstanding loans or issued but unfunded letters of credit under the \$240.0 million revolver as of March 31, 2007. The partial refinancing eliminated over \$266.8 million in required amortization over the next three years and reduced our future debt carrying cost with lower pricing. Subsequent to the year end, we made an additional optional prepayment on the Term Loan B of \$50.0 million.

Outlook

Global demand for our products remains solid and we are well positioned where growth is occurring. We continue to challenge all of our operations to achieve appropriate return targets and to effect actions which will positively improve future performance. The strategy behind our merger and the creation of Alliance One is simple, and has not changed: We are seeking to create the profile of a strategic leaf supply partner with the footprint and scale necessary to drive efficiency, sustainability and long-term shareholder value in what remains an intensely competitive global industry.

As a result of the merger of DIMON and Standard that we completed in May 2005, we have realized more than \$115.0 million in annual pre-tax cost savings through the rationalization of processing capacity and the elimination of duplicative regional and corporate overhead and we now view the original merger integration plan as complete except for the sale of certain long-lived assets. In addition to these cost savings, we have realized improved operating efficiencies by leveraging our expertise and capabilities and spreading combined volumes over a streamlined asset base. The focus on cost savings and operating efficiencies over the last two years has better positioned us to serve and grow with our customers as they respond to global industry conditions.

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

Executive Overview (Continued)

Outlook (Continued)

We have now transitioned the combined operations of both predecessor companies and created a truly unified and integrated Alliance One with an unswerving focus on our core business. We have exerted tremendous efforts in order to complete the systematic exiting of marginal and/or unprofitable origins or businesses. Most of our initiatives and actions were begun in fiscal 2006 and the integration process was substantially completed in fiscal 2007. We will continue to refine our footprint and we are dedicated to further improving the company's performance in fiscal 2008.

Our focus in fiscal 2007 has been on profit improvement and debt reduction, and we have shown notable success in both areas. Our focus in fiscal 2008 will be on continued profit improvement and debt reduction. The former will come from a combination of cost reductions, efficiency improvements and improved pricing, while the latter will be achieved through aggressive working capital management to reduce the operating cycle, including reduced leaf production in certain key origins to minimize inventory and investments.

We remain totally committed to our customer-focused strategy, and we are confident that this strategy, with our merger as its cornerstone, will position us to enhance our already strong customer relationships and allow us to grow with our customers. As such, we will continue to focus our attention and resources on those origins that are growing in market importance, on delivering outstanding customer service, exercising expense discipline, and above all, delivering the full benefits of the merger.

Operating Environment

Global

As previously stated, current trends remain toward a balance of supply and demand, though there are indications of increased demand for better quality burley tobaccos due to weather related crop shortfalls in certain African markets. We expect additional near term downward production adjustments to be made in the South American markets in response to the higher than anticipated current yields, achieved this crop cycle. Currency pressures remain a concern

in most of the tobacco supply markets while crop yield and quality issues impacted by uncertain climatological conditions remain a challenge in many of the offshore markets. Continued attention to market fundamentals, particularly to responsible growing practices, quality product, service and valued delivery remain a core focus for the Company as we deal with these factors.

South America

We consider this region to be a key area in tobacco leaf production with Brazil as our largest source country in terms of volume and revenue. The Brazil 2006 crop marketed during fiscal 2007 was of poor quality due to adverse weather related growing conditions which resulted in higher levels of uncommitted inventory remaining at March 31, 2007 and related market valuation adjustments and a higher provision for grower bad debt. The continued appreciation of the Brazilian real has increased costs by approximately 20% again this year. While sales prices for the 2006 crop increased, they do not offset the higher costs of both the 2005 and 2006 crops. The 2007 crop is a better quality crop but it will be impacted by the continuing currency appreciation as well. We are evaluating various alternatives to mitigate these cost increases. In fiscal 2007, we reached an agreement with the government of Rio Grande do Sul, the state in which our subsidiaries operate in Brazil in which we recovered a substantial amount of trade taxes that had been recorded as costs in fiscal 2006. These taxes are not a cost component in fiscal 2007. Argentina remained a stable operating environment even though margins were negatively impacted by inflation.

Asia

The Asian region experienced several operating challenges this year. All areas experienced diminished volumes but increased domestic demand. The increased demand resulted in higher prices which were also impacted by strong local currencies. However, these challenges also provided opportunities including increased oriental trading volumes, new processing arrangements and increased processing volumes in Indonesia. As a whole, the importance of the Asian region continues to increase as a supply source for our global customers particularly as they expand their cigarette manufacturing operations into the region. In Indonesia, Thailand and India, we purchase and process tobacco through our own or joint venture 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. We continue to expand the scope of our operations as the demand for Asian origin leaf continues to rise. Increased oriental crop sizes in China, India and Thailand coupled with a new crop development project in Indonesia are expected to act as key drivers for future growth in the Asian region.

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

Operating Environment: (Continued)

North America

The post-quota buyout era continues to evolve in the U.S. market and it is now virtually 100% direct contract purchasing as the traditional auction system has all but disappeared. Tobacco production continues to be concentrated in the traditional growing areas even though controls on volume, location and support price have been removed. The market remains substantially limited to domestic customers, as traditional foreign buyers have significantly reduced or eliminated U.S. grown leaf tobaccos from their product blends. As a result, our U.S. operations are increasingly focused on providing processing services to domestic manufacturers and providing value added products and services as manufacturers outsource segments of their business. Our Canadian and Guatemalan operations continue to contribute to the region's profitability.

Africa

Over the last three seasons, low yields in burley and dark-fired tobaccos across the region have resulted in reduced volumes. As a result, the African markets have opened with strong demand for burley and dark-fired tobaccos. Customer demand is strong for African flue-cured tobacco for its quality as well as a solution for customer dependency on other origins. Customer support remains strong throughout the region despite the affect on the business climate of political campaigning for presidential or local government elections around the region. Poverty, HIV, malaria and malnutrition are the main targets for eradication and are invariably linked to grower returns for agricultural products, particularly tobacco. In April 2007, we signed an agreement to sell one of our two factories in Malawi in early 2008. We anticipate that such sale, if consummated, will serve to futher streamline our African operations and provide increased efficiencies and cost reductions.

Europe

In the EU flue-cured and burley markets, the reform to the Common Agricultural Policy (CAP) support for tobacco has effected subsidy payments to growers. As a result, we sold our operations in Spain and closed our processing facility in Greece. We believe there could be further material reductions in tobaccos grown in Western Europe and we continue to evaluate our position in these markets. However, we will remain active in the EU flue-cured and burley markets as required to satisfy our customer requirements. We believe that Turkey continues to be the most important oriental tobacco market. Due to adverse growing conditions experienced in 2006, the oriental crops grown primarily in the Balkan areas, which are in the process of being purchased, have been reduced. However, with renewed interest

from farmers and customers, we anticipate a return to reasonable volumes in the coming season. Oriental crop sizes are in alignment with demand and government-held stocks, in Turkey and in Bulgaria, are declining. Opportunities within our operations in the semi-oriental market continue to contribute to the development of the region and serve our customers. We believe we have a strong presence in all the important oriental and semi-oriental markets. Our European operations are continuously evaluated in order to achieve improved efficiencies and cost reductions.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

Results of Operations

Condensed Consolidated Statement of Operations

| <i>(in millions)</i> | Twelve Months Ended March 31, | | | | | | |
|--|-------------------------------|-----------|-------|-----------|----------|------|-----------|
| | 2007 | Change | | 2006 (1) | Change | | 2005 (1) |
| | | \$ | % | | \$ | % | |
| Sales and other operating revenues | \$1,979.1 | \$(133.6) | (6.3) | \$2,112.7 | \$ 812.6 | 62.5 | \$1,300.1 |
| Gross profit | 295.7 | 71.0 | 31.6 | 224.7 | 30.1 | 15.5 | 194.6 |
| Selling, administrative and general expenses | 158.3 | (5.8) | (3.5) | 164.1 | 39.7 | 31.9 | 124.4 |
| Other income | 6.1 | 3.6 | | 2.5 | (2.8) | | 5.3 |
| Goodwill Impairment | - | (256.9) | | 256.9 | 256.9 | | - |
| Restructuring and asset impairment charges | 29.8 | (55.6) | | 85.4 | 82.6 | | 2.8 |
| Debt retirement expense | 3.9 | (62.6) | | 66.5 | 66.5 | | - |
| Interest expense | 105.6 | (3.0) | | 108.6 | 55.8 | | 52.8 |
| Interest income | 8.6 | 1.5 | | 7.1 | 2.7 | | 4.4 |
| Derivative financial instruments income | 0.3 | (4.8) | | 5.1 | (8.0) | | 13.1 |
| Income tax expense (benefit) | 16.1 | 33.6 | | (17.5) | (30.6) | | 13.1 |
| Equity in net income of investee companies | 1.0 | - | | 1.0 | 0.9 | | 0.1 |
| Minority interests (income) | 0.7 | 0.9 | | (0.2) | (0.1) | | (0.1) |
| Loss from discontinued operations | (18.7) | 5.4 | | (24.1) | (12.9) | | (11.2) |
| | (0.3) | (0.3) | | - | - | | - |

Cumulative effect of
accounting
changes, net of income
tax

| | | | | | | | |
|-------------------|------------|----------|--|-------------|-------------|--|---------|
| Net income (loss) | \$ (21.6)* | \$ 425.8 | | \$ (447.4)* | \$ (460.7)* | | \$ 13.3 |
|-------------------|------------|----------|--|-------------|-------------|--|---------|

* Amounts do not equal column totals due to rounding.

Sales and Other Operating Revenue Supplemental Information

| <i>(in millions, except per kilo amounts)</i> | Twelve Months Ended March 31, | | | | | | |
|---|-------------------------------|------------|--------|-----------|----------|------|-----------|
| | | Change | | | Change | | |
| | 2007 | \$ | % | 2006 (1) | \$ | % | 2005 (1) |
| Tobacco sales and other operating revenues: | | | | | | | |
| Sales and other operating revenues | \$ 1,909.3 | \$ (147.8) | (7.2) | \$2,057.1 | \$ 789.3 | 62.3 | \$1,267.8 |
| Kilos | 584.9 | (80.5) | (12.1) | 665.4 | 255.1 | 62.2 | 410.3 |
| Average price per kilo | \$ 3.26 | \$ 0.17 | 5.5 | \$ 3.09 | \$ 0.00 | 0.0 | \$ 3.09 |
| Processing and other revenues | 69.8 | 14.2 | 25.5 | 55.6 | 23.3 | 72.1 | 32.3 |
| Total sales and other operating revenues | \$ 1,979.1 | \$ (133.6) | (6.3) | \$2,112.7 | \$ 812.6 | 62.5 | \$1,300.1 |

(1) The merger of DIMON and Standard was completed May 13, 2005, which was during the first quarter of fiscal 2006. As a result, total revenues and expenses for the twelve months ended March 31, 2006 exclude Standard's results from April 1 to May 13, 2005. Total revenues and expenses for the twelve months ended March 31, 2005 are DIMON only.

For the fiscal year ended March 31, 2006, functional and operational integration activities made differentiation between former DIMON and former Standard results difficult which impairs the comparability of fiscal years 2006 and 2005 results.

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

Results of Operations (Continued)

Comparison of the Year Ended March 31, 2007 to the Year Ended March 31, 2006

Sales and other operating revenues. The decrease of 6.3% from \$2,112.7 million in 2006 to \$1,979.1 million in 2007 is the result of a 12.1% or 80.5 million kilo decrease in quantities sold, offset by a 5.5% or \$0.17 per kilo increase in average sales prices and a 25.5% or \$14.2 million increase in processing and other revenues.

South America region. Tobacco revenues decreased \$34.5 million, reflecting a 37.1 million kilo decrease in quantities sold versus the prior year primarily related to the timing of 2005 shipments that had been delayed to 2006 and a decrease in demand primarily resulting from the quality of the 2006 crop. This was offset by a \$0.36 per kilo increase in average sales prices, attributable primarily to the increased costs of the 2006 crop.

Other regions. Tobacco revenues decreased \$113.3 million due to a 43.4 million kilo decrease in quantities sold, partially offset by a \$0.06 per kilo increase in average sales prices. The decrease in volume resulted primarily from prior year opportunistic sales in the oriental market as well as the exit from certain European markets during 2007. The decrease in volume also reflected diminished prior year low margin sales from Thailand and China, and the delay of U.S. shipments into fiscal year 2008. The increase in average sales prices resulted from the product mix in Asian origin sales as well as higher costs of 2006 Asian crops. Other region processing and other revenues increased \$14.2 million primarily related to greater quantities of U.S. customer-owned tobacco processed.

Gross profit as a percentage of sales. The \$71.0 million increase in gross profit, or 31.6%, from \$224.7 million in 2006 to \$295.7 million in 2007, as well as the gross profit percentage increased from 10.6% in 2006 to 14.9% in 2007, is primarily attributable to two factors:

First, gross profit in the South American region increased approximately \$63.5 million. As disclosed in the quarterly and annual reports for the fiscal year ended March 31, 2006, gross profit in Brazil was negatively impacted by the poor quality of the 2005 crop, the strength of the local currency against the U.S. dollar on prices paid to

growers and related processing costs, and increased costs from the absorption of local intrastate trade taxes from a change in local laws. In the first quarter of 2007 we entered into an agreement with the government of Rio Grande do Sul allowing us to transfer accumulated intrastate trade tax credits related to the 2005 crop. As a result, intrastate trade taxes related to the 2005 crop of \$19.2 million previously recorded as cost of goods and services sold in fiscal 2006 were reversed during the current year. The impact of this agreement in the current year coupled with 2006 crop sales price increases resulted in an increase in gross profit when comparing 2007 with 2006. Partially offsetting the impact of the items noted above which increased the gross profit in the South American region during 2007, was the quality of the 2006 crop and decreased demand. While the 2006 Brazilian crop had been expected to be of average quality, weather related growing conditions in the latter part of the season significantly impacted quality and demand declined. As a result, we increased the provision for grower bad debt, impacting the current year gross profit by \$8.3 million compared to the prior year, as well as future quarters relative to 2006 crop sales.

Second, as required by SFAS No. 141, we adjusted Standard's inventory to its fair value less selling costs. These purchase accounting adjustments impacting gross profit on sales of inventory acquired in the merger were reduced by \$16.6 million from \$18.0 million in 2006 compared to \$1.4 million in 2007, primarily in the Other Regions reportable segment. There will be no further impact on gross profit related to purchase accounting adjustments resulting from the merger. This cost reduction was partially offset by a \$6.9 million increase in the tobacco market valuation adjustment recorded in 2007 compared to 2006 that was primarily in the South America reportable segment as a result of poor quality crops.

Selling, administrative and general expenses decreased \$5.8 million or 3.5% from \$164.1 million in 2006 to \$158.3 million in 2007. The decrease is primarily due to the deconsolidation of Zimbabwe and a significant reduction in merger and integration related travel expenses.

Other income increased \$3.6 million from \$2.5 million in 2006 to \$6.1 million in 2007. The increase is primarily attributable to the recovery of receivable previously written off and increased gains on fixed asset sales.

Goodwill impairment is tested for each reporting unit annually as of the first day of the last quarter of the fiscal year and whenever events or circumstances indicate that impairment may have occurred. In 2007, there were no indications of impairment. Based on the impairment analysis in 2006, we recorded a total goodwill impairment charge of \$256.9 million during the fourth quarter related to the reporting units of North America (75.7 million) and South America (181.2 million). See Note E Goodwill and Other Intangibles to the Notes to Consolidated Financial Statements for further information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

Results of Operations *(Continued)*

Comparison of the Year Ended March 31, 2007 to the Year Ended March 31, 2006 *(Continued)*

Restructuring and asset impairment charges were \$29.8 million in 2007 compared to \$85.4 million in 2006. At March 31, 2006, in accordance with ARB 51, we deconsolidated our Zimbabwe operations. A non-cash impairment charge of \$47.9 million was recorded in 2006 to adjust the investment in those operations to estimated fair value. In 2007, an additional non-cash impairment charge of \$13.2 million was recorded to write down our Zimbabwe investment to zero. Neither of these charges was deductible for income tax purposes. Other impairment charges in 2006 relate to \$22.2 million for employee severance and other integration charges related to the merger and \$15.3 million for asset impairments primarily related to the decision to sell the dark air-cured tobacco business, including intangibles of the Indonesian dark air-cured operation. Other impairment charges in 2007 relate to \$6.7 million for asset impairments in Greece, Thailand and Turkey, primarily machinery and equipment, and \$9.9 million for employee severance and other integration related charges as a result of the merger. See Note D Restructuring and Assets Impairment Charges to the Notes to Consolidated Financial Statements for further information.

Debt retirement expense of \$3.9 million in 2007 relates to one time costs of refinancing our senior secured credit facility. Debt retirement expense of \$66.5 million in 2006 relates to one time costs of retiring DIMON debt as a result of the merger. These costs include tender premiums paid for the redemption of senior notes and convertible subordinated debentures, the expense recognition of debt issuance costs associated with former DIMON debt instruments, termination of certain interest rate swap agreements and other related costs.

Interest expense decreased \$3.0 million from \$108.6 million in 2006 to \$105.6 million in 2007 due to lower average borrowings offset by higher average rates.

Interest income increased \$1.5 million from \$7.1 million in 2006 to \$8.6 million in 2007 primarily due to the interest income received from the release of Brazilian PIS/Cofins escrow deposits during the fourth quarter of fiscal 2007.

Derivative financial instruments resulted in a benefit of \$0.3 million in 2007 and \$5.1 million in 2006. These items are derived from changes in the fair value of non-qualifying interest rate swap agreements.

Effective tax rates were an expense of 122.7% in 2007 and a benefit of 4.0% in 2006. Effective tax rates are largely determined by the distribution of taxable income among various taxing jurisdictions as well as management's judgment on the ability to realize the tax benefits of deferred tax assets. The significant unfavorable variance from the statutory rate in 2007 is primarily due to the inability to recognize the benefit of losses in certain jurisdictions and the additional income tax accrual for the tax audit in Germany. See Note P Contingencies and Other Information to the Notes to Consolidated Financial Statements for further information. The effective rate was favorably impacted as a result of the reduction in tax rates in Turkey and a reduction in valuation allowance related to U.S. foreign tax credit carryovers. The difference from the statutory rate in 2006 is primarily due to significant goodwill impairment charges for which no tax benefit is realized. See Note L Income Taxes to the Notes to Consolidated Financial Statements for further information.

Losses from discontinued operations were \$18.7 million in 2007 and \$24.1 million in 2006. The decrease of \$5.4 million is due to a \$12.0 million assessment in 2006 related to an administrative investigation into tobacco buying and selling practices within the leaf tobacco industry in Italy by the Directorate General for Competition. Also included in the decrease is reduced losses of \$2.7 million from our non-tobacco, Italian and Mozambique tobacco operations as well as our wool operations. Substantially offsetting this decrease is \$9.3 million in charges in 2007 related to finalizing our exit from the Italian market. See Note C Discontinued Operations to the Notes to Consolidated Financial Statements for further information.

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

Results of Operations (Continued)

Comparison of the Year Ended March 31, 2006 to the Year Ended March 31, 2005

The merger of DIMON and Standard was completed during the first quarter of 2006. Total revenues and expenses for the fiscal year ended March 31, 2006, which includes Standard's results since May 13, 2005 and DIMON's results for the full fiscal year, increased significantly when compared to prior fiscal years as prior fiscal years include only the results of DIMON.

For the fiscal year ended March 31, 2006, functional and operational integration activities made differentiation between former DIMON and former Standard results difficult which impairs the comparability of fiscal years 2006 and 2005 results.

Sales and other operating revenues. The increase of 62.5% from \$1,300.1 million in 2005 to \$2,112.7 million in 2006 is primarily the result of the addition of Standard revenues. The increase is a result of a 62.2% or 255.1 million kilo increase in quantities sold and a 72.1% or \$23.3 million increase in processing and other revenues. Average sales prices remained constant overall.

South America region. Tobacco revenues increased \$291.6 million, reflecting a 92.3 million kilo increase in quantities sold and a \$0.09 per kilo increase in average sales prices. The increase in the South America region is primarily a result of the inclusion of Standard revenues.

Other regions. Tobacco revenues increased \$497.7 million due to a 162.7 million kilo increase in quantities sold, partially offset by a \$0.06 per kilo decrease in average sales prices. The inclusion of Standard revenues significantly increased revenues in the origins of Turkey, Malawi and the United States. While volumes increased in the United States, average sales prices per kilo decreased \$0.34 per kilo as a result of including Standard's lower priced cut rag and crushed rolled expanded stem products in 2006. Average sales prices in Zimbabwe decreased \$1.09 per kilo as a result of the continued decline in the economic and political situation even though volumes increased as a result of direct contract buying. Other region processing and other revenues increased \$23.3 million primarily related to greater quantities of U.S. customer-owned tobacco processed as a result of the merger.

Gross profit as a percentage of sales. The \$30.1 million increase in gross profit, or 15.5%, from \$194.6 million in 2005 to \$224.7 million in 2006, as well as the gross profit percentage decrease from 15.0% in 2005 to 10.6% in 2006 is primarily attributable to two factors:

First, while the inclusion of Standard sales contributed significantly to operating results, gross profit on these sales was reduced by \$18.0 million as a result of non-cash purchase accounting adjustments required to record inventory in the Standard acquisition at fair value.

Second, a significant decline in gross profit and gross profit percentage in the South America region also negatively impacted the fiscal 2006 results. The Brazil crop marketed during fiscal 2006 was of a poor quality due to adverse weather related growing conditions. The result, under contract farming, was that certain tobaccos purchased did not meet customer quality requirements. The 2005 crop costs in Brazil increased approximately 20% due to a combination of the effect of the relative strength of the local currency against the U.S. dollar on prices paid to growers for leaf and related processing and conversion costs, coupled with the absorption of local intrastate trade taxes resulting from a change in local laws. Gross profit was negatively impacted as sales price increases were insufficient to cover these cost escalations. These factors will continue to affect operating results in the South America region in future quarters when the remainder of the 2005 crop is sold.

Selling, administrative and general expenses increased \$39.7 million or 31.9% from \$124.4 million in 2005 to \$164.1 million in 2006. The increase is primarily due to the additional expenses of Standard as a result of the merger. Expenses were further increased by the impact of expenses denominated in foreign currencies, primarily a greater than 20% increase in the Brazilian real.

Other income of \$2.5 million in 2006 relates primarily to fixed asset sales of \$0.9 million and the recovery of \$1.6 million of an Iraqi debt previously written off. Other income of \$5.3 million in 2005 relates primarily to fixed asset sales and insurance recoveries.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

Results of Operations *(Continued)*

Comparison of the Year Ended March 31, 2006 to the Year Ended March 31, 2005 *(Continued)*

Goodwill impairment is tested for each reporting unit annually as of the first day of the last quarter of the fiscal year and whenever events or circumstances indicate that impairment may have occurred. The testing is based on a discounted cash flow approach for each reporting unit to determine fair value (Step 1). When a possible impairment for a reporting unit is indicated, the implied fair value of goodwill is tested by comparing the carrying amount of the net assets of the reporting unit excluding goodwill to the total fair value (Step 2). The fair value of the reporting unit is estimated using the expected present value of future cash flows. As a result of certain reporting units failing Step 1, we completed Step 2 to measure the impairment loss, if any. Based on this analysis we recorded a total goodwill impairment charge of \$256.9 million during the fourth quarter of fiscal 2006 related to the reporting units of North America and South America. Of the total goodwill impairment charge, \$75.7 million related to North America. Prior to the merger with Standard, no goodwill was previously allocated to the former DIMON operating segment in North America. As a result of declines in the U.S. market share due to unanticipated decreased customer demand and reduced crop size, indicators of impairment were present. Accordingly, Step 2 testing was required resulting in the related goodwill impairment charge. Of the total goodwill impairment charge, \$181.2 million related to South America. Prior to the merger, all previous goodwill of \$151.8 million was allocated to the South America operating region. Merger related goodwill of \$29.4 million was allocated to South America. As stated above management completed the annual impairment test for each of the preceding years without any impairment. There are several changes in the South America region that have significantly impacted operations in 2006. First is the impact of the absorption of local intrastate trade taxes resulting from a change in local laws. Second is the effect of the strong local currency on prices paid to growers and related tobacco conversion costs. Third is the impact of the poor quality of the 2005 crop. These factors negatively impacted the operating segment's future cash flow projections. Some of these factors are expected to continue to affect cash flow projections. Accordingly, Step 2 was required and the related impairment charge was recorded. See Note E Goodwill and Other Intangibles to the Notes to Consolidated Financial Statements for further information.

Restructuring and asset impairment charges were \$85.4 million in fiscal 2006 compared to \$2.8 million in 2005. The South America segment was \$2.4 million and the other segments were \$83.0 million. In accordance with ARB 51, when a parent does not have control of a subsidiary due to severe foreign exchange restrictions or other governmental imposed uncertainties, the subsidiary should be deconsolidated. As a result, the Company deconsolidated its Zimbabwe operations at March 31, 2006 and recorded a non-cash impairment charge of \$47.9 million to adjust the investment in those operations to estimated fair value. No income tax benefit was recognized on

the charge. The investment is now accounted for using the cost method and is reported on the balance sheet in Cost Method Investments. Business operations in Zimbabwe were not impacted by the financial reporting change or the non-cash charge, and the Company intends to continue its operations there. In 2006, assets impairment of \$15.3 million and \$22.2 million of employee severance and other integration charges related to merger. In 2006 we recorded asset impairment charges of \$1.2 million, \$12.5 million and \$1.6 million in connection with the decision to close the Spanish operations, sell the dark air-cured tobacco business and other, respectively. See Note D Restructuring and Assets Impairment Charges to the Notes to Consolidated Financial Statements for further information.

Debt retirement expense of \$66.5 million relates to one time costs of retiring DIMON debt as a result of the merger. These costs include tender premiums of \$42.3 million paid for the redemption of senior notes and convertible subordinated debentures, the non-cash expense recognition of \$18.4 million of debt issuance costs associated with former DIMON debt instruments and \$5.8 million related to the termination of certain interest rate swap agreements and other related costs.

Interest expense increased \$55.8 million from \$52.8 million in 2005 to \$108.6 million in 2006 of which, \$27.6 million was due to higher average borrowings of the combined company reflected in the post-merger capital structure and \$28.2 million resulted from higher average interest rates.

Interest income increased \$2.7 million from \$4.4 million in 2005 to \$7.1 million in 2006 primarily due to higher interest rates and average cash balances in the United States, United Kingdom and Zimbabwe.

Derivative financial instruments resulted in a benefit of \$5.1 million in 2006 and \$13.1 million in 2005. These items are derived from changes in the fair value of non-qualifying interest rate swap agreements. See Note F Derivative and Other Financial Instruments to the Notes to Consolidated Financial Statements for further information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

Results of Operations *(Continued)*

Comparison of the Year Ended March 31, 2006 to the Year Ended March 31, 2005 *(Continued)*

Effective tax rates were a benefit of 4.0% in 2006 and an expense of 35.1% in 2005. The rates are based on the current estimate of full year results except for any taxes related to specific events which are recorded in the interim period in which they occur. The tax rate in 2006 was adversely affected by goodwill and other asset impairment charges for which no tax benefit is realized. During the fiscal year ended March 31, 2006, adjustments of \$29.0 million related to deferred tax asset valuation allowance adjustments were recorded as specific events. The net effect on the 2006 tax provision was to decrease the effective tax rate from a benefit of 10.5% to 4.0%.

Losses from discontinued operations were \$24.1 million in 2006 and \$11.2 million in 2005. The increase of \$12.9 million is primarily due to a \$12.0 million assessment related to an administrative investigation into tobacco buying and selling practices within the leaf tobacco industry in Italy by the Directorate General for Competition. The remainder is attributable to the discontinuation of operations in Italy and Mozambique of the combined company, the wool operations of former Standard and non-tobacco operations of former DIMON. The decision to discontinue operations in Mozambique in 2006 was due to our loss of concession to promote tobacco production in the Chifunde district of Mozambique. Without the Chifunde district it was not in our economic interest to continue operations in Mozambique. Non-tobacco operations of former DIMON were acquired in 2004. This was a developmental enterprise and neither emerging markets nor production expectations met our expectations. The non-tobacco operation was sold in April 2006 after the conclusion of our March 31 fiscal year end. See Note C Discontinued Operations to the Notes to Consolidated Financial Statements for further information.

Liquidity and Capital Resources

Overview

Purchasing, processing and selling activities of our business are seasonal. Our need for capital fluctuates with corresponding peaks and our associated outstanding indebtedness may be significantly greater or less as a result. Historically we have needed capital in excess of cash flow from operations to finance accounts receivable, inventory

and advances to farmers for pre-financing tobacco crops in foreign countries, including Argentina, Brazil, Guatemala, Malawi, Tanzania, Turkey and Zambia. Our long-term borrowings consist of senior and subordinated notes as well as senior secured revolving and term credit facilities. We also have short-term lines of credit available with a number of banks to provide needed working capital during the seasonal peaks of our business.

Over the last twelve months and in line with one of management's stated areas of focus, we have reduced debt, net of cash, by \$215.8 million from \$1,046.5 million as of March 31, 2006 to \$830.7 million as of March 31, 2007. Improved working capital management, as well as both excess cash flow from operations and non-core asset sale proceeds, were the significant debt reduction drivers. From time to time in the future, we may elect to purchase, redeem, repay, retire or cancel indebtedness prior to stated maturity under our senior secured credit agreement or indentures, as permitted therein.

On March 30, 2007, we refinanced our existing \$650.0 million Senior Secured Credit Facility with a new \$385.0 million Senior Secured Credit facility comprised of a three and one half year \$240.0 million revolving facility and a four year \$145.0 million Term Loan B, as well as on March 7, 2007, the issuance of \$150.0 million of 8.5% Senior Notes due May 15, 2012 and issued at a discounted price of 99.507 with a yield to maturity of 8.625%. Following the fiscal year end, on May 4, 2007, we made an optional \$50.0 million prepayment on our \$145.0 million Term Loan B with excess cash flow from operations reducing it to \$95.0 million. Also, subsequent to the fiscal year end, on May 25, 2007, we increased the revolver commitment from \$240.0 million to \$250.0 million as permitted under the credit agreement.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

Liquidity and Capital Resources *(Continued)*

Overview *(Continued)*

At March 31, 2007, we had \$80.3 million in cash on our balance sheet, no borrowings under our \$240.0 million revolving credit facility with \$240.0 million available and \$179.1 million outstanding under foreign lines with \$275.5 million available under those lines and \$22.5 million of other debt for a total of \$618.3 million of debt availability and cash on hand around the world, excluding \$17.8 million in issued but unfunded letters of credit with \$12.8 million of letters of credit available. Another source of liquidity as of March 31, 2007 was \$30.7 million funded under our \$55.0 million receivable sale program. Additionally, customers pre-financed purchases of \$125.4 million and it should be noted that we hold substantial amounts of inventories that are committed to them. To the extent that these customers do not provide advance funding, we must provide financing for such inventories. Should customers pre-finance less in the future for committed inventories this action could negatively affect our short-term liquidity. At March 31, 2007, 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 2008. No cash dividends were paid to stockholders during the twelve months ended March 31, 2007. See Note G Short-term Borrowing Arrangements and Note R Sale of Receivables to the Notes to Consolidated Financial Statements for further information.

Seasonal liquidity beyond cash flow from operations is provided by our revolving credit facility, seasonal working capital lines throughout the world, advances from customers and sale of accounts receivable. As of March 31, 2007, we are in our working capital build and nearing our high point in seasonally adjusted working capital borrowing. Borrowings related to South America are approaching full utilization as tobacco from the most recent crop is being purchased and processed while the peak tobacco sales season for South America is at its beginning stages. Africa is also in the middle of its buying, processing and selling season and is utilizing working capital funding as well. North America and Europe are still selling and planning for the next crop that is now being grown.

Working Capital

Our working capital decreased from \$538.9 million at March 31, 2006 to \$531.9 million at March 31, 2007. Our current ratio was 1.9 to 1 at March 31, 2007 compared to 1.6 to 1 at March 31, 2006. The decrease in working capital is primarily related to decreased inventories and advances on purchases of tobacco partially offset by the corresponding decrease in notes payable to banks.

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

| | As of March 31, | | | | | | |
|---|-----------------|---------|--------|----------|---------|--------|----------|
| | 2007 | Change | | 2006 | Change | | 2005 |
| <i>(in millions except for current ratio)</i> | | \$ | % | | \$ | % | |
| Cash and cash equivalents | \$ 80.3 | \$ 54.3 | 208.7 | \$ 26.0 | (3.1) | (10.7) | \$ 29.1 |
| Net trade receivables | 217.8 | (103.1) | (32.1) | 320.9 | 101.6 | 46.3 | 219.3 |
| Inventories and advances on purchases of tobacco | 730.3 | (145.0) | (16.6) | 875.3 | 311.3 | 55.2 | 564.0 |
| Total current assets | 1,131.6 | (236.6) | (17.3) | 1,368.2 | 493.5 | 56.4 | 874.7 |
| Notes payable to banks | 179.1 | (120.8) | (40.3) | 299.9 | 87.9 | 41.5 | 212.0 |
| Accounts payable | 188.0 | 12.1 | 6.9 | 175.9 | 86.1 | 95.9 | 89.8 |
| Advances from customers | 125.4 | (101.0) | (44.6) | 226.4 | 177.0 | 358.3 | 49.4 |
| Total current liabilities | 599.7 | (229.6) | (27.7) | 829.3 | 427.7 | 106.5 | 401.6 |
| Current ratio | 1.9 to 1 | | | 1.6 to 1 | | | 2.2 to 1 |
| Working capital | 531.9 | (7.0) | (1.3) | 538.9 | 65.8 | 13.9 | 473.1 |
| Total long term debt | 726.6 | (17.9) | (2.4) | 744.5 | 258.1 | 53.1 | 486.4 |
| Stockholders equity | 225.5 | 11.3 | 5.3 | 214.2 | (200.1) | (48.3) | 414.3 |
| Net cash provided (used) by: | | | | | | | |
| Operating activities | 187.5 | 95.1 | | 92.4 | 86.0 | | 6.4 |
| Investing activities | 44.3 | 1.0 | | 43.3 | 57.5 | | (14.2) |
| Financing activities | (179.1) | (55.4) | | (123.7) | (142.7) | | 19.0 |

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

Liquidity and Capital Resources (Continued)

Operating Cash Flows

Net cash provided by operating activities increased \$95.1 million in 2007 compared to 2006 which increased \$86.0 million compared to 2005. The increase in cash provided in 2007 is primarily due to significantly improved results of operations in 2007 compared to 2006. Decreases in accounts receivable and inventories and advances on purchases of tobacco were offset by a corresponding decrease in advances from customers. Decreases in accounts payable and accrued expenses were substantially offset by the change in deferred items. The increase in cash provided in 2006 compared to 2005 is primarily related to the increased operating cash flows associated with the acquisition of Standard.

Investing Cash Flows

Net cash provided by investing activities increased \$1.0 million in 2007 compared to 2006 which increased \$57.5 million compared to 2005. The increase in cash provided in 2007 compared to 2006 is primarily a result of the surrender of life insurance policies, increased proceeds from the sale of fixed assets identified as part of the merger process to be redundant and the return of capital from our Zimbabwe operation offset by the cash acquired in the prior year as a result of the purchase and merger of Standard into Alliance One. The increase in cash provided in 2006 compared to 2005 is primarily due to the cash acquired as a result of the merger and increased proceeds from the sale of fixed assets identified as part of the merger process to be redundant.

Financing Cash Flows

Net cash used by financing activities increased \$55.4 million in 2007 compared to 2006 which increased \$142.8 million compared to 2005. The increase in cash used in 2007 compared to 2006 is primarily due to lower net proceeds from borrowings in 2007 as a result of the new debt arrangements entered into in the prior year as a result of the merger. The increase in cash used in 2006 compared to 2005 is primarily due to the payoff in 2006 of the former DIMON debt arrangements as a result of the merger which were substantially offset by the proceeds from the new debt arrangements of Alliance One.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

Liquidity and Capital Resources *(Continued)*

The following table summarizes our debt financing as of March 31, 2007:

| | Outstanding | | March 31, 2007 | | Repayment Schedule by Fiscal Year (5) | | | | |
|---|----------------|----------------|-----------------------------|---------------|---------------------------------------|-------|-------|-------|-----|
| | March 31, 2006 | March 31, 2007 | Lines and Letters Available | Interest Rate | 2008 | 2009 | 2010 | Later | |
| Senior secured credit facility: | | | | | | | | | |
| Revolver (1) | \$ - | \$ - | \$240.0 | | | | | | |
| Term loan A | 142.5 | - | - | | \$ - | \$ - | \$ - | \$ - | |
| Term loan B | 198.0 | 145.0 | - | 9.5% | 1.5 | 1.5 | 1.4 | 140.6 | |
| | 340.5 | 145.0 | 240.0 | | 1.5 | 1.5 | 1.4 | 140.6 | |
| Senior notes: | | | | | | | | | |
| 11% senior notes due 2012 | 315.0 | 315.0 | - | 11.0% | - | - | - | 315.0 | |
| 8 ½% notes due 2012 | - | 149.3 | - | 8.5% | (.1) | (.1) | (.1) | 149.6 | |
| Other (2) | 10.2 | 10.2 | - | | - | - | - | 10.2 | |
| | 325.2 | 474.5 | - | | (.1) | (.1) | (.1) | 474.8 | |
| 12 ¾% senior subordinated note due 2012 | 90.7 | 91.6 | - | 12.8% | (1.0) | (1.2) | (1.4) | 95.2 | |
| Other long-term debt | 16.2 | 20.8 | 22.5 | 11.2% | (3) | 4.8 | 12.8 | 1.9 | 1.3 |
| Notes payable to banks (4) | 299.9 | 179.1 | 275.5 | 6.3% | (3) | - | - | - | - |

| | | | | | | | |
|------------------------|-----------|---------|---------|-------|--------|-------|---------|
| Total debt | \$1,072.5 | \$911.0 | 538.0 | \$5.2 | \$13.0 | \$1.8 | \$711.9 |
| Short term | \$ 299.9 | \$179.1 | | | | | |
| Long term: | | | | | | | |
| Long term debt | | | | | | | |
| current (5) | \$ 28.1 | \$ 5.2 | | | | | |
| Long term debt (5) | 744.5 | 726.7 | | | | | |
| | \$ 772.6 | \$731.9 | | | | | |
| Letters of credit | \$ 30.1 | \$ 17.8 | 12.8 | | | | |
| Total credit available | | | \$550.8 | | | | |

(1) Revolver available balance does not reflect the \$10.0 million increase effective May 25, 2007

(2) Balance consists of legacy DIMON and Standard Senior Notes with balances and maturities as follows:

\$ 3.5 9 5/8% Senior Notes due 2011
 0.4 7 3/4% Senior Notes due 2013
6.3 8% Senior Notes due 2012
 \$10.2

(3) Weighted average rate for the year ended March 31, 2007

(4) Primarily foreign seasonal lines of credit

(5) Debt classification and repayment are based on a next twelve months basis and does not reflect the additional \$50.0 million paydown on term loan B made after the fiscal year end.

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

Liquidity and Capital Resources (Continued)

The following summarizes the material terms of each significant component of our debt financing.

Senior Secured Credit Facility

On March 30, 2007, we entered into an Amended and Restated Credit Agreement (the *Credit Agreement*), with a syndicate of banks that amends and restates the Company's prior credit agreement and provides for a senior secured credit facility (the "*Credit Facility*") that consists of:

a three and one-half year \$240.0 million revolver (subsequently increased to \$250.0 million) (the "*Revolver*") which initially accrues interest at a rate of LIBOR plus 2.75%; and

a four-year \$145.0 million term loan B (subsequently reduced to \$95.0 million) (the "*Term Loan B*") which accrues interest at a rate of LIBOR plus 2.25%

The interest rate for the Revolver may increase or decrease according to a consolidated interest coverage ratio pricing matrix as defined in the Credit Agreement. Effective May 25, 2007, the Company increased the Revolver by \$10.0 million to \$250.0 million by adding additional Lenders thereto.

Borrowers and Guarantors. One of our primary foreign holding companies, Intabex Netherlands B.V. (*Intabex*), is co-borrower under the Revolver, and our portion of the borrowings under the Revolver is limited to \$150.0 million outstanding at any one time. Intabex is the sole borrower under the Term Loan B. One of our primary foreign trading

companies, Alliance One International AG (AOIAG), is a guarantor of Intabex's obligations under the Credit Agreement. Such obligations are also currently guaranteed by us and must be guaranteed by any of our material direct or indirect domestic subsidiaries.

Collateral. Our borrowings under the senior secured credit facility are secured by a first priority pledge of:

100% of the capital stock of any material domestic subsidiaries;

65% of the capital stock of any material first tier foreign subsidiaries;

U.S. accounts receivable and U.S. inventory owned by us or our material domestic subsidiaries (other than inventory the title of which has passed to a customer and inventory financed through customer advances); and

Intercompany notes evidencing loans or advances we make to subsidiaries that are not guarantors.

In addition, Intabex's borrowings under the Credit Facility are secured by a pledge of 100% of the capital stock of Intabex, AOIAG, and certain of our and Intabex's material foreign subsidiaries.

Financial Covenants. The Credit Facility includes certain financial covenants and required financial ratios, including:

a minimum consolidated interest coverage ratio of not less than 1.55 to 1.00;

a maximum consolidated leverage ratio of not more than 6.25 to 1.00;

a maximum consolidated total senior debt to borrowing base ratio of not more than 0.90 to 1.00; and

a maximum amount of annual capital expenditures of \$40.0 million during any fiscal year of the Company.

Certain of these financial covenants and required financial ratios adjust over time in accordance with schedules in the Credit Agreement.

The Credit Agreement also contains certain customary affirmative and negative covenants, including, without limitation, restrictions on additional indebtedness, guarantees, liens and asset sales.

We continuously monitor our compliance with these covenants and we are not in default as of, or for the quarter ended, March 31, 2007. On June 20, 2007, the Company entered into a Waiver and Consent to cure any potential defaults under the Credit Agreement. See Note S Subsequent Events to the Notes to Consolidated Financial Statements for further information. If we were in default and were unable to obtain the necessary amendments or waivers under our Credit Facility, the lenders under that facility have the right to accelerate the loans thereby

demanding repayment in full and extinguishment of their commitment to lend. Certain defaults under the Credit Facility would result in a cross default under the indentures governing our senior notes and senior subordinated notes and could impair access to our seasonal operating lines of credit in local jurisdictions. A default under our Credit Facility would have a material adverse effect on our liquidity and financial condition.

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

Liquidity and Capital Resources (Continued)

Senior Notes

On May 13, 2005, we issued \$315.0 million of 11% senior notes due 2012 and on March 7, 2007 we issued \$150.0 million of 8 ½% senior notes due 2012 at a 0.5% original issue discount to reflect an 8.6% yield to maturity. The indentures governing each of the 11% senior notes and the 8 ½% senior notes contain certain covenants that, among other things, limit our ability to incur additional indebtedness; issue preferred stock; merge, consolidate or dispose of substantially all of our assets; grant liens on our assets; pay dividends, redeem stock or make other distributions or restricted payments; repurchase or redeem capital stock or prepay subordinated debt; make certain investments; agree to restrictions on the payment of dividends to us by our subsidiaries; sell or otherwise dispose of assets, including equity interests of its subsidiaries; enter into transactions with our affiliates; and enter into certain sale and leaseback transactions.

Senior Subordinated Notes

On May 13, 2005, we issued \$100.0 million of 12 ¾% senior subordinated notes due 2012 at a 10% original issue discount to reflect a 15% yield to maturity. The indenture governing the senior subordinated notes contains covenants substantially identical to those contained in the indentures governing the 11% senior notes and the 8 ½% senior notes.

Foreign Seasonal Lines of Credit

We have typically financed our non-U.S. operations with uncommitted unsecured short term seasonal lines of credit at the local level. These operating lines are seasonal in nature, normally extending for a term of 180 to 270 days corresponding to the tobacco crop cycle in that location. These facilities are typically uncommitted in that the lenders

have the right to cease making loans and demand repayment of loans at any time. These loans are typically renewed at the outset of each tobacco season. As of March 31, 2007, we had approximately \$179.1 million drawn and outstanding on foreign seasonal lines totaling \$485.2 million. Additionally against these lines there was \$12.8 million available in unused letter of credit capacity with \$17.8 million issued but unfunded.

Aggregate Contractual Obligations and Off-Balance Sheet Arrangements

We have summarized in the table below our contractual cash obligations and other commercial commitments as of March 31, 2007.

| (in millions) | Total 2006 | Total 2007 | Payments / Expirations by Period | | | After 2012 |
|--|---------------|---------------|----------------------------------|--------------------|--------------------|---------------|
| | | | 2008 | Years 2009-2010 | Years 2011-2012 | |
| Long-Term Debt Obligations* | \$ 1,169.6 | \$ 1,112.2 | \$ 81.4 | \$ 166.3 | \$ 278.3 | \$ 586.2 |
| Capital Lease Obligations* | 0.5 | 0.5 | 0.2 | 0.3 | - | - |
| Operating Lease Obligations | 19.1 | 26.4 | 5.7 | 8.5 | 3.8 | 8.4 |
| Tobacco Purchase Obligations | 646.9 | 567.0 | 516.0 | 51.0 | - | - |
| Total Contractual Obligations and Other | | | | | | |
| Commercial Commitments | \$ 1,836.1 | \$ 1,706.1 | \$603.3 | \$ 226.1 | \$ 282.1 | \$ 594.6 |

* Long-Term Debt Obligations and Capital Lease Obligations include projected interest for both fixed and variable rate debt. We assume that there will be no drawings on the senior secured revolving credit facility in these calculations. The variable rate used in the projections is the rate that was being charged on our variable rate debt as of March 31, 2007. These calculations also assume that there is no refinancing of debt during any period. These calculations are on Long-Term Debt Obligations and Capital Lease Obligations only.

On September 27, 2006, the Company, entered into a revolving trade accounts receivable securitization agreement to sell receivables to a limited liability company (LLC). Under the agreement, the Company has assumed co-insurance equal to 10% of the value of receivables sold. Based on the closing balance of receivables sold to the LLC, this amount is equal to \$3,128 as of March 31, 2007.

We do not have any other 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.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (Continued)**

Liquidity and Capital Resources (Continued)

Aggregate Contractual Obligations and Off-Balance Sheet Arrangements (Continued)

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 2012. Operating assets that are of long-term and continuing benefit are generally purchased.

Tobacco Purchase Obligations

Tobacco purchase obligations result from contracts with growers, primarily in the United States, Brazil and Turkey, 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.

Planned Capital Expenditures

We have projected a total of \$25.5 million in capital investments for our 2008 fiscal year. We forecast our capital expenditure needs for routine replacement of equipment as well as investment in assets that will add value to the customer or increase efficiency. Included in capital expenditures for 2008 are costs for the initial development and implementation of SAP, a global financial accounting and reporting system. This system will replace more than 50 systems we are currently using around the world. Implementation will be phased in during fiscal 2009 and fiscal 2010.

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.

We consider unremitted earnings of certain subsidiaries operating outside the United States to be invested indefinitely. No U.S. income taxes or foreign withholding taxes are provided on such permanently reinvested earnings, in accordance with APB No. 23, Accounting for Income Taxes, Special Area. We regularly review the status of the accumulated earnings of each of our foreign subsidiaries and reassess this determination as part of our overall financing plans. Following this assessment, we provide deferred income taxes, net of any foreign tax credits, on any earnings that are determined to no longer be indefinitely invested. See Note L Income Taxes to the Notes to Consolidated Financial Statements for further information.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States (GAAP) requires the use of estimates and assumptions that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental disclosures including information about contingencies, risk and financial condition.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS *(Continued)*

Critical Accounting Policies and Estimates *(Continued)*

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and potentially yield materially different results under different assumptions or conditions. Given current facts and circumstances, we believe that our estimates and assumptions are reasonable, adhere to GAAP and are consistently applied. Our selection and disclosure of our critical accounting policies and estimates has been reviewed with our Audit Committee. Following is a review of the more significant assumptions and estimates and the accounting policies and methods used in the preparation of our consolidated financial statements.

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 for the years ended March 31, 2007 and 2006 were \$14.6 million and \$7.7 million, respectively. See Note A Significant Accounting Policies - Inventories to the Notes to Consolidated Financial Statements for further information.

Income Taxes

Deferred tax assets and liabilities reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We periodically assess the realizability of deferred tax assets and the adequacy of deferred tax liabilities, including the results of local, state, federal or foreign statutory tax audits or estimates and judgments used.

Realization of deferred tax assets associated with net operating loss and credit carryforwards is dependent upon generating sufficient taxable income prior to their expiration by tax jurisdiction. We believe that it is more likely than not that certain of these net operating loss and credit carryforwards may expire unused and, accordingly, have established a valuation allowance against them. Although realization is not assured for the remaining deferred tax assets, we believe it is more likely than not the deferred tax assets will be realized through future taxable earnings or alternative tax strategies. However, deferred tax assets could be reduced in the near term if our estimates of taxable income during the carryforward period are significantly reduced or alternative tax strategies are no longer viable.

The amount of income tax that we pay annually is dependent on various factors, including the timing of certain deductions and ongoing audits by federal, state and foreign tax authorities, which may result in proposed adjustments. We perform reviews of our income tax positions on a continuous basis and accrue for potential contingencies when we believe a liability is probable and can be reasonably estimated. Accruals for these contingencies are recorded based on an expectation as to the timing of when the contingency will be resolved. As events change or resolution occurs, these accruals are adjusted, such as in the case of audit settlements with taxing authorities. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities due to closure of income tax examinations, new regulatory or judicial pronouncements, or other relevant events. See Note L Income Taxes and Note P Contingencies and Other Information to the Notes to Consolidated Financial Statements for additional details regarding certain of our tax contingencies.

Advances on Purchases of Tobacco and Guarantees of Brazilian Rural Credit Financing to Farmers

We provide agronomy services and seasonal crop advances of, or for, seed, fertilizer, and other supplies. These advances are short term in nature, are repaid upon delivery of tobacco to us, and are reported in advances on purchases of tobacco in the consolidated balance sheet. Primarily in Brazil and certain African countries, we have made long-term advances to tobacco farmers to finance curing barns and other farm infrastructure. In addition, due to low crop yields and other factors, in some years individual farmers may not deliver sufficient volumes of tobacco to fully repay their seasonal advances, and we may extend repayment of those advances into future crop years. In Brazil, we also assist the farmer in obtaining government subsidized rural credit financing which is guaranteed by the company. Each reporting period, we must make assumptions as to the balances of farmer advances that may prove uncollectible. Based on these assumptions, we make estimates resulting in a valuation allowance for farmers advances and accruals for obligations under rural credit financing guarantees.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS *(Continued)*

Critical Accounting Policies and Estimates *(Continued)*

Property and Depreciation

Estimating the useful lives of property, plant and equipment requires management judgment, and actual lives may differ from these estimates. Changes to these initial useful life estimates are made when appropriate. Property, plant and equipment are tested for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, whenever events or changes in circumstances indicate that the carrying amounts of such long-lived assets may not be recoverable from future cash flows. Impairment testing requires significant management judgment including estimating the future sales volumes, growth rates for selling prices and costs, alternative uses for the assets and estimated proceeds from disposal of the assets. Impairment testing is conducted at the lowest level where cash flows can be measured and are independent of cash flows of other assets. An asset impairment would be indicated if the sum of the expected future cash flows from the use of the asset (undiscounted and without interest charges) is less than the carrying amount of the asset. An impairment loss would be measured based on the difference between the fair value of the asset and its carrying amount. 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 which would increase or decrease the impairment charge. During the years 2007, 2006 and 2005, the Company incurred charges of \$19.9 million, \$63.2 million and \$0.7 million, respectively, related to the impairment of long-lived assets. See Note D Restructuring and Asset Impairment Charges to the Notes to Consolidated Financial Statements for further information.

When the Company determines that all of the criteria under SFAS No. 144 have been met to classify a component of a business as discontinued operations, its financial position is reported as assets and liabilities of discontinued operations and its results as discontinued operations. The Company has made such decisions concerning tobacco operations in Italy and Mozambique, a U.S. non-tobacco processing facility and former Standard's wool operations. These operations are reported as discontinued operations in our financial statements and have resulted in losses of \$18.7 million, \$24.1 million and \$11.2 million in the years 2007, 2006 and 2005 respectively. See Note C Discontinued Operations to the Notes to Consolidated Financial Statements for further information.

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. In September 2005, the postretirement healthcare plan was capped resulting in a significant decrease in benefit cost. The significant assumptions used in the calculation of pension and postretirement obligations are:

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS** *(Continued)*

Critical Accounting Policies and Estimates *(Continued)*

Pensions and Postretirement Health Care and Life Insurance Benefits *(Continued)*

Discount rate: The discount rate is based on investment yields available at the measurement date 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 our expectations with respect to long-term salary increases of our 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 not early retirement subsidies in the plan.

Health Care Cost Trends: Trends for future increases in medical costs are based on past experience as well as forecasts of long-term medical cost trends.

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 decrease by \$3.6 million in the fiscal year ended March 31, 2008 as compared to March 31, 2007. We continually evaluate ways to better manage benefits and control costs. The cash contribution to our employee benefit plans in 2007 was \$9.8 million and is expected to be \$5.8 million in 2008.

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.

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 | \$ (7,269) | \$ (575) |
| 1% decrease in discount rate | \$ 8,535 | \$ 512 |
| 1% increase in salary increase assumption | \$ 546 | \$ 190 |
| 1% decrease in salary increase assumption | \$ (738) | \$ (141) |
| 1% increase in cash balance crediting rate | \$ 1,239 | \$ 156 |
| 1% decrease in cash balance crediting rate | \$ (1,104) | \$ (132) |
| 1% increase in rate of return on assets | | \$ (443) |
| 1% decrease in rate of return on assets | | \$ 444 |

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (Continued)**

Critical Accounting Policies and Estimates (Continued)

Pensions and Postretirement Health Care and Life Insurance Benefits (Continued)

Changes in assumptions for other post retirement benefits are no longer applicable as the benefit is capped and no longer subject to inflation. See Note M Employee Benefits to the Notes to Consolidated Financial Statements for further information.

Goodwill and Other Intangible Assets

We test the carrying amount of goodwill for each operating segment annually as of the first day of the last quarter of our fiscal year and whenever events or circumstances indicate that impairment may have occurred. Impairment testing is performed in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. Impairment testing is based on a discounted cash flow approach for each operating segment to determine fair value (Step 1). The determination of fair value requires significant management judgment including estimating future sales volumes, growth rates of selling prices and costs, changes in working capital, investments in property and equipment and the selection of an appropriate discount rate. We also test the sensitivities of these fair value estimates to changes in our earnings growth rate and discount rate.

When a possible impairment for an operating segment is indicated, we estimate the implied fair value of goodwill by comparing the carrying amount of the net assets of the operating segment excluding goodwill to the total fair value (Step 2). The fair value of the reporting unit is estimated using the expected present value of future cash flows. During 2006 certain reporting units failed Step 1, we completed Step 2 to measure the impairment loss. Based on this analysis we recorded a total goodwill impairment charge of \$256.9 million during the fourth quarter of fiscal 2006 related to the operating segments of North America and South America. See Note E Goodwill and Other Intangibles to the Notes to Consolidated Financial Statements for further information.

We have no intangible assets with indefinite useful lives. As of March 31, 2007 we have other intangible assets with a gross carrying amount of approximately \$46.1 million and a net carrying amount of about \$30.9 million. These intangibles are being amortized over their estimated useful lives and are tested for impairment whenever events or circumstances indicate that impairment may have occurred. If the carrying amount of an intangible asset exceeds its fair value based on estimated future undiscounted cash flows, an impairment loss would be indicated. The amount of the impairment loss to be recorded would be based on the excess of the carrying amount of the intangible asset over its discounted future cash flows. We use judgment in assessing whether the carrying amount of our intangible assets is not expected to be recoverable over their estimated remaining useful lives. The factors considered are similar to those outlined in the goodwill impairment discussion above. See Note E Goodwill and Other Intangible Assets to the Notes to Consolidated Financial Statements for further information.

Other Estimates and Assumptions

Other management estimates and assumptions are routinely required in preparing our financial statements, including the determination of valuation allowances on accounts receivable, value-added tax credits in Brazil and the current year write-down of our Zimbabwe investment to zero. Changes in market and economic conditions, local tax laws, and other related factors are considered each reporting period, and adjustments to the accounts are made based on our best judgment.

Accounting Matters

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets - an Amendment of FASB Statement No 140. SFAS No. 156 provides guidance on the accounting for servicing assets and liabilities when an entity undertakes an obligation to service a financial asset by entering into a servicing contract. This statement is effective for the Company as of April 1, 2007. Prior to fiscal year 2007, we had no servicing obligations that would be subject to this guidance. In fiscal 2007, certain receivables were sold and under this arrangement, we retained an obligation to service the financial assets sold. Current levels of receivables sold have resulted in neither a servicing asset or liability as the cost of servicing approximates the servicing revenue. Therefore, we do not expect the adoption to have any material impact on our financial condition or results of operations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Continued)*

Accounting Matters *(Continued)*

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. This Interpretation is effective for the Company as of April 1, 2007. We are currently evaluating the impact of FIN 48 on our financial statements. See Note P Contingencies to the Notes to Consolidated Financial Statements for further discussion.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, which enhances existing guidance for measuring assets and liabilities using fair value. SFAS No. 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. FAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under FAS No. 157, fair value measurements are disclosed by level within that hierarchy. SFAS No. 157 is effective for the Company as of April 1, 2008. We are evaluating the impact of SFAS No. 157 on its financial condition and results of operations.

On September 29, 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS 158"), which amends SFAS 87 and SFAS 106 to require recognition of the over funded or under funded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. We adopted the balance sheet recognition provisions of SFAS 158 at March 31, 2007. The adoption of FAS 158 increased stockholders' equity at March 31, 2007 by \$11.5 million. The Statement did not affect our results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Earlier adoption would also require adoption of all requirements of SFAS No. 157, and could only be done within 120 days of the beginning of the year of adoption. Given these constraints, we plan to adopt SFAS No. 159 at the beginning of fiscal 2009. We are evaluating the impact, if any, the adoption of SFAS No. 159 will have on our operating income or net earnings.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 provides guidance on the consideration of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The staff of the SEC (the Staff) believes registrants must quantify the impact of correcting all misstatements, including both carryover and reversing effects of prior year misstatements, on a company s current year consolidated financial statements. The Staff prescribes two approaches to assessing the materiality of misstatements: the rollover approach, which quantifies misstatements based on the amount of error originating in the current year income statement and the iron curtain approach, which quantifies misstatements based on the effects of correcting the cumulative effect existing in the balance sheet at the end of the current year. If under either approach, misstatements are deemed material, a company is required to adjust its financial statements, including correcting prior year financial statements, even if such correction was, and continues to be, immaterial to the prior year financial statements. Correcting prior year financial statements for immaterial errors would not require a company to amend previously filed reports, and such corrections may be made the next time the company files its prior year statements. Based upon our assessment, there were no adjustments resulting from the application of SAB 108.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT
MARKET RISK

Derivatives Policies: Hedging interest rate exposure using swaps and hedging foreign exchange exposure using forward and option contracts are specifically contemplated to manage risk in keeping with management's policies. We may use derivative instruments, such as swaps, forwards and/or options, 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 F *Derivative and Other Financial Instruments* 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. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, 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.

Foreign exchange rates: Our business is generally conducted in U.S. dollars, as is the business of the leaf 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. Fluctuations in the value of foreign currencies can significantly affect our operating results. Alliance One has recognized an exchange loss of \$0.2 million in its statement of Operations for the fiscal year ended March 31, 2007 and exchange gains in its statement of income of \$2.3 million and \$0.5 million for the fiscal years ended March 31, 2006 and 2005, respectively. In addition, foreign currency fluctuations in the Euro and (U.K.) Sterling can significantly impact the equity currency conversion component of accumulated other comprehensive income. Alliance One recognized a gain of \$9.5 million in 2007 and a loss of \$7.5 million in 2006 as a result of fluctuations in these currencies.

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 \$40.3 million of Alliance One's total SG&A expenses for the twelve months ended March 31, 2007. A 10% change in the value of the U.S. dollar relative to those currencies would have caused the reported value of those expenses to increase or decrease

by approximately \$4.0 million.

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 10% change in interest rates would increase or decrease Alliance One's reported interest cost by approximately \$9.6 million. Substantially all of our long-term borrowings are denominated in U.S. dollars.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**STATEMENTS OF CONSOLIDATED OPERATIONS AND COMPREHENSIVE INCOME**

Alliance One International, Inc. and Subsidiaries

| | Years Ended March 31, | | |
|--|-----------------------|--------------|-------------|
| <i>(in thousands, except per share data)</i> | 2007 | 2006 | 2005 |
| Sales and other operating revenues | \$ 1,979,078 | \$ 2,112,685 | \$1,300,118 |
| Cost of goods and services sold | 1,683,339 | 1,888,000 | 1,105,501 |
| Gross profit | 295,739 | 224,685 | 194,617 |
| Selling, administrative and general expenses | 158,342 | 164,087 | 124,416 |
| Other income | 6,076 | 2,501 | 5,285 |
| Goodwill impairment | - | 256,916 | - |
| Restructuring and asset impairment charges | 29,773 | 85,411 | 2,836 |
| Operating income (loss) | 113,700 | (279,228) | 72,650 |
| Debt retirement expense | 3,860 | 66,474 | - |
| Interest expense | 105,635 | 108,585 | 52,840 |
| Interest income | 8,591 | 7,107 | 4,448 |
| Derivative financial instruments income | 290 | 5,092 | 13,122 |
| Income (loss) before income taxes and other items | 13,086 | (442,088) | 37,380 |
| Income tax expense (benefit) | 16,062 | (17,531) | 13,113 |
| Equity in net income of investee companies | 1,014 | 999 | 89 |
| Minority interests expense (income) | 653 | (216) | (85) |
| | | | |
| Income (loss) from continuing operations | (2,615) | (423,342) | 24,441 |
| Loss from discontinued operations, net of tax | (18,730) | (24,104) | (11,153) |
| Cumulative effect of accounting changes, net of income taxes | (252) | - | - |
| | | | |
| NET INCOME (LOSS) | \$ (21,597) | \$ (447,446) | \$ 13,288 |
| Other comprehensive income (loss): | | | |
| Net income (loss) | \$ (21,597) | \$ (447,446) | \$ 13,288 |
| Equity currency conversion adjustment | 9,521 | (7,506) | (14) |

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| | | | |
|---|-------------|--------------|-----------|
| Additional minimum pension liability adjustment, net of tax \$241 in 2007, \$554 in 2006 and \$(119) in 2005 | 639 | 843 | (151) |
| Reclassification of derivative financial instruments into earnings, net of tax \$0 in 2007 and 2006 and \$(324) in 2005 | - | - | (637) |
| Total comprehensive income (loss) | \$ (11,437) | \$ (454,109) | \$ 12,486 |
| Basic Earnings (Loss) Per Share | | | |
| Income (loss) from continuing operations | \$(0.03) | \$(5.21) | \$ 0.55 |
| Loss from discontinued operations | (0.22) | (0.30) | (0.25) |
| Cumulative effect of accounting changes, net of income taxes | - | - | - |
| Net Income (Loss) | \$(0.25) | \$(5.51) | \$ 0.30 |
| Diluted Earnings (Loss) Per Share | | | |
| Income (loss) from continuing operations | \$(0.03) | \$(5.21) | \$ 0.54 |
| Loss from discontinued operations | (0.22) | (0.30) | (0.25) |
| Cumulative effect of accounting changes, net of income taxes | - | - | - |
| Net Income (Loss) | \$(0.25)* | \$(5.51)* | \$ 0.29* |

See notes to consolidated financial statements.

- * Assumed conversion of Convertible Debentures at the beginning of the period has an antidilutive effect on earnings (loss) per share. In connection with the closing of the merger with Standard many of the Company's financing arrangements were refinanced, including in July of 2005, the Company's \$73,328 of convertible subordinated debentures due 2007. For the years ended March 31, 2007 and March 31, 2006 all outstanding restricted stock and stock options are excluded because their inclusion would have an antidilutive effect on the loss per share.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**CONSOLIDATED BALANCE SHEET**

Alliance One International, Inc. and Subsidiaries

| <i>(in thousands)</i> | March 31, 2007 | March 31, 2006 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 80,258 | \$ 25,985 |
| Trade receivables, net | 217,761 | 320,865 |
| Inventories: | | |
| Tobacco | 619,468 | 726,846 |
| Other | 31,623 | 45,294 |
| Advances on purchases of tobacco, net | 79,249 | 103,147 |
| Current deferred and recoverable income taxes | 33,254 | 39,560 |
| Other current assets | 57,186 | 60,444 |
| Assets of discontinued operations | 12,835 | 46,056 |
| Total current assets | 1,131,634 | 1,368,197 |
| Other assets | | |
| Investments in unconsolidated affiliates | 21,302 | 44,763 |
| Goodwill and other intangible assets | 35,109 | 37,942 |
| Deferred tax assets | 69,002 | 51,666 |
| Other deferred charges | 18,136 | 20,890 |
| Other noncurrent assets | 116,621 | 93,531 |
| | 260,170 | 248,792 |
| Property, plant and equipment | | |
| Land | 25,802 | 26,710 |
| Buildings | 182,389 | 184,950 |
| Machinery and equipment | 197,565 | 211,498 |
| Allowances for depreciation | (143,688) | (136,023) |
| | 262,068 | 287,135 |
| | \$1,653,872 | \$1,904,124 |

LIABILITIES AND STOCKHOLDERS**EQUITY**

Current liabilities

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| | | |
|--|-------------|-------------|
| Notes payable to banks | \$ 179,097 | \$ 299,930 |
| Accounts payable | 188,003 | 175,883 |
| Advances from customers | 125,403 | 226,413 |
| Accrued expenses | 65,077 | 68,265 |
| Income taxes | 26,461 | 22,176 |
| Long-term debt current | 5,231 | 28,091 |
| Liabilities of discontinued operations | 10,379 | 8,526 |
| Total current liabilities | 599,651 | 829,284 |
| Long-term debt | 726,625 | 744,494 |
| Deferred income taxes | 10,895 | 7,405 |
| Pension, postretirement and other long-term liabilities | 87,730 | 105,991 |
| | 825,250 | 857,890 |
| Minority interest in subsidiaries | 3,425 | 2,763 |
| Commitments and contingencies | - | - |
| Stockholders' equity | | |
| Common stock - no par value: | | |
| 250,000 authorized shares, 96,467 issued and outstanding | | |
| (94,963 at March 31, 2006) | 459,563 | 451,388 |
| Unearned compensation - restricted stock | - | (3,134) |
| Retained earnings | (241,534) | (219,937) |
| Accumulated other comprehensive income | 7,517 | (14,130) |
| | 225,546 | 214,187 |
| | \$1,653,872 | \$1,904,124 |

See notes to consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**STATEMENT OF STOCKHOLDERS EQUITY**

Alliance One International, Inc. and Subsidiaries

| <i>(in thousands, except per share amounts)</i> | Common Stock | Unearned Compensation | Retained Earnings | Equity Currency Conversions | Accumulated Other Comprehensive Income | | Total Stockholders Equity |
|---|-----------------|--------------------------|----------------------|-----------------------------------|--|---|---------------------------------|
| | | | | | Additional Minimum Pension Liability, Net of Tax | Derivative Financial Instruments, Net of Tax | |
| Balance, March 31, 2004 | \$185,527 | \$ (873) | \$ 236,896 | \$ (3,343) | \$(3,959) | \$ 637 | \$414,885 |
| Net income for the year | - | - | 13,288 | - | - | - | 13,288 |
| Cash dividends -\$.30 per share | - | - | (13,578) | - | - | - | (13,578) |
| Issue of 216,500 shares of | | | | | | | |
| restricted stock | 1,397 | (1,397) | - | - | - | - | - |
| Earned compensation | - | 623 | - | - | - | - | 623 |
| Exercise of employee stock | | | | | | | |
| options | 144 | - | - | - | - | - | 144 |
| Restricted stock surrendered | (284) | 36 | - | - | - | - | (248) |
| Conversion of foreign currency | | | | | | | |
| financial statements | - | - | - | (14) | - | - | (14) |
| Adjustment in the minimum | | | | | | | |
| pension liability | - | - | - | - | (151) | - | (151) |

| | | | | | | | |
|---|-----------|------------|--------------|-------------|------------|-------|-----------|
| Reclassification of derivative financial instruments into earnings. | - | - | - | - | - | (637) | (637) |
| Balance, March 31, 2005 | \$186,784 | \$ (1,611) | \$ 236,606 | \$ (3,357) | \$ (4,110) | \$ - | \$414,312 |
| Net loss for the year | - | - | (447,446) | - | - | - | (447,446) |
| Cash dividends -\$.105 per share | - | - | (9,097) | - | - | - | (9,097) |
| Stock issued in connection with the merger | 261,905 | (2,463) | - | - | - | - | 259,442 |
| Issue of 418,500 shares of restricted stock | 2,039 | (2,039) | - | - | - | - | - |
| Earned compensation | (231) | 2,896 | - | - | - | - | 2,665 |
| Exercise of employee stock options | 913 | - | - | - | - | - | 913 |
| Restricted stock surrendered | (83) | 83 | - | - | - | - | - |
| Deferred stock compensation | 61 | - | - | - | - | - | 61 |
| Conversion of foreign currency financial statements | - | - | - | (7,506) | - | - | (7,506) |
| Adjustment in the minimum pension liability | - | - | - | - | 843 | - | 843 |
| Balance, March 31, 2006 | \$451,388 | \$ (3,134) | \$ (219,937) | \$ (10,863) | \$ (3,267) | \$ - | \$214,187 |
| Net loss for the year | - | - | (21,597) | - | - | - | (21,597) |
| Adoption of FAS 123R | (3,134) | 3,134 | - | - | - | - | - |
| Restricted stock surrendered | (452) | - | - | - | - | - | (452) |
| Earned compensation | 2,965 | - | - | - | - | - | 2,965 |
| Exercise of employee stock options | 7,266 | - | - | - | - | - | 7,266 |

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| | | | | | | | | | |
|--------------------------------|-----------|----|---|-------------|-----------|----------|--------|---|-----------|
| Stock-based compensation | 1,530 | - | - | - | - | - | 1,530 | | |
| Conversion of foreign currency | | | | | | | | | |
| financial statements | - | - | - | 9,521 | - | - | 9,521 | | |
| Adjustment in the minimum | | | | | | | | | |
| pension liability | - | - | - | - | 639 | - | 639 | | |
| Adoption of FAS 158 | - | - | - | - | 11,487 | - | 11,487 | | |
| Balance, March 31, 2007 | \$459,563 | \$ | - | \$(241,534) | \$(1,342) | \$ 8,859 | \$ | - | \$225,546 |

See notes to consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**STATEMENT OF CONSOLIDATED CASH FLOWS**

Alliance One International, Inc. and Subsidiaries

| <i>(in thousands)</i> | Years Ended March 31, | | |
|---|-----------------------|--------------|-----------|
| | 2007 | 2006 | 2005 |
| Operating activities | | | |
| Net Income (Loss) | \$ (21,597) | \$ (447,446) | \$ 13,288 |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities of continuing operations: | | | |
| Net loss from discontinued operations | 18,730 | 24,104 | 9,721 |
| Loss on disposal of discontinued operations | - | - | 1,432 |
| Depreciation and amortization | 36,293 | 43,511 | 32,257 |
| Debt amortization included in interest expense | 10,248 | 5,457 | 2,447 |
| Restructuring and asset impairment charges | 22,098 | 69,243 | 2,836 |
| Goodwill impairment | - | 256,916 | - |
| Deferred items | (15,910) | (67,039) | (26,122) |
| (Gain) loss on foreign currency transactions | 168 | (2,313) | (527) |
| Gain on disposition of fixed assets | (4,885) | (888) | (4,801) |
| Bad debt expense | (136) | 127 | 240 |
| Decrease (increase) in accounts receivable | 105,584 | 1,437 | (24,114) |
| Minority interests loss (income) | 653 | (216) | (85) |
| Decrease (increase) in inventories and advances | | | |
| on purchases of tobacco | 205,611 | 59,934 | (27,480) |
| Decrease (increase) in current deferred | | | |

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| | | | |
|---|-----------|----------|----------|
| and recoverable taxes | (5,709) | 5,644 | 3,298 |
| Increase (decrease) in accounts payable and | | | |
| accrued expenses | (85,420) | (12,568) | 21,168 |
| Increase (decrease) in advances from customers | (103,504) | 149,209 | (28,899) |
| Increase in income taxes | 7,330 | 4,983 | 9,742 |
| Other current assets | (2,818) | (19,513) | (727) |
| Other | 5,388 | 1,919 | (249) |
| Net cash provided (used) by operating activities | | | |
| of continuing operations | 172,124 | 72,501 | (16,575) |
| Net cash provided by operating activities | | | |
| of discontinued operations | 15,349 | 19,932 | 23,009 |
| Net cash provided by operating activities | 187,473 | 92,433 | 6,434 |
| Investing activities | | | |
| Purchase of property and equipment | (15,224) | (19,773) | (15,222) |
| Proceeds from sale of property and equipment | 25,537 | 17,963 | 8,086 |
| Cash distributed in disposition of business | (5,204) | - | - |
| Cash received in acquisition of business | - | 42,019 | - |
| Proceeds on sale of discontinued operations | - | - | 484 |
| Payments of merger related capitalized costs | - | - | (6,417) |
| Return of capital on investments in unconsolidated affiliates | 10,049 | - | - |
| Surrender of life insurance policies | 22,421 | 2,558 | 190 |
| Redemption of Brazilian escrow deposits | 8,760 | 705 | 432 |
| Payments for other investments and other assets | (3,023) | (143) | (480) |
| Net cash provided (used) by investing activities | | | |
| of continuing operations | 43,316 | 43,329 | (12,927) |
| Net cash provided (used) by investing activities | | | |
| of discontinued operations | 995 | - | (1,272) |
| Net cash provided (used) by investing activities | 44,311 | 43,329 | (14,199) |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**STATEMENT OF CONSOLIDATED CASH FLOWS** (Continued)

Alliance One International, Inc. and Subsidiaries

| <i>(in thousands)</i> | Years Ended March 31, | | |
|--|-----------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Financing activities | | | |
| Net change in short-term borrowings | \$(138,124) | \$(349,289) | \$ (38,194) |
| Proceeds from long-term borrowings | 563,368 | 1,220,231 | 196,672 |
| Repayment of long-term borrowings | (603,779) | (961,172) | (114,087) |
| Debt issuance cost | (7,786) | (25,299) | (11,884) |
| Proceeds from sale of stock | 7,259 | 905 | 112 |
| Cash dividends | - | (9,096) | (13,578) |
| Net cash provided (used) by financing activities | (179,062) | (123,720) | 19,041 |
| Effect of exchange rate changes on cash | 1,551 | (8,705) | (967) |
| Cash from deconsolidated Zimbabwe subsidiaries | - | (6,480) | - |
| Increase (decrease) in cash and cash equivalents | 54,273 | (3,143) | 10,309 |
| Cash and cash equivalents at beginning of year | 25,985 | 29,128 | 18,819 |
| Cash and cash equivalents at end of year | \$ 80,258 | \$ 25,985 | \$ 29,128 |
| Other information: | | | |
| Cash paid during the year: | | | |
| Interest | \$ 121,068 | \$ 93,689 | \$ 49,040 |

| | | | |
|--------------|--------|--------|-------|
| Income taxes | 13,483 | 10,167 | 7,130 |
|--------------|--------|--------|-------|

See notes to consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note A Significant Accounting Policies

Description of Business

The Company is principally engaged in purchasing, processing, storing, and selling leaf tobacco. The Company purchases tobacco primarily in the United States, Africa, Europe, South America and Asia for sale to customers in the United States, Europe and Asia.

Basis of Presentation

The Company was renamed Alliance One International, Inc. (Alliance One) concurrent with the merger of Standard Commercial Corporation (Standard) on May 13, 2005 with and into DIMON Incorporated. Because the merger was completed after the close of the fiscal year ended March 31, 2005, the information contained in these consolidated financial statements for the fiscal year ended March 31, 2006 includes the operations of Standard since May 13, 2005 and a full twelve months of results of DIMON Incorporated. See Note B Merger of DIMON Incorporated and Standard Commercial Corporation to the Notes to Consolidated Financial Statements for further information.

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

As of March 31, 2006, the Company deconsolidated its operations in Zimbabwe under accounting requirements that apply under certain conditions to foreign subsidiaries that are subject to foreign exchange controls and other government restrictions. After the deconsolidation, a non-cash impairment charge was recorded to reduce the net investment in Zimbabwe operations to estimated fair value. The Company accounted for the investment on the cost

method and reported it in Investments in Unconsolidated Affiliates in the March 31, 2006 consolidated balance sheet. As economic and political conditions continued to decline in fiscal 2007, lending rates and investment rates deteriorated and the investment in the Zimbabwe operations was written down to zero during fiscal 2007. See Note D Restructuring and Asset Impairment Charges to the Notes to Consolidated Financial Statements for further information.

Certain prior year amounts have been reclassified to conform to the current year's presentation. These reclassifications are not corrections of errors and there was no change in current or noncurrent classification within the balance sheet. Notes receivable, assets held for sale and prepaid expenses were reclassified as other current assets. Equity in net assets of investee companies and other investments were reclassified as investments in unconsolidated affiliates. Notes receivable, pension asset and other assets were reclassified as other noncurrent assets. Goodwill and customer relationship were reclassified into goodwill and other intangible assets. Deferred taxes and other deferred charges were reclassified into deferred tax assets and other deferred charges. Accounts payable-trade, officers and employees, and other were reclassified as accounts payable. Bank credit facility, senior notes and other long-term debt and subordinated debt were reclassified into long term debt.

Investments in Unconsolidated Affiliates

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note A Significant Accounting Policies *(Continued)*

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Actual results could differ from these estimates, and changes in these estimates are recorded when known. Estimates are used in accounting for, among other things, pension and postretirement health care benefits, inventory market values, allowance for doubtful accounts and advances to bank loan guarantees to growers, useful lives for depreciation and amortization, stock options, future cash flows associated with impairment testing for goodwill and long-lived assets and for determining the primary beneficiary of variable interest entities, deferred tax assets and potential income tax assessments, value-added tax credits in Brazil, the determination of the fair value of the investment in Zimbabwe operations, purchase accounting fair value determinations and contingencies. Changes in market and economic conditions, local tax laws, and other related factors are considered each reporting period, and adjustments to the accounts are made based on the Company's best judgment.

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 these 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. Advances from customers are generally recognized as revenue upon shipment.

Shipping and Handling

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

Cash and Cash Equivalents

Cash equivalents are defined as temporary investments of cash with maturities of less than 90 days. At March 31, 2006, \$1,500 was included in cash held on deposit as a compensating balance for short-term borrowings. The 2006 borrowings matured in the first quarter fiscal 2007. There were no compensating balances as of March 31, 2007.

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. Inventory write-downs for the years ended March 31, 2007 and March 31, 2006 were \$14,600 and \$7,700, respectively.

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note A Significant Accounting Policies *(Continued)*

Advances on Purchases of Tobacco

The Company provides seasonal crop advances of, or for, seed, fertilizer, and other supplies. These advances are short term in nature, are repaid upon delivery of tobacco to the Company, and are reported in advances on purchases of tobacco in the consolidated balance sheet. Primarily in Brazil and certain African countries, the Company has made long-term advances to tobacco farmers to finance curing barns and other farm infrastructure. In addition, due to low crop yields and other factors, in some years individual farmers may not deliver sufficient volumes of tobacco to fully repay their seasonal advances, and the Company may extend repayment of those advances into future crop years. Current advances of \$79,249 in 2007 and \$103,147 in 2006 are presented as Advances on purchases of tobacco, net in the consolidated balance sheet. The long-term portion of advances of \$44,297 in 2007 and \$19,012 in 2006 are included in other non-current assets in the consolidated balance sheet. Both the current and the long-term portion of advances on purchases of tobacco are reported net of allowances. Allowances are recorded when the Company determines that amounts outstanding are not likely to be collected. Total allowances were \$35,172 at March 31, 2007, and \$34,611 at March 31, 2006, and were estimated based on the Company's historical loss information and crop projections. The allowances were increased by provisions for estimated uncollectible amounts of approximately \$40,854 in fiscal year 2007, \$18,162 in fiscal year 2006 and \$11,923 in fiscal year 2005. Farmer bad debt provisions are capitalized into inventory and the expense is realized when the inventory is sold. Write-downs charged against the allowance were \$36,010, \$2,816 and \$3,395 for fiscal years 2007, 2006 and 2005 respectively.

In Brazil, farmers obtain government subsidized rural credit financing which is guaranteed by the Company. The farmers borrow these funds from local banks. Repayment of both Company advances and rural credit financing by the farmer is concurrent with delivery of tobacco to the Company. Terms of rural credit financing are such that repayment is due only after tobacco deliveries are complete. At fiscal year end, the Company will generally have accumulated balances from farmers for repayment to the local banks for the rural credit financing. As of March 31, 2007 and 2006, the Company had balances of \$95,064 and \$43,806 that were due to local banks. These amounts are included in Accounts payable in the consolidated balance sheet. Reserves for uncollectible farmers' advances in Brazil also include rural credit financing guaranteed by the Company. As of March 31, 2007, the Company was guarantor for Brazilian loans of \$286,527 with an outstanding amount of \$258,687. The fair value of guarantees for rural credit was \$14,796 and \$10,513 as of March 31, 2007 and 2006, respectively.

Goodwill and Other Intangibles

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill is not subject to systematic amortization, but rather is tested for impairment annually and whenever events and circumstances indicate that an impairment may have occurred. Impairment testing compares the carrying amount of the goodwill by reporting unit with its fair value. Fair value is estimated based on discounted cash flows. When the carrying amount of goodwill exceeds its fair value, an impairment charge is recorded.

In 2006, the Company analyzed data collected and reviewed by its Chief Operating Decision Makers and determined that it has five geographical operating segments instead of one operating segment as reported in prior years. After determining that it had five operating segments, the Company reevaluated its previous conclusions on reporting units and determined that the Company had five reporting units for goodwill evaluation. Goodwill was assigned to certain reporting units and tested for impairment at the reporting unit level in accordance with SFAS No. 142.

The Company has no intangible assets with indefinite useful lives. It does have other intangible assets, production and supply contracts and a customer relationship intangible recorded in connection with the merger. 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 customer relationship intangible is being amortized on a straight-line basis over twenty 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. Events and changes in circumstance may either result in a revision in the estimated useful life or impairment of the intangible resulting in revaluation of the asset value to its fair value. See Note E Goodwill and Other Intangible Assets to the Notes to Consolidated Financial Statements for further information.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note A Significant Accounting Policies *(Continued)*

Property and Depreciation

Property, plant and equipment is stated at cost less accumulated depreciation. 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 30 years, 5 to 10 years and 3 to 5 years, respectively. The consolidated financial statements do not include fully depreciated assets. Depreciation expense for the fiscal years ended March 31, 2007, 2006 and 2005 was \$33,399, \$39,898, and \$27,680, respectively.

Estimated useful lives are periodically reviewed and, when warranted, changes are made to the estimated useful lives. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their cost may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows from the use of the asset and its eventual disposition are less than its carrying amount. Measurement of an impairment loss would be based on the excess of the carrying amount of the asset over its fair value. 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, present value techniques based on estimates of cash flows, or multiples of earnings or revenue performance measures. See Note D Restructuring and Asset Impairment Charges to the Notes to Consolidated Financial Statements for further information.

Under SFAS No. 144, a component of a business that is either disposed of or held for sale is reported as discontinued operations if the operations and cash flows have been reclassified from ongoing operations and there will be no significant involvement in such operations in the future. The Company has made such decisions concerning tobacco operations in Italy and Mozambique, a U.S. non-tobacco processing facility and former Standard's wool operations. These operations are reported as discontinued operations in the financial statements and have resulted in losses of \$18,730, \$24,104 and \$11,153 in the years 2007, 2006 and 2005 respectively. See Note C Discontinued Operations to the "Notes to Consolidated Financial Statements" for further information.

Assets Held For Sale

The Company reclassifies assets to Assets Held For Sale when the company has committed to a plan to sell the assets, including the initiation of a plan to locate a buyer, the assets are available for immediate sale, and it is probable that

the assets will be sold within one year based on its current condition and sales price. Upon reclassifying the assets as held for sale, the assets are recorded at the lower of historical cost or fair value less selling costs and depreciation is discontinued. Assets reclassified as held for sale were \$2,793 and \$19,955 at March 31, 2007 and 2006, respectively, and are reported in Other Current Assets in the Consolidated Balance Sheet.

Income Taxes

Deferred tax assets and liabilities reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company periodically assesses the realizability of deferred tax assets and the adequacy of deferred tax liabilities, including the results of local, state, federal or foreign statutory tax audits or estimates and judgments used.

Realization of deferred tax assets associated with net operating loss and credit carryforwards is dependent upon generating sufficient taxable income prior to their expiration by tax jurisdiction. The Company believes that it is more likely than not that certain of these net operating loss and credit carryforwards may expire unused and, accordingly, have established a valuation allowance against them. Although realization is not assured for the remaining deferred tax assets, the Company believes it is more likely than not the deferred tax assets will be realized through future taxable earnings or alternative tax strategies. However, deferred tax assets could be reduced in the near term if its estimates of taxable income during the carryforward period are significantly reduced or alternative tax strategies are no longer viable.

The amount of income tax that the Company pays annually is dependent on various factors, including the timing of certain deductions and ongoing audits by federal, state and foreign tax authorities, which may result in proposed adjustments. The Company performs reviews of its income tax positions on a continuous basis and accrues for potential contingencies when it believes a liability is probable and can be reasonably estimated. Accruals for these contingencies are recorded based on an expectation as to the timing of when the contingency will be resolved. As events change or resolution occurs, these accruals are adjusted, such as in the case of audit settlements with taxing authorities. The Company believes it has adequately provided for any reasonably foreseeable outcome related to these matters. However, its future results may include favorable or unfavorable adjustments to its estimated tax liabilities due to closure of income tax examinations, new regulatory or judicial pronouncements, or other relevant events. See Note L **Income Taxes** and Note P **Contingencies and Other Information** to the **Notes to Consolidated Financial Statements** for additional details regarding certain of its tax contingencies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note A Significant Accounting Policies *(Continued)*

Stock-Based Compensation

The Company's stock based compensation plans are described more fully in Note K Stock-Based Compensation to the Notes to Consolidated Financial Statements. On April 1, 2006, the Company adopted SFAS No. 123(R), Share-Based Payment. This statement requires the Company to expense the fair value of grants of various stock-based compensation programs at fair value over the vesting period of the awards. The Company elected to adopt this statement using the Modified Prospective Application (MPA) transition method which does not result in the restatement of previously issued financial statements. Application of the MPA transition method requires compensation costs to be recognized beginning on the effective date for the estimated fair value at date of grant in accordance with the original provision of SFAS No. 123, Accounting for Stock-Based Compensation, for all stock-based compensation awards granted prior to, but not yet vested as of April 1, 2006. Awards granted after April 1, 2006 have been recognized as compensation expense based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). The MPA transition method also required that any unearned or deferred compensation recorded in contra-equity accounts be eliminated against the equity accounts that will be affected by the on-going recognition of stock based compensation. Accordingly, on April 1, 2006, the Company reclassified \$3,134 from Unearned Compensation Restricted Stock to Common Stock.

Accounting Pronouncements

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets - an Amendment of FASB Statement No 140*. SFAS No. 156 provides guidance on the accounting for servicing assets and liabilities when an entity undertakes an obligation to service a financial asset by entering into a servicing contract. This statement is effective for the Company as of April 1, 2007. Prior to fiscal year 2007, the Company had no servicing obligations that would be subject to this guidance. In fiscal 2007, certain receivables were sold and under this arrangement, we retained an obligation to service the financial assets sold. Current levels of receivables sold have resulted in neither a servicing asset nor liability as the cost of servicing approximates the servicing revenue. Therefore, the Company does not expect the adoption to have any material impact on its financial condition or results of operations.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. This Interpretation is effective for the Company as of April 1, 2007. The Company is currently evaluating the impact of FIN 48 on its financial statements. See Note P Contingencies to the Notes to Consolidated Financial Statements for further discussion.

In September 2006, the Financial Accounting Standards Board (FASB) issued FAS No. 157, *Fair Value Measurements*, which enhances existing guidance for measuring assets and liabilities using fair value. FAS No. 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. FAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under FAS No. 157, fair value measurements are disclosed by level within that hierarchy. FAS No. 157 is effective for the Company as of April 1, 2008. The Company is evaluating the impact of FAS No. 157 on its financial condition and results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note A Significant Accounting Policies (Continued)

Accounting Pronouncements (Continued)

On September 29, 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS 158"), which amends SFAS 87 and SFAS 106 to require recognition of the over funded or under funded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. The Company adopted the balance sheet recognition provisions of SFAS 158 at March 31, 2007. The adoption of FAS 158 increased stockholders' equity at March 31, 2007 by \$11,487. The Statement did not affect the Company's results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Earlier adoption would also require adoption of all requirements of SFAS No. 157, and could only be done within 120 days of the beginning of the year of adoption. Given these constraints, the Company plans to adopt SFAS No. 159 at the beginning of fiscal 2009. The Company is evaluating the impact, if any, the adoption of SFAS No. 159 will have on its operating income or net earnings.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 provides guidance on the consideration of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The staff of the SEC (the Staff) believes registrants must quantify the impact of correcting all misstatements, including both carryover and reversing effects of prior year misstatements, on a company's current year consolidated financial statements. The Staff prescribes two approaches to assessing the materiality of misstatements: the rollover approach, which quantifies misstatements based on the amount of error originating in the current year income statement and the iron curtain approach, which quantifies misstatements based on the effects of correcting the cumulative effect existing in the balance sheet at the end of the current year. If under either approach, misstatements are deemed material, a company is required to adjust its financial statements, including correcting prior year financial statements, even if such correction was, and continues to be, immaterial to the

prior year financial statements. Correcting prior year financial statements for immaterial errors would not require a company to amend previously filed reports, and such corrections may be made the next time the company files its prior year statements. Based upon the Company's assessment, there were no adjustments resulting from the application of SAB 108.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note A Significant Accounting Policies (Continued)**Computation of Earnings Per Common Share**

| (in thousands, except per share data) | Years Ended March 31, | | |
|--|-----------------------|-------------|-----------|
| | 2007 | 2006 | 2005 |
| BASIC EARNINGS | | | |
| Income (loss) from continuing operations | \$ (2,615) | \$(423,342) | \$ 24,441 |
| Loss from discontinued operations | (18,730) | (24,104) | (11,153) |
| Cumulative effect of accounting changes | (252) | - | - |
| Net Income (Loss) | \$(21,597) | \$(447,446) | \$ 13,288 |
| SHARES | | | |
| Weighted Average Number of Shares Outstanding | 86,470 | 81,220 | 44,892 |
| BASIC EARNINGS (LOSS) PER SHARE | | | |
| Income (loss) from continuing operations | \$ (0.03) | \$ (5.21) | \$.55 |
| Loss from discontinued operations | (.22) | (.30) | (.25) |
| Cumulative effect of accounting changes | - | - | - |
| Net Income (Loss) | \$ (0.25) | \$ (5.51) | \$.30 |
| DILUTED EARNINGS | | | |
| Income (loss) from continuing operations | \$ (2,615) | \$(423,342) | \$ 24,441 |
| Add after tax interest expense applicable to 6¼% | | | |
| Convertible Debentures issued April 1, 1997 | -* | -* | -* |
| Income (loss) from continuing operations | (2,615) | (423,342) | 24,441 |
| Loss from discontinued operations | (18,730) | (24,104) | (11,153) |

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| | | | |
|--|-------------|--------------|-------------|
| Cumulative effect of accounting changes | (252) | - | - |
| Net Income (Loss) as Adjusted | \$(21,597)* | \$(447,446)* | \$(13,288)* |
| SHARES | | | |
| Weighted average number of common shares outstanding | 86,470** | 81,220** | 44,892 |
| Restricted shares issued and shares applicable to stock options, net of shares assumed to be purchased from proceeds at average market price | -* | -* | 577 |
| Assuming conversion of 6 ¼% Convertible Debentures at the beginning of the period | -* | -* | -* |
| Average Number of Shares Outstanding | 86,470* | 81,220* | 45,469* |
| DILUTED EARNINGS (LOSS) PER SHARE | | | |
| Income (loss) from continuing operations | \$(0.03) | \$(5.21) | \$.54 |
| Loss from discontinued operations | (.22) | (.30) | (.25) |
| Cumulative effect of accounting changes | - | - | - |
| Net Income (Loss) as Adjusted | \$(0.25)* | \$(5.51)* | \$.29* |

* Assumed conversion of Convertible Debentures into 2,549 shares at the beginning of the period and the reduction of after-tax interest expense by \$0, \$811 and \$2,979 for the years ended March 31, 2007, 2006 and 2005, respectively, has an antidilutive effect on earnings (loss) per share. In connection with the closing of the merger with Standard many of the Company's financing arrangements were refinanced, including in July of 2005, the Company's \$73,328 of convertible subordinated debentures due 2007. For the years ended March 31, 2007 and March 31, 2006 all outstanding restricted stock and stock options of \$854 and \$2,473, and \$1,068 and \$3,763, respectively, are excluded because their inclusion would have an antidilutive effect on the loss per share.

** The weighted average number of common shares outstanding is reported as the weighted average of the total shares of common stock outstanding net of shares of common stock owned by a subsidiary. Shares of common stock owned by the subsidiary was 7,853 at March 31, 2007 and 2006. This subsidiary does not receive dividends on these shares and it does not have the right to vote.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note A Significant Accounting Policies *(Continued)*

Concentration of Credit Risk

The Company may potentially be subject to a concentration of credit risks due to cash and trade receivables relating to customers in the tobacco industry. Cash is deposited with high-credit-quality financial institutions. Concentration of credit risks related to receivables is limited because of the diversity of customers and locations.

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 March 31, 2007, 10,000 shares of preferred stock were authorized and no shares had been issued.

Note B Merger of DIMON Incorporated and Standard Commercial Corporation

On November 7, 2004, DIMON and Standard entered into an Agreement and Plan of Reorganization, or merger agreement. On May 13, 2005, the merger was completed. Upon the consummation of the merger, Standard merged into DIMON, which simultaneously changed its name to Alliance One International, Inc.

Under the terms of the merger agreement, Standard shareholders received three shares of the Company s

common stock for each Standard share owned. Approximately 41,243 shares of the Company's common stock were issued in exchange for all outstanding shares of common stock of Standard based on the three-for-one exchange ratio, at an aggregate value of \$264,368 (based on the average closing price of \$6.36 of DIMON common stock during the two business days before and after the date the merger was announced). The net share value, after consideration of unearned compensation restricted stock of \$2,463, is \$261,905. The common stock issuance combined with professional fees and charges incurred to effect the merger of \$12,205 resulted in a total purchase price of \$274,110.

The merger has been treated as a purchase business combination for accounting purposes, with the Company as the acquiring entity. As such, Standard's assets acquired and liabilities assumed have been recorded at their fair value and the results of operations after May 13, 2005 are included in the results of the Company. In identifying the Company as the acquiring entity, the companies took into account the relative share ownership of the surviving entity, the composition of the governing body of the combined entity and the designation of certain senior management positions. As a result, the historical financial statements of DIMON become the historical financial statements of the Company. The purchase price for the acquisition, including transaction costs, has been allocated to the assets acquired and liabilities assumed based on estimated fair values at the date of acquisition, May 13, 2005. The purchase price allocation has been completed and as of March 31, 2006 is as follows:

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note B Merger of DIMON Incorporated and Standard Commercial Corporation (Continued)

The purchase price allocation, completed as of March 31, 2006, was as follows:

| | May 13, 2005 |
|---|--------------|
| Cash | \$ 42,019 |
| Accounts receivable trade | 100,781 |
| Inventory | 365,110 |
| Advances and deposits suppliers | 41,945 |
| Assets of discontinued operations | 68,567 |
| Other current assets | 22,705 |
| Property, plant and equipment | 172,281 |
| Goodwill and intangible assets | 143,030 |
| Other | 42,281 |
| Total assets acquired | \$ 998,719 |
| Notes payable banks and other | \$ 442,205 |
| Accounts payable | 94,818 |
| Other current liabilities | 100,997 |
| Long term debt | 11,396 |
| Deferred income taxes | 48,123 |
| Deferred compensation and other | 21,613 |
| Other | 2,994 |
| Total liabilities | \$ 722,146 |
| Total unearned compensation restricted stock | \$ 2,463 |
| Net assets acquired | \$ 274,110 |

As indicated in the above table, the goodwill and intangible asset balance relative to the merger is \$143,030 and is non-deductible for tax purposes. Included within this balance is a finite lived customer relationship intangible of \$33,700, which is being amortized over a useful life of twenty years.

The Company established reserves for employee separation and operational exit costs related to the integration of certain Standard functions and operations into the Company. Costs associated with these integration actions do not impact earnings and are recognized as a component of purchase accounting, resulting in an adjustment to goodwill. See Note D Restructuring and Asset Impairment Charges to the Notes to Consolidated Financial Statements for further disclosure of the purchase accounting separation and exit costs.

Prior to the merger, DIMON and Standard established a series of integration design teams across each regional and functional area which, with the assistance of an independent consultant, created a detailed integration plan. These teams reviewed both companies' financial and operating statistics, assessed their respective processing facilities and regional and corporate offices identified potential redundant staffing.

The regional integration design teams have assessed each of DIMON's and Standard's processing facilities around the world and identified countries where there will be duplicative facilities and/or excess of capacity. As a result of the process, the decision was taken to sell, close or convert to storage a minimum of twelve of the 37 worldwide processing facilities owned by the Company as of the merger. As of March 31, 2006, processing facilities in the U.S. (3), Turkey, Paraguay, Brazil and Thailand were closed; processing facility in Russia was sold. As of March 31, 2007, processing facilities in Macedonia, Zimbabwe and Greece were closed; two processing facilities in Spain were sold. The Thailand facility that was closed in fiscal 2006 was sold in fiscal 2007. The closing or sales of several processing facilities of dark tobacco operation are anticipated to be completed in fiscal 2008.

The plan also reviewed regional and corporate offices to identify and eliminate duplicative regional and corporate overhead. In addition to the elimination of redundant systems and facilities, headcount reduction for the combined company was significant in 2006.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note B Merger of DIMON Incorporated and Standard Commercial Corporation *(Continued)*

During 2006, the costs relating to the closure or conversion of former Standard facilities and severance or relocation of former Standard employees have been recorded as the net purchase price of Standard. Costs associated with closure of former DIMON facilities and severance or relocation of former DIMON employees have been recorded as expenses in the results of operations. See Note D Restructuring and Asset Impairment Charges to the Notes to Consolidated Financial Statements for restructuring and integration costs details.

Many of DIMON's and Standard's financing arrangements have been refinanced in connection with the closing of the merger because (1) change of control clause in agreements governing such financings, or (2) the merged company was not able to comply with certain of the financial covenants contained in those agreements as of the closing of, or immediately after, the merger. The specific financing arrangements that were refinanced are detailed in Note H Long-Term Debt to the Notes to Consolidated Financial Statements.

Alliance One Selected Unaudited Pro Forma Combined Financial Information

The unaudited pro forma information in the table below summarizes the combined results of operations of DIMON and Standard for the years ended March 31, 2006 and 2005. The pro forma information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved had the merger taken place at the beginning of each period or results of future periods. The following information has not been adjusted to reflect any anticipated cost savings or operating efficiencies that may be realized as a result of the merger.

Alliance One Selected Unaudited Pro Forma Combined Financial Information *(Continued)*

| <i>thousands except per share data</i> | Unaudited Proforma Twelve Months Ended March 31, |
|--|--|
| | 2006 (1) (2) 2005 |

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| | | |
|--|--------------|-------------|
| Revenues | \$2,184,022 | \$2,196,530 |
| Operating income (loss) | (279,391) | 106,690 |
| Income (loss) from continuing operations | (425,002) | 46,550 |
| Loss from discontinued operations | (26,282) | (43,693) |
| Net income (loss) | \$ (451,284) | \$ 2,857 |
| Basic earnings (loss) per share | | |
| - from continuing operations | \$(4.96) | \$.54 |
| - from discontinued operations | (0.31) | (.51) |
| Basic earnings (loss) per share | \$(5.27) | \$.03 |

(1) Merger related debt retirement expenses were \$66,474 and restructuring, impairment and integration charges were \$85,411 for fiscal 2006.

(2) Goodwill impairment charge of 256,916 for fiscal 2006.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note C Discontinued Operations

The Company continually evaluates its component operations to assure they are consistent with its business plan. Each operation that has been identified as discontinued is presented separately following the summary of discontinued operations.

| Summary of Discontinued Operations | Years Ended March 31, | | |
|--|-----------------------|----------------|------------|
| | 2007 | 2006 | 2005 |
| Sales and other revenues | \$ 25,040 | \$ 54,754 | \$ 52,717 |
| Loss from discontinued operations, net of tax: | | | |
| Loss from discontinued operations, before tax | (15,981) | (25,105) | (15,658) |
| Income tax expense / (benefit) | 2,749 | (1,001) | (4,505) |
| Loss from discontinued operations, net of tax | \$(18,730) | \$(24,104) | \$(11,153) |
| | | | |
| | March 31, 2007 | March 31, 2006 | |
| Assets of discontinued operations: | | | |
| Cash | \$ - | \$ 1,352 | |
| Trade receivables, net of allowances | 1,737 | 9,925 | |
| Tobacco inventory and advances | 7,147 | 23,396 | |
| Net property, plant and equipment | 3,912 | 7,174 | |
| Other assets | 39 | 4,209 | |
| Total assets of discontinued operations | \$ 12,835 | \$ 46,056 | |
| Liabilities of discontinued operations: | | | |
| Accounts payable | \$ 7,848 | \$ 2,625 | |

| | | |
|--|----------|----------|
| Accrued expenses | 974 | 5,745 |
| Advances from customers | 1,557 | 156 |
| Total liabilities of discontinued operations | \$10,379 | \$ 8,526 |

Discontinued Italian Operations, Other Regions Segment

On September 30, 2004, concurrent with the sale of the Italian processing facility, the Company made a decision to discontinue all of its former DIMON Italian operations as part of its ongoing plans to realign its operations to more closely reflect worldwide changes in the sourcing of tobacco. The collection of the accounts receivable and the liquidation of the inventory not included in the sale of the former DIMON operations are continuing. As a result of the merger on May 13, 2005, the remaining net assets of the discontinued Italian operations of Standard were acquired. Due to the merger between DIMON and Standard these efforts have taken longer than originally anticipated. During the three months ended December 31, 2006, the Company updated their evaluation of the collectibility of the accounts receivable and recorded an additional allowance of \$3,650.

During third quarter of fiscal 2007, due to the unexpected delays in selling the Italian tobacco and to take advantage of an opportunity to accelerate the disposition of the remaining Italian inventory, the Company has been negotiating the sale of the remaining uncommitted Italian tobacco inventory. The Company recorded a charge to inventory totaling \$5,600 during the third quarter to adjust the cost of inventory to the sales price being considered as part of this bulk sale transaction. The Company entered into the sales agreement and sold the tobacco during the fourth quarter. It is anticipated that the sales of the remaining March 31, 2007 inventory will occur prior to June 30, 2007.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note C Discontinued Operations (Continued)**Discontinued Italian Operations** (Continued)

In fiscal 2006, Italian operations of both former DIMON and Standard were being investigated by the Directorate General for Competition (DGCOMP) of the European Commission (EC) into tobacco buying and selling practices within the leaf tobacco industry in Italy. As a result of this investigation, fines of \$12,000 were levied against the former DIMON entity and \$16,800 were levied against the former Standard entity. Fines levied against the former DIMON entity are included in the summary shown below, while fines levied against the former Standard entity have been recorded as a purchase price adjustment as the investigation was initiated prior to the combination of the two companies.

Results of operations and the assets and liabilities are reported as discontinued operations as follows:

| | Years Ended March 31, | | |
|--|-----------------------|----------------|------------|
| | 2007 | 2006 | 2005 |
| Sales and other revenues | \$ 14,552 | \$ 22,825 | \$41,447 |
| Loss from discontinued operations, net of tax: | | | |
| Loss from discontinued operations, before tax | \$(17,649) | \$(15,239) | \$ (6,252) |
| Income tax benefit | (401) | (177) | (538) |
| Loss from discontinued operations, net of tax | \$(17,248) | \$(15,062) | \$ (5,714) |
| | | | |
| | March 31, 2007 | March 31, 2006 | |
| Assets of discontinued operations: | | | |
| Trade receivables, net of allowances | \$ 917 | \$ 8,557 | |

| | | |
|---|---------|----------|
| Tobacco inventory and advances | 5,294 | 20,325 |
| Other assets | 39 | 280 |
| Total assets of discontinued operations | \$6,250 | \$29,162 |

Liabilities of discontinued operations:

| | | |
|--|---------|----------|
| Accounts payable | \$7,316 | \$ 1,624 |
| Advances from customers | 36 | 156 |
| Accrued expenses | 506 | 1,348 |
| Total liabilities of discontinued operations | \$7,858 | \$ 3,128 |

Discontinued Wool Operations, Other Regions Segment

As a result of the merger, the Company acquired the remaining net assets of Standard's discontinued wool operations. The liquidation of these assets is continuing. The remaining assets are primarily in France and, along with the remaining trading operations in France, are the subjects of separate sales agreements pending governmental approval. Due to unexpected delays in conjunction with obtaining approval from the French government, the sale of these operations has been delayed. The Company anticipates completing the liquidation of the assets in fiscal 2008.

Results of operations and the assets and liabilities, other than subsidiary debt guaranteed by the Company, are reported as discontinued operations. This information is summarized for the appropriate fiscal periods as follows:

| | Years Ended March 31, | |
|--|-----------------------|-----------|
| | 2007 | 2006 |
| Sales and other revenues | \$ - | \$ - |
| Loss from discontinued operations, net of tax: | | |
| Loss from discontinued operations, before tax | \$ (711) | \$(1,164) |
| Income tax expense | 987 | - |
| Loss from discontinued operations, net of tax | \$(1,698) | \$(1,164) |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note C Discontinued Operations (Continued)**Discontinued Wool Operations** (Continued)

| | March 31, 2007 | March 31, 2006 |
|--|----------------|-------------------|
| Assets of discontinued operations: | | |
| Cash | \$ - | \$ 1,352 |
| Trade receivables, net of allowances | - | 556 |
| Net property, plant and equipment | 3,899 | 4,830 |
| Other assets | - | 3,450 |
| Total assets of discontinued operations | \$3,899 | \$10,188 |
| Liabilities of discontinued operations: | | |
| Accounts payable | \$ - | \$ 96 |
| Accrued expenses | - | 2,603 |
| Total liabilities of discontinued operations | \$ - | \$ 2,699 |

Discontinued Mozambique Operations, Other Regions Segment

On March 16, 2006, the Board of Directors of the Company made a decision to discontinue operations in Mozambique after the procurement of the 2006 crop. This decision involves the closure of its three operating entities.

As a result of the merger, the Company's concession to promote tobacco production in the Chifunde district of Mozambique was terminated by the government for the fiscal 2006 crop year. In conjunction with the appeal process the Company received a letter on October 11, 2005 from the Minister of Agriculture of Mozambique referring the case back to the local government. At that point the Company entered into discussions with the local government of the Chifunde district to secure the concession for the 2007 crop year. These discussions continued through January 31, 2006 at which time the Company concluded that it was unlikely that the local government would issue a concession for the crop year in fiscal 2007 to the Company. Due to this decision by the local government the Company initiated a process to evaluate the strategic alternatives for its remaining Mozambique operations without the Chifunde district and determined that it was not in the Company's economic interest to remain in Mozambique without this strategic district. The Company evaluated the criteria of SFAS No. 144 and concluded that the Mozambique operations qualify to be presented as assets held for sale and accordingly, the assets have been written down to their fair value less any selling costs. The Company anticipates operation will be completely liquidated by September 2007.

Results of operations and the assets and liabilities of our businesses reported as discontinued operations were as follows:

| | Years Ended March 31, | | |
|---|-----------------------|-----------|-----------|
| | 2007 | 2006 | 2005 |
| Sales and other revenues | \$10,483 | \$31,516 | \$10,815 |
| Income (loss) from discontinued operations, net of tax: | | | |
| Income (loss) from discontinued operations, before tax | \$ 2,337 | \$(5,769) | \$(1,790) |
| Income tax expense / (benefit) | (470) | 216 | - |
| Income (loss) from discontinued operations, net of tax | \$ 2,807 | \$(5,985) | \$(1,790) |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note C Discontinued Operations (Continued)**Discontinued Mozambique Operations** (Continued)

| | March 31, 2007 | March 31, 2006 |
|--|----------------|----------------|
| Assets of discontinued operations: | | |
| Trade receivables, net of allowances | \$ 820 | \$ 792 |
| Tobacco inventory and advances | 1,853 | 3,071 |
| Net property, plant and equipment | 13 | 1,244 |
| Other assets | - | 54 |
| Total assets of discontinued operations | \$ 2,686 | \$ 5,161 |
| Liabilities of discontinued operations: | | |
| Accounts payable | \$ 532 | \$ 187 |
| Advances from customers | 1,521 | - |
| Accrued expenses | 468 | 1,683 |
| Total liabilities of discontinued operations | \$2,521 | \$ 1,870 |

Discontinued Non-Tobacco Operations, Other Regions Segment

In January 2004, the Company acquired a majority interest in a non-tobacco entity previously reported using the equity method of accounting. Production expectations and the development of emerging markets did not meet management's expectations. As a result, the Company began investigating strategic alternatives for its non-tobacco operation in Fiscal 2006, which led to an impairment evaluation in accordance with SFAS No. 144 and recorded asset impairment charges of \$1,764. The Company reevaluated the criteria for classifying the assets as held for sale and reporting the results of operations as discontinued operation in the fourth quarter of fiscal 2006 and concluded that the Company now met all of the criteria prescribed by SFAS No. 144. The assets of the non-tobacco operations were reclassified as held for sale and the results of operations, including the impairment charge, were presented as

discontinued operations. The Company sold the assets on April 13, 2006.

Results of operations and the assets and liabilities of our business reported as discontinued operations were as follows:

| | Years Ended March 31, | | |
|--|-----------------------|----------------|-----------|
| | 2007 | 2006 | 2005 |
| Sales and other revenues | \$ 5 | \$ 413 | \$ 455 |
| Loss from discontinued operations, net of tax: | | | |
| Income (loss) from discontinued operations, before tax | \$ 42 | \$(2,933) | \$(7,616) |
| Income tax expense / (benefit) | 2,633 | (1,040) | (3,967) |
| Loss from discontinued operations, net of tax | \$(2,591) | \$(1,893) | \$(3,649) |
| | | | |
| | March 31, 2007 | March 31, 2006 | |
| Assets of discontinued operations: | | | |
| Trade receivables, net of allowances | \$ - | \$ 20 | |
| Net property, plant and equipment | - | 1,100 | |
| Other assets | - | 425 | |
| Total assets of discontinued operations | \$ - | \$ 1,545 | |
| Liabilities of discontinued operations: | | | |
| Accounts payable | \$ - | \$ 718 | |
| Accrued expenses | - | 111 | |
| Total liabilities of discontinued operations | \$ - | \$ 829 | |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note D Restructuring and Asset Impairment Charges

As a result of the merger, the Company developed a detailed preliminary integration plan as of the closing of the merger with Standard that addressed each origin and functional area. Through the use of regional integration teams, assessments were made of each of DIMON's and Standard's processing facilities around the world as well as identification of countries in which there may be duplicative facilities and/or excess capacity. The plan also reviewed origin and corporate offices. As a result of these closures and redundancies, the plan also included a significant reduction in the global workforce. Subsequent to the acquisition of Standard, the Company has continued assessing relevant information obtained as it relates to markets and customers that were not available prior to the merger which has resulted in modifications to the preliminary integration plan. The integration plan specifically identifies all significant actions to be taken to complete the plan, activities of the acquired company that will not be continued, including the method of disposition and location of those activities, and the plan's expected date of completion. Actions required by the plan were initiated immediately and have continued throughout fiscal 2006 and 2007. The Company has completed the planning process and made the necessary adjustments to the consolidated financial statements.

In fiscal 2006, integration charges resulting from the Company's decisions had different accounting treatment depending on whether they were related to former DIMON operations or former Standard operations. In accordance with Emerging Issues Task Force (EITF) 95-3, Recognition of Liabilities in Conjunction with a Purchase Business Combination, the Company recorded the costs of a plan to (1) exit an activity of the former Standard operations, (2) involuntarily terminate employees of the former Standard operations, or (3) relocate employees of the former Standard operations as liabilities assumed in a purchase business combination and included in the allocation of the acquisition cost resulting in an increase in goodwill. The Company concluded that these costs were not associated with or were not incurred to generate revenues of the combined entity after the consummation date, had no future economic benefit to the combined Company, were incremental to other costs incurred in the conduct of activities prior to the consummation date, and will be incurred as a direct result of the plan to exit an activity of the Standard. However, all costs of integration actions associated with former DIMON operations are recorded in earnings as restructuring and asset impairment costs.

In fiscal 2007, all costs of integration actions associated with former DIMON and former Standard operations are recorded in earnings as restructuring and asset impairment costs only when they are incurred or meet the criteria for recording in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets or SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities.

Employee related severance costs for 2006 totaled \$30,944. Severance and other cash charges for 2006 totaled \$43,805. Related payments of \$30,161 were made in 2006 with \$13,057 paid in 2007 and \$587 to be paid in 2008. During fiscal 2007, the Company recorded additional restructuring costs of \$9,835 related primarily to additional

employee severance costs of which \$7,675 were paid in fiscal 2007 with the remaining balance of \$2,160 to be paid in 2008. Restructuring and asset impairment costs of the South American segment and the Other Regions segment were \$1,097 and \$28,676, respectively during the year ended March 31, 2007, and \$2,376 and \$83,035, respectively during the year ended March 31, 2006. Payments of \$1,150 and \$1,708 were made for the South American segment during the years ended March 31, 2007 and March 31, 2006, respectively. Payments of \$19,582 and of \$29,318 were made for the Other Regions segment during the same respective periods. As of March 31, 2007, there was a balance of \$30 and \$2,717 to be paid in 2008 for the South America segment and the Other Regions segment, respectively.

In addition to the above actions, the Company has incurred significant costs primarily related to legal and professional fees to effect the merger. These costs are \$5,367 for the year ended March 31, 2006.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note D Restructuring and Asset Impairment Charges (Continued)

The following table summarizes the integration actions as of March 31, 2007, 2006 and 2005:

| Restructuring and Asset Impairment Charges | Years Ended March 31, | | |
|--|------------------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Employee separation and other cash charges: | | | |
| Beginning balance | \$ 13,644 | \$ 865 | \$ 1,582 |
| Period Charges: | | | |
| Severance charges | 8,163 | 14,828 | 2,146 |
| Spanish operations sale | 495 | 2,000 | - |
| Other cash charges | 1,177 | 5,367 | - |
| Total employee separation and other cash charges | 9,835 | 22,195 | 2,146 |
| Payments through March 31 | (20,732) | (17,033) | (2,863) |
| Ending balance March 31, 2006 of purchase accounting adjustments to goodwill | - | 7,617* | - |
| Ending balance March 31 | \$ 2,747 | \$13,644 | \$ 865 |
| Asset impairments and other non-cash charges: | | | |
| SFAS No. 144 asset impairment tobacco operations: | | | |
| CdF operations assets impairment | \$ - | \$12,520** | \$ - |
| Spanish operations assets impairment | - | 1,241 | - |

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| | | | |
|--|-----------|----------|----------|
| Greece machinery and equipment impairment | 3,689 | - | - |
| Thailand assets impairment | 1,143 | - | - |
| Other non-cash charges | 1,860 | 1,556 | 690 |
| Deconsolidated Zimbabwe cost investments | 13,246 | 47,899 | - |
| Total asset impairments and other non-cash charges | \$ 19,938 | \$63,216 | \$ 690 |
| | | | |
| Total restructuring and asset impairment charges | \$ 29,773 | \$85,411 | \$ 2,836 |

* Represents March 31, 2006 ending balances for former Standard Commercial Corporation employees of \$7,617.

Includes pretax charges of \$7,409 and \$5,111 for fixed asset and intangible asset impairments, ** respectively.

| | Year Ended March 31, 2006 |
|--|------------------------------|
| Purchase Accounting Adjustments to Goodwill | |
| Employee separation and other cash charges: | |
| Severance charges | \$ 16,116 |
| Spanish tobacco operations obligations | 3,800 |
| Other cash charges | 1,694 |
| Total employee separation and other cash charges | 21,610 |
| Payments through March 31, 2006 | (13,993) |
| Ending balance March 31, 2006 | \$ 7,617* |
| | |
| SFAS No. 144 asset impairment tobacco operations Spain | \$ 3,535 |
| | |
| Total severance and exit activity charges | \$ 25,145 |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note D Restructuring and Asset Impairment Charges (Continued)

Sale of Spanish tobacco operations

On February 1, 2006, the Company entered into agreement to sell 100% of the stock of Agroexpansion, S.A., its former DIMON operation, and World Wide Tobacco España,, S.A. (WWTE), its former Standard operation. In connection with the decision to close the operations, the Company reviewed its fixed assets for impairment. In the third and fourth quarters of fiscal 2006, the Company recorded asset impairment and restructuring costs of \$10,576. Of this amount, the Company recognized \$3,241 in earnings and an adjustment related to the former Standard operations of \$7,335 as an adjustment to the purchase price of the merger at March 31, 2006 in connection with the pending sale. The Company completed the sale of Agroexpansion and WWTE on August 1, 2006. Additional restructuring charges of \$495 were recorded during the fiscal year ended March 31, 2007, to complete the transaction.

Zimbabwe Investment Impairment

As of March 31, 2006, the Company deconsolidated its operations in Zimbabwe in accordance with the Accounting Research Bulletin 51, Consolidated Financial Statements (ARB 51). ARB 51 provides that when a parent does not have control over a subsidiary due to severe foreign exchange restrictions or governmentally imposed uncertainties, the subsidiary should not be consolidated. A non-cash impairment charge of \$47,899 was recorded to reduce the net investment in Zimbabwe operations to estimated fair value at March 31, 2006 based on a discounted cash flow model.

Governmental authorization is required before any dividends can be paid from a Zimbabwe operation. The Company's Zimbabwe operations had tried unsuccessfully to pay dividends in prior years due to certain unattainable criteria set by the Reserve Bank of Zimbabwe and the government not granting the necessary authorizations. During the three months ended September 30, 2006, the Company received a \$10,000 dividend payment from one of its

Zimbabwe subsidiaries that had been negotiated with the Zimbabwe authorities. The \$10,000, which was paid from Zimbabwe dollar devaluation gains for the year ended December 31, 2005, was permitted as a result of a negotiated prepayment of \$20,000 of export funds due into Zimbabwe at a later date. The dividend was recorded as a reduction in the investment in the Zimbabwe subsidiary. The Company does not consider the ability to pay dividends in the near future a possibility.

Current economic and political conditions have continued to decline in fiscal 2007 as inflation, lending rates and investment rates have deteriorated. General farming operations are being negatively impacted by the lack of foreign exchange to buy crop inputs and fuel. The crop size in Zimbabwe also continues to decline. Due to these continually declining conditions, the Company decided to reevaluate the Zimbabwe operational structure. As a result, several significant operational changes were made including the closure of the Zimbabwe processing factory, outsourcing the 2006 crop tobacco processing and a significant reduction in permanent personnel.

Based on events discussed above, the Company evaluated the fair value of the Zimbabwe operations and again determined that the net investment in the Zimbabwe operations exceeded the estimated fair value. The Company recorded an additional non-cash impairment charge of \$13,246 during fiscal 2007 to write down the net investment in the Zimbabwe operations to zero.

SFAS No. 144 - Asset Impairment

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company recognizes the asset impairment when the carrying amount of an asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Realization values for assets subject to impairment testing are determined primarily by management, taking into consideration various factors including appraisals, quoted market prices or previous experience. If the asset remains in service at the decision date, the asset is written down to its fair value and the resulting book value is depreciated over its remaining economic useful life.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note D Restructuring and Asset Impairment Charges *(Continued)*

SFAS No. 144 - Asset Impairment *(Continued)*

CdF - Sale of dark air-cured operations

As a consequence of the ongoing dark air-cured overcapacity, the Company began tentative negotiations to dispose of these operations. In June 2005, the Company reviewed its assets for impairment and a pre-tax impairment charge of \$4,548 was recorded based on a discounted cash flow model which primarily related to intangibles of the dark air-cured tobacco operation in Indonesia. On January 23, 2006, the Company entered into a non-binding letter of intent to sell its ownership interest in Compania General de Tabacos de Filipinas, S.A. (CdF), the owner of the Company's dark air-cured tobacco business. In connection with this letter of intent, additional asset impairment charges of \$7,972 were recorded during fiscal 2006. In 2007, an additional restructuring charge of \$1,033, primarily related to employee severance costs, was recorded. The Company anticipates the completion of the transaction during the quarter ended December 31, 2007.

Thailand Asset Impairment

In fiscal 2006, concurrent with the closure of the former DIMON Thailand processing facilities, assets of \$5,736 were reclassified in the Company's balance sheet to assets held for sale. These assets are primarily land and production facilities that have become redundant as a result of the merger.

As a result, during the three months ended September 30, 2006, the Company conducted a review of the fair value of the Thai assets held for sale and recorded an asset impairment charge of \$1,333 related to land and buildings based on contractual sales prices. During the three months ended March 31, 2007, the impairment charge recorded in the prior quarters was reduced by \$190, when the sales transaction was completed.

Greece Asset Impairment

As a result of the partial and pending full closure of Greek operations, the Company tested the long-lived assets for impairment in accordance with SFAS No. 144. During the three months ended September 30, 2006, the Company recorded an asset impairment charge of \$3,166 related to machinery and equipment based on a discounted cash flow model. In the quarter ended March 31, 2007, due to the delay of sale an additional impairment charge of \$523 was recorded for machinery and equipment.

Assets Held for Sale

As of March 31, 2007, assets of \$2,793 were actively marketed, classified as assets held for sale and reported in Other Current Assets in the Company's Consolidated Balance Sheet. The Company evaluated the criteria of SFAS No. 144 and concluded that these assets qualify as assets held for sale. These assets were primarily production and administrative facilities that had become redundant as a result of the merger.

Note E Goodwill and Other Intangibles

Effective July 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of the purchase accounting method for business combinations and broadens the criteria for recording intangible assets separate from goodwill. SFAS No. 142 stipulates a non-amortization approach to account for purchased goodwill and certain intangible assets with indefinite useful lives. It also requires at least an annual assessment for impairment by applying a fair value based test. Intangible assets with finite useful lives continue to be amortized over the useful lives.

The Company tests the carrying amount of goodwill for each reporting unit annually as of the first day of the last quarter of the fiscal year and whenever events or circumstances indicate that impairment may have occurred. The testing is based on a discounted cash flow approach for each reporting unit to determine fair value (Step 1). The Company also tests the sensitivities of these fair value estimates to changes in our earnings growth rate and discount rate. When a possible impairment for a reporting unit is indicated, the implied fair value of goodwill is tested by comparing the carrying amount of the net assets of the reporting unit excluding goodwill to the total fair value (Step 2). When the carrying amount of goodwill exceeds its implied fair value, an impairment charge is recorded.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note E Goodwill and Other Intangibles *(Continued)*

In fiscal 2006, the Company changed from one to five operating segments which required the Company to re-evaluate its historical SFAS No. 142 assumption of only one reporting unit. SFAS No. 142 states that the reporting unit is considered as an operating segment or one level below an operating segment (i.e. a component of an operating segment). A component of an operating segment can be a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. SFAS No. 142 does provide that two or more components of an operating segment shall be aggregated and deemed a single reporting unit if the components have similar economic characteristics.

The Company has the following five reporting units of which all goodwill was allocated to North America and South America: Africa, Asia, Europe, North America and South America. In accordance with SFAS No. 142, the company performed the annual goodwill testing for fiscal 2006 and completed the Step 1 test.

As a result of the North America and South America reporting units failing Step 1 the Company completed Step 2 to measure the impairment loss, if any, by comparing the implied fair value of the reporting unit with the carrying amount of goodwill. The fair value of the reporting unit was estimated using the expected present value of future cash flows. Based on this analysis the Company recorded a total goodwill impairment charge of \$256,916 during the fourth quarter of fiscal 2006.

Of the total goodwill impairment charge, \$75,742 related to North America. Prior to the merger with Standard, no goodwill was previously allocated to the former DIMON operating segment in North America. As a result of declines in the U.S. market share due to unanticipated decreased customer demand and reduced crop size, indicators of impairment were present in the fourth quarter of fiscal 2006. Accordingly, Step 2 testing was required resulting in the related goodwill impairment charge.

3)

Of the total goodwill impairment charge, \$181,174 related to South America. Prior to the merger, all previous goodwill of \$151,772 was allocated to the South America operating region. Merger related goodwill of \$29,402 was allocated to South America. There were several changes in the South America region that significantly impacted

operations in 2006. First was the impact of the absorption of local intrastate trade taxes resulting from a change in local laws. Second was the effect of the strong local currency on prices paid to growers and related tobacco conversion costs. Third was the impact of the poor quality of the 2005 crop. These factors negatively impacted the reporting unit's future cash flow projections. Some of these factors are expected to continue to affect cash flow projections which indicated impairment in the fourth quarter of fiscal 2006. Accordingly, Step 2 was required and the related impairment charge was recorded.

Testing for fiscal 2007 found no indication for further impairment. The carrying value of other intangible assets as of March 31, 2007, after consideration of fully amortized intangibles, is \$44,846 gross and \$30,923 net and represents customer relationship and production and supply contracts. These intangible assets were determined by management to meet the criterion for recognition apart from goodwill and have finite lives. The Company did not have any indefinite-lived intangible assets, other than goodwill, as of the July 1, 2002 adoption date or the March 31, 2007 balance sheet date. The Company uses judgment in assessing whether the carrying amount of its intangible assets is not expected to be recoverable over their estimated remaining useful lives. The factors considered include but are not limited to the expected cash flows generated from the business or assets, economic factors and changes in the marketplace. Based on test results of all pertinent factors, an adjustment of \$5,111 related to a supply contract was recorded in fiscal 2006. Amortization expense associated with these intangible assets was \$2,833, \$3,543 and \$2,681 for the years ended March 31, 2007, 2006 and 2005, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note E Goodwill and Other Intangibles (Continued)

Goodwill and Intangible Asset Rollforward:

| | Unamortizable Goodwill | | | Amortizable Intangibles | | Total |
|--|------------------------|-----------------------|-----------|----------------------------------|--|-----------|
| | South America Segment | Other Regions Segment | Total | Customer Relationship Intangible | Production and Supply Contract Intangibles | |
| Weighted average remaining useful life in years as of March 31, 2007 | - | - | - | 18 | 1 | |
| March 31, 2005 balance: | | | | | | |
| Gross carrying amount | \$151,772 | \$ - | \$151,772 | \$ - | \$ 19,662 | \$171,434 |
| Accumulated amortization | - | - | - | - | (10,952) | (10,952) |
| Net balance | 151,772 | - | 151,772 | - | 8,710 | 160,482 |
| Purchase goodwill and intangibles* | 29,402 | 79,928 | 109,330 | 33,700 | - | 143,030 |
| Amortization expense | - | - | - | (1,474) | (2,069) | (3,543) |
| SFAS No. 142 Goodwill impairment | (181,174) | (75,742) | (256,916) | - | - | (256,916) |

| | | | | | | |
|--|------|----------|----------|----------|---------|-----------|
| SFAS No. 144 Intangible asset impairment | - | - | - | - | (5,111) | (5,111) |
| March 31, 2006 balance | - | 4,186 | 4,186 | 32,226 | 1,530 | 37,942 |
| Amortization expense | - | - | - | (1,685) | (1,148) | (2,833) |
| March 31, 2007 balance | \$ - | \$ 4,186 | \$ 4,186 | \$30,541 | \$ 382 | \$ 35,109 |

* See Note B Merger of DIMON Incorporated and Standard Commercial Corporation to the Notes to Consolidated Financial Statements for further information.

Estimated Intangible Asset Amortization Expense:

| | Customer Relationship Intangible | Production and Supply Contract Intangibles | Total |
|---------------------|--|---|-----------|
| For year ended 2008 | \$ 1,685 | \$ 382 | \$ 2,067 |
| For year ended 2009 | 1,685 | - | 1,685 |
| For year ended 2010 | 1,685 | - | 1,685 |
| For year ended 2011 | 1,685 | - | 1,685 |
| For year ended 2012 | 1,685 | - | 1,685 |
| Later years | 22,116 | - | 22,116 |
| | \$ 30,541 | \$ 382 | \$ 30,923 |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note F Derivative and Other Financial Instruments

Fair Value of Derivative Financial Instruments

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, 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 quoted market prices. During the years ended March 31, 2007 and 2006, there were no qualified cash flow hedges. During the year ended March 31, 2005, accumulated other comprehensive income decreased by \$637, net of deferred taxes of \$324, due to the reclassification into earnings, primarily as cost of goods and services sold, due to the fulfillment of transactions.

The carrying value and estimated fair value of the Company's long-term debt are \$731,856 and \$782,048 respectively, as of March 31, 2007 and \$772,585 and \$754,146 respectively, as of March 31, 2006.

Floating to Fixed Rate Interest Swaps

Prior to the implementation of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, the Company entered into multiple interest rate swaps to convert a portion of its worldwide debt portfolio from floating to fixed interest rates to reduce its exposure to interest rate volatility. As of June 30, 2006, all instruments of this type had been terminated. 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 years ended March 31, 2007 and 2006, the Company recognized non-cash income before

income taxes of \$290 and \$5,092, respectively from the change in fair value of these derivative financial instruments. With the recognition of each income or expense relating to these instruments, a corresponding amount is recognized in Pension, Postretirement and Other Long-Term Liabilities.

Forward Currency Contracts

The Company periodically enters into forward or option currency contracts to protect against volatility associated with certain non-U.S. dollar denominated forecasted transactions. In accordance with SFAS No. 133, when these derivatives qualify for hedge accounting treatment, they are accounted for as cash flow hedges and are recorded in other comprehensive income, net of deferred taxes.

The Company has entered into forward currency contracts to hedge cash outflows in foreign currencies around the world for green tobacco purchases and processing costs. Some of these contracts do not meet the requirements for hedge accounting treatment under SFAS No. 133, and as such, are reported in income. For the years ended March 31, 2007 and 2006, income of \$12,914 and \$1,606, respectively, has been recorded in cost of goods and services sold.

Credit Risk

Financial instruments, including derivatives, expose the Company to credit loss in the event of non-performance by counterparties. The Company manages its exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties, and procedures to monitor concentrations of credit risk. If counterparty fails to meet the terms of an arrangement, the Company's exposure is limited to the net amount that would have been received, if any, over the arrangement's remaining life. The Company does not anticipate non-performance by the counterparties and no material loss would be expected from non-performance by any one of such counterparties.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note G 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 \$485,248 at March 31, 2007 (\$599,439 at March 31, 2006). The weighted average variable interest rate for the twelve months ending March 31, 2007 was 6.26%. At March 31, 2007 and 2006, amounts outstanding under the lines were \$179,097 and \$299,930, respectively. Unused lines of credit at March 31, 2007 amounted to \$275,544 (\$232,864 at March 31, 2006), net of \$30,607 of letters of credit lines. Certain non-U.S. borrowings of approximately \$9,681 have inventories of approximately \$10,955 as collateral. As noted below, there is limited recourse against certain receivables of the Company if the Company fails to fulfill its contractual obligations. There were no compensating balance agreements at March 31, 2007.

The Company has entered into a \$25,000 limited recourse receivable purchase program with one of its lenders. Under the program, the lender takes the receivable payment risk of the customer subject to usual and customary covenants, while the Company fulfills contractual obligations. Funding of the purchased receivable is 80% of the face value, and the Company retains an interest in the remaining 20%, which is paid at collection. As of March 31, 2007, \$2,265 (\$19,031 at March 31, 2006) was funded under the program and recorded in short-term borrowings.

Note H Long-Term Debt

Senior Secured Credit Facility

On March 30, 2007, the Company entered into an Amended and Restated Credit Agreement (the *Credit Agreement*), with a syndicate of banks that amends and restates the Company's prior credit agreement and provides for a senior secured credit facility (the *Credit Facility*) that consists of:

- a three and one-half year \$240,000 revolver (the Revolver) which initially accrues interest at a rate of LIBOR plus 2.75%; and

- a four-year \$145,000 term loan B (the Term Loan B) which accrues interest at a rate of LIBOR plus 2.25%.

The interest rate for the Revolver may increase or decrease according to a consolidated interest coverage ratio pricing matrix as defined in the Credit Agreement. Effective May 25, 2007, the Company increased the Revolver by \$10,000 to \$250,000 by adding additional Lenders thereto.

Borrowers and Guarantors. One of the Company's primary foreign holding companies, Intabex Netherlands B.V. (Intabex), is co-borrower under the Revolver, and the Company's portion of the borrowings under the Revolver is limited to \$150,000 outstanding at any one time. Intabex is the sole borrower under the Term Loan B. One of the Company's primary foreign trading companies, Alliance One International AG (AOIAG), is a guarantor of Intabex's obligations under the Credit Agreement. Such obligations are also currently guaranteed by the Company and must be guaranteed by any of its material direct or indirect domestic subsidiaries.

Collateral. The Company's borrowings under the senior secured credit facility are secured by a first priority pledge of:

- 100% of the capital stock of any material domestic subsidiaries;

- 65% of the capital stock of any material first tier foreign subsidiaries;

- U.S. accounts receivable and U.S. inventory owned by the Company or its material domestic subsidiaries (other than inventory the title of which has passed to a customer and inventory financed through customer advances); and

- Intercompany notes evidencing loans or advances the Company makes to subsidiaries that are not guarantors.

In addition, Intabex's borrowings under the Credit Facility are secured by a pledge of 100% of the capital stock of Intabex, AOIAG, and certain of the Company's and Intabex's material foreign subsidiaries.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note H Long-Term Debt *(Continued)*

Senior Secured Credit Facility *(Continued)*

Financial Covenants. The Credit Facility includes certain financial covenants and required financial ratios, including:

- a minimum consolidated interest coverage ratio of not less than 1.55 to 1.00;
- a maximum consolidated leverage ratio of not more than 6.25 to 1.00;
- a maximum consolidated total senior debt to borrowing base ratio of not more than 0.90 to 1.00; and
- a maximum amount of annual capital expenditures of \$40,000 during any fiscal year of the Company.

Certain of these financial covenants and required financial ratios adjust over time in accordance with schedules in the Credit Agreement.

The Credit Agreement also contains certain customary affirmative and negative covenants, including, without limitation, restrictions on additional indebtedness, guarantees, liens and asset sales.

The Company continuously monitors its compliance with these covenants and is not in default as of, or for the year ended, March 31, 2007. If the Company was in default and was unable to obtain the necessary amendments or waivers under its Credit Facility, the lenders under that facility have the right to accelerate the loans thereby demanding repayment in full and extinguishment of their commitment to lend. Certain defaults under the Credit Facility would result in a cross default under the indentures governing the Company's senior notes and senior subordinated notes and could impair access to its seasonal operating lines of credit in local jurisdictions. A default under the Company's Credit Facility would have a material adverse effect on its liquidity and financial condition.

Senior Notes

On May 13, 2005, the Company issued \$315,000 of 11% senior notes due 2012 and on March 7, 2007, the Company issued \$150,000 of 8 ½% senior notes due 2012 at a 0.5% original issue discount to reflect an 8.6% yield to maturity. The indentures governing each of the 11% senior notes and the 8 ½% senior notes contain certain covenants that, among other things, limit the Company's ability to incur additional indebtedness; issue preferred stock; merge, consolidate or dispose of substantially all of its assets; grant liens on its assets; pay dividends, redeem stock or make other distributions or restricted payments; repurchase or redeem capital stock or prepay subordinated debt; make certain investments; agree to restrictions on the payment of dividends to the Company by its subsidiaries; sell or otherwise dispose of assets, including equity interests of its subsidiaries; enter into transactions with its affiliates; and enter into certain sale and leaseback transactions.

Senior Subordinated Notes

On May 13, 2005, the Company issued \$100,000 of 12 ¾% senior subordinated notes due 2012 at a 10% original issue discount to reflect a 15% yield to maturity. The indenture governing the senior subordinated notes contains covenants substantially identical to those contained in the indentures governing the 11% senior notes and the 8 ½% senior notes.

Foreign Seasonal Lines of Credit

The Company has typically financed its non-U.S. operations with uncommitted unsecured short term seasonal lines of credit at the local level. These operating lines are seasonal in nature, normally extending for a term of 180 to 270 days corresponding to the tobacco crop cycle in that location. These facilities are typically uncommitted in that the lenders have the right to cease making loans and demand repayment of loans at any time. These loans are typically renewed at the outset of each tobacco season. As of March 31, 2007, the Company had approximately \$179,097 drawn and outstanding on foreign seasonal lines totaling \$485,248. Additionally against these lines there was \$12,765 available in unused letter of credit capacity with \$17,842 issued but unfunded.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note H Long-Term Debt (Continued)

The following table summarizes our debt financing as of March 31, 2007:

| | Outstanding | | March 31, 2007 | | Repayment Schedule by Fiscal Year (5) | | | | | |
|---------------------------------|----------------|----------------|-----------------------------|---------------|---------------------------------------|-------|-------|---------|-------|---------|
| | March 31, 2006 | March 31, 2007 | Lines and Letters Available | Interest Rate | 2008 | 2009 | 2010 | 2011 | 2012 | Later |
| Senior secured credit facility: | | | | | | | | | | |
| Revolver (1) | \$ - | \$ - | \$240,000 | | | | | | | |
| Term loan A | 142,500 | - | - | | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Term loan B | 198,000 | 145,000 | - | 9.5% | 1,450 | 1,450 | 1,450 | 140,650 | - | - |
| | 340,500 | 145,000 | 240,000 | | 1,450 | 1,450 | 1,450 | 140,650 | - | - |
| Senior notes: | | | | | | | | | | |
| 11% senior notes due 2012 | 315,000 | 315,000 | - | 11.0% | - | - | - | - | - | 315,000 |
| 8 ½% notes due 2012 | - | 149,270 | - | 8.5% | (119) | (131) | (142) | (155) | (169) | 149,986 |
| Other (2) | 10,157 | 10,157 | - | | - | - | - | - | 3,437 | 6,720 |

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| | | | | | | | | | | |
|---|-------------|-----------|-----------|-------|---------|----------|---------|-----------|---------|-----------|
| | 325,157 | 474,427 | - | | (119) | (131) | (142) | (155) | 3,268 | 471,706 |
| 12 ¾% senior subordinated note due 2012 | 90,712 | 91,608 | - | 12.8% | (1,040) | (1,206) | (1,400) | (1,625) | (1,885) | 98,764 |
| Other long-term debt (3) | 16,216 | 20,821 | 22,456 | 11.2% | 4,940 | 12,770 | 1,903 | 889 | 29 | 290 |
| Notes payable to banks (3) (4) | 299,930 | 179,097 | 275,544 | 6.3% | - | - | - | - | - | - |
| Total debt | \$1,072,515 | \$910,953 | 538,000 | | \$5,231 | \$12,883 | \$1,811 | \$139,759 | \$1,412 | \$570,760 |
| Short term | \$ 299,930 | \$179,097 | | | | | | | | |
| Long term: | | | | | | | | | | |
| Long term debt current (5) | \$ 28,091 | \$ 5,231 | | | | | | | | |
| Long term debt (5) | 744,494 | 726,625 | | | | | | | | |
| | \$ 772,585 | \$731,856 | | | | | | | | |
| Letters of credit | \$ 30,072 | \$ 17,842 | 12,765 | | | | | | | |
| Total credit available | | | \$550,765 | | | | | | | |

(1) Revolver available balance does not reflect the \$10,000 increase effective May 25, 2007

(2) Balance consists of legacy DIMON and Standard Senior Notes with balances and maturities as follows:

\$ 3,437 9 5/8% Senior Notes due 2011
 435 7 3/4% Senior Notes due 2013
6,285 8% Senior Notes due 2012
 \$10,157

(3) Weighted average rate for the year ended March 31, 2007

(4) Primarily foreign seasonal lines of credit

(5) Debt classification and repayment are based on a next twelve months basis and does not reflect the additional \$50,000 paydown on term loan B made after the fiscal year end.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note I 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 2012. Interest rates are imputed at 4.17% to 8.94%. Amortization is included in depreciation expense. Minimum future obligations and capitalized amounts are as follows:

| | Capital Leases | Operating Leases |
|--|-------------------|---------------------|
| 2008 | \$162 | \$ 5,717 |
| 2009 | 165 | 4,608 |
| 2010 | 108 | 3,909 |
| 2011 | 21 | 2,013 |
| 2012 | 17 | 1,745 |
| Remaining | - | 8,410 |
| | 473 | \$26,402 |
| Less interest and deposits | 17 | |
| Present value of net minimum lease payments | 456 | |
| Less current portion of obligations under capital leases | 156 | |
| Long-term obligations under capital leases | \$300 | |
| Capitalized amounts: | | |
| Machinery and equipment, primarily vehicles | \$692 | |
| Accumulated amortization | (334) | |
| | \$358 | |

Note J Equity in Net Assets of Investee Companies

The Company has equity basis investments in companies located in Asia and South America which purchase and process tobacco. The investments in Asia were acquired as part of the merger of Standard with and into DIMON. The Asia investees and ownership percentages are as follows; Transcontinental Leaf Tobacco India Private Ltd. (India) 49%, Siam Tobacco Export Company (Thailand) 49%, Adams International Ltd. (Thailand) 49%. The information presented in the tables below includes only the results of those companies after May 13, 2005. Information presented prior to the merger includes the Company's 50% owned South America investee, Espinosa (Colombia). Summarized financial information for these investees for fiscal years ended March 31, 2007, 2006 and 2005 follows:

| Operations Statement Information | Years Ended March 31, | | |
|---|-----------------------|----------|---------|
| | 2007 | 2006 | 2005 |
| Sales | \$ 92,271 | \$66,190 | \$2,746 |
| Gross Profit | 10,501 | 9,038 | 699 |
| Net Income | 1,821 | 2,042 | 178 |

| Balance Sheet Information | March 31, | |
|--|-----------|----------|
| | 2007 | 2006 |
| Current Assets | \$52,912 | \$62,384 |
| Property, plant and equipment and other assets | 29,990 | 27,552 |
| Current Liabilities | 36,213 | 45,875 |
| Long-term obligations and other liabilities | 9,079 | 8,273 |
| Interests of other shareholders | 19,168 | 18,231 |
| Company's interest | 18,461 | 17,557 |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note K Stock Based Compensation

Stock Based Compensation Award Plans

In November 2003, the shareholders of the company approved the Alliance One International, Inc. 2003 Incentive Plan (formerly known as the DIMON Incorporated 2003 Incentive Plan) (the 2003 Plan) which incorporated shares remaining for issuance under the DIMON Incorporated Omnibus Stock Incentive Plan (Prior Plan) and authorized the addition of 2,200 shares for the 2003 Plan. The amount of shares is subject to increase for 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 for issuance. The 2003 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. As of the closing date of the merger, stock options and restricted stock awards previously issued by Standard Commercial Corporation to its employees and directors were assumed by the Company and are included in the shares awarded under the 2003 Plan.

Adoption of SFAS No. 123(R)

The Company currently has three types of stock based compensation awards: Stock Options, Stock Options with Stock Appreciation Rights, and Restricted Stock. These various types of grants are made in accordance with the Alliance One International, Inc. 2003 Incentive Plan (the Plan) which was approved by shareholders of the Company in November 2003. This plan authorizes the issuance of the various stock based compensation awards to any employee of the Company or any subsidiary and any member of the Board that the Executive Compensation Committee determines has contributed to the profits or growth of the Company or its affiliates. The Plan amended previous plans dating back to 1995. Under this plan and predecessor plans, 6,466 share based compensation awards have been authorized of which 2,800 options and 640 shares of restricted stock are outstanding and 1,769 shares are available for future awards. Shares issued under the Plan are new shares which have been authorized and designated

for award under the Plan. In addition to the restricted shares outstanding above, 214 restricted shares remain outstanding under an approved plan of the former Standard Commercial Corporation. The individual awards are discussed in greater detail below.

On April 1, 2006, the Company adopted SFAS No. 123(R), Share-Based Payment. This statement requires the Company to expense the fair value of grants of various stock-based compensation programs at fair value over the vesting period of the awards. The Company elected to adopt this statement using the Modified Prospective Application (MPA) transition method which does not result in the restatement of previously issued financial statements. Application of the MPA transition method requires compensation costs to be recognized beginning on the effective date for the estimated fair value at date of grant in accordance with the original provision of SFAS No. 123,

Accounting for Stock-Based Compensation, for all stock-based compensation awards granted prior to, but not yet vested as of April 1, 2006. Awards granted after April 1, 2006 will be recognized as compensation expense based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). The MPA transition method also requires that any unearned or deferred compensation recorded in contra-equity accounts be eliminated against the equity accounts that will be affected by the on-going recognition of stock based compensation. Accordingly, the Company has reclassified \$3,134 from Unearned Compensation Restricted Stock to Common Stock.

Prior to adoption of SFAS No. 123(R), all benefits of tax deductions resulting from the exercise of share-based compensation were presented as operating cash flows in the Company's Consolidated Statements of Cash Flows. SFAS No. 123(R) requires that benefits of tax deductions in excess of deductions for compensation cost recognized (excess tax benefits) be classified as financing cash flows.

For the year ended March 31, 2007, compensation expense for stock-based compensation plans was \$3,545, net of tax of \$890.

Stock Option Awards

Stock options allow for the purchase of common stock at a price determined at the time the option is granted. This price has historically been the stock price on the date of grant. Stock options generally vest at the end of three years or ratably over four years and generally expire after ten years. The fair value of these options is determined at grant date using the Black-Scholes valuation model. The fair value is then recognized as compensation expense ratably over the vesting term of the options. There were 477, 533 and 517 stock options granted during the years ended March 31, 2007, March 31, 2006 and March 31, 2005 respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note K Stock Based Compensation *(Continued)***Stock Option Awards** *(Continued)*

The following assumptions were used to determine the fair value of options issued in fiscal years:

| | 2007 | 2006 | 2005 |
|------------------------|--------|--------|--------|
| Grant Price | \$3.94 | \$3.96 | \$6.45 |
| Exercise Price | \$3.94 | \$3.96 | \$6.45 |
| Expected Life in Years | 6.25 | 7.0 | 7.0 |
| Annualized Volatility | 47% | 38% | 40% |
| Annual Dividend Rate | 0% | 3.03% | 4.65% |
| Risk Free Rate | 4.83% | 4.08% | 4.06% |
| Fair Value | \$987 | \$693 | \$936 |

A summary of option activity for stock options follows:

| Options | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---------|--|--|---------------------------------|
| Outstanding at March 31, 2005 | 4,145 | 9.19 | 5.59 | (12,691) |
| Acquired at merger | 740 | 6.36 | 6.58 | 219 |
| Granted | 533 | 3.96 | 10.00 | - |
| Exercised | (200) | 3.13 | 3.99 | (518) |
| Forfeited | (360) | 8.54 | 6.62 | (1,211) |
| Cancelled | (575) | 13.89 | - | (3,560) |
| Outstanding at March 31, 2006 | 4,283 | 7.55 | 5.49 | (11,137) |
| Granted | 477 | 3.94 | 10.00 | - |
| Exercised | (1,251) | 5.42 | 4.88 | (3,081) |
| Forfeited | (345) | 7.68 | 5.46 | (1,188) |
| Cancelled | (364) | 14.77 | - | (3,560) |
| Outstanding at March 31, 2007 | 2,800 | 6.94 | 6.00 | 6,417 |
| Vested and expected to vest at March 31, 2007 | 2,746 | 6.97 | 5.96 | 6,198 |
| Exercisable at March 31, 2007 | 1,625 | 8.56 | 4.17 | 1,087 |

The intrinsic values in the table above represent the total pre-tax intrinsic value (the difference between the Company's closing stock price and the exercise price multiplied by the number of options). The closing price is the share price on the last trading day of the respective period ending dates, thus the amounts are not additive. In 2005, 34 options were exercised with an intrinsic value of \$115. Cash received from the exercise of options for the year ended March 31, 2007 was \$7,259. As of March 31, 2007, there was \$1,324 of remaining unamortized stock-based compensation related to unvested options which will be expensed over the remaining service period through July 2010.

Shares vested in 2006 and the respective grant date fair values were 599 and \$1,399. In 2005, 402 shares vested with a grant date fair value of \$1,586. The table below shows the movement in unvested shares from March 31, 2006 to March 31, 2007.

| | Shares | Weighted Average Grant Date Fair Value | Fair Value |
|-------------------------|--------|---|------------|
| Unvested March 31, 2006 | 1,427 | \$1.91 | \$2,728 |

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| | | | |
|-------------------------|-------|------|---------|
| Granted | 477 | 2.07 | 988 |
| Forfeited | (115) | 2.10 | (243) |
| Cancelled | (29) | 2.58 | (75) |
| Vested | (585) | 2.21 | (1,295) |
| Unvested March 31, 2007 | 1,175 | 1.79 | \$2,103 |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note K Stock Based Compensation (Continued)**Stock Options with Stock Appreciation Rights**

Stock appreciation rights (SARs) have historically been granted in tandem with option grants under which the employee may choose to receive in cash the excess of the market price of the share on the exercise date over the market price on the grant date (the intrinsic value of the share) rather than purchase the shares. The choice to receive cash is limited to five years after grant. After the fifth year and up to the tenth year after grant, the employee will continue to be able to purchase shares under the award but no longer has the choice of receiving the intrinsic value of the shares. Compensation expense for Stock Options with Stock Appreciation Rights is treated as a liability due to the express ability of the employee to make the choice of whether to receive cash or purchase shares. Prior to the adoption of SFAS No. 123(R), the intrinsic value of SARs outstanding was multiplied by the cumulative vesting in each SAR award to determine the liability at each balance sheet date. Amounts charged to compensation expense resulted from the change in the vested intrinsic value between balance sheet dates. Following adoption of SFAS No. 123(R), the fair value of SARs are determined at each balance sheet date using a Black-Scholes valuation model multiplied by the cumulative vesting of each SAR award. After consideration for estimated forfeitures, this change in accounting resulted in a cumulative effect of accounting change adjustment of \$252.

| Options with Attached SARs | Shares | Weighted Average Exercise Price | SAR Term | Aggregate Intrinsic Value | Aggregate Fair Value |
|------------------------------|--------|---------------------------------------|----------|------------------------------|-------------------------|
| Outstanding at April 1, 2006 | 520 | \$6.72 | 2.12 | \$(965) | \$435 |
| Exercised | (12) | \$6.47 | 0.94 | \$20 | \$(29) |
| Forfeited | (92) | \$6.68 | 1.91 | \$(194) | \$(61) |
| Expired | (88) | \$7.44 | - | \$(307) | - |

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| | | | | | |
|-------------------------------|-----|--------|------|-------|---------|
| Outstanding at March 31, 2007 | 328 | \$6.54 | 1.84 | \$881 | \$1,208 |
| Exercisable at March 31, 2007 | 196 | \$6.60 | 1.16 | \$514 | \$512 |
| Vested and Expected to Vest | 294 | \$6.53 | 1.79 | \$794 | \$1,076 |

As of March 31, 2007, there was \$329 of remaining unearned compensation expense related to stock options with attached SARs which will be expensed over the remaining service period through October 2008. However, since actual compensation expense will be determined by the change in fair value of the SARs from period to period, actual compensation expense related to these awards may be different from this amount. The Company recognized expense of \$619, \$112 and \$390 for the years ended March 31, 2007, 2006 and 2005, respectively, related to stock options with attached SARs.

The following table shows unvested SAR activity.

| | Shares | Weighted Average Grant Date Fair Value | Aggregate Grant Date Fair Value |
|-------------------------|--------|---|------------------------------------|
| Unvested March 31, 2006 | 271 | \$2.19 | \$594 |
| Forfeited | (24) | 2.63 | (63) |
| Vested | (103) | 2.54 | (292) |
| Unvested March 31, 2007 | 132 | 1.81 | \$239 |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note K Stock Based Compensation *(Continued)*

Restricted Stock *(Continued)*

Assumptions used to determine the fair value of SARs as of March 31 included the following:

| | 2007 | 2006 |
|------------------------|--------|--------|
| Stock Price | \$9.23 | \$4.86 |
| Exercise Price | \$6.54 | \$6.72 |
| Expected Life in Years | 1.6 | 2.14 |
| Annualized Volatility | 42% | 44% |
| Annual Dividend Rate | 0% | 0% |
| Discount Rate | 4.77% | 5.00% |

Exercise of a SAR is limited to five years from the date of grant. The expected life of the SARs reflects this fact. The discount rate used is the risk free treasury bill rate consistent with the expected life. Volatility is based on historical volatility of the Company.

Restricted Stock

Restricted stock is common stock that is both non-transferable and forfeitable unless and until certain conditions are satisfied. The fair value of restricted shares is determined on grant date based on market value of the shares and is amortized over the vesting period which is generally three years.

| Restricted Stock | Shares | Weighted Average Grant Date Fair Value |
|------------------------------|--------|--|
| Restricted at March 31, 2005 | 438 | 6.50 |
| Acquired at merger | 725 | 6.36 |
| Granted | 419 | 4.87 |
| Vested | (480) | 5.91 |
| Forfeited | (34) | 5.62 |
| Restricted at March 31, 2006 | 1,068 | 5.56 |
| Granted | 366 | 3.94 |
| Vested | (400) | 6.07 |
| Forfeited | (180) | 4.53 |
| Restricted at March 31, 2007 | 854 | 4.84 |

As of March 31, 2007, there was \$1,535 of remaining unamortized deferred compensation associated with restricted stock awards that will be expensed over the remaining service period through July 2009. Expense recognized due to the vesting of restricted stock awards was \$2,965, \$2,665 and \$623 for the years ended March 31, 2007, 2006 and 2005, respectively with tax benefits of \$683, \$666 and \$156.

Fair Value Disclosures Prior to Adoption of SFAS No. 123(R)

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 for the years ended March 31, 2006 and 2005.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note K Stock Based Compensation (Continued)**Fair Value Disclosures** Prior to Adoption of SFAS No. 123(R) (Continued)

| <i>(in thousands, except per share data)</i> | Years Ended March 31, | |
|--|-----------------------|----------|
| | 2006 | 2005 |
| Net income (loss), as reported | \$(447,446) | \$13,288 |
| Add: Stock-based employee compensation expense (income) included in reported net income (loss), net of related tax effects of \$39 and \$136 | (73) | (254) |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects of \$352 and \$368 | (654) | (684) |
| Pro forma net income (loss) | \$(448,173) | \$12,350 |
| Earnings (loss) per share: | | |
| Basic as reported | \$ (5.51) | \$ 0.30 |
| Basic pro forma | \$ (5.52) | \$ 0.28 |
| Diluted as reported | \$ (5.51) | \$ 0.29 |
| Diluted pro forma | \$ (5.52) | \$ 0.27 |

Note L Income Taxes

The components of income (loss) before income taxes, equity in net income of investee companies, minority interests and discontinued operations consisted of the following:

| | Years Ended March 31, | | |
|----------|-----------------------|--------------|-------------|
| | 2007 | 2006 | 2005 |
| U.S. | \$ (952) | \$ (265,207) | \$ (46,051) |
| Non-U.S. | 14,038 | (176,881) | 83,431 |
| Total | \$ 13,086 | \$ (442,088) | \$ 37,380 |

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

| | Years Ended March 31, | | |
|----------|-----------------------|-------------|-------------|
| | 2007 | 2006 | 2005 |
| Current | | | |
| Federal | \$ - | \$ - | \$ (665) |
| State | 507 | - | - |
| Non-U.S. | 18,426 | 31,505 | 26,857 |
| | \$ 18,933 | \$ 31,505 | \$ 26,192 |
| Deferred | | | |
| Federal | \$ (9,105) | \$ (28,610) | \$ (6,886) |
| State | (1,068) | - | - |
| Non-U.S. | 7,302 | (20,426) | (6,193) |
| | \$ (2,871) | \$ (49,036) | \$ (13,079) |
| Total | \$ 16,062 | \$ (17,531) | \$ 13,113 |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note L Income Taxes *(Continued)*

The reasons for the difference between income tax expense based on income (loss) before income taxes, equity in net income (loss) of investee companies and minority interests and the amount computed by applying the U.S. statutory federal income tax rate to such income are as follows:

| Years Ended March 31, | | |
|-----------------------|------|------|
| 2007 | 2006 | 2005 |

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| | | | |
|---|----------|--------------|-----------|
| Tax expense (benefit) at U.S. statutory rate | \$ 4,580 | \$ (154,731) | \$ 13,083 |
| Effect of non-U.S. income taxes | 6,558 | (1,560) | (9,406) |
| U.S. taxes on non-U.S. income, net of tax credits | - | 51,153 | 3,380 |
| Goodwill and other asset impairment | 6,544 | 102,313 | - |
| Foreign tax credits carryforward | - | (64,390) | - |
| Change in valuation allowance | (10,536) | 47,860 | - |
| Increase in reserves for tax contingencies | 7,664 | - | - |
| Changes in tax rates | (1,455) | - | - |
| Permanent items | 2,707 | 1,824 | 6,056 |
| Actual tax expense (benefit) | \$16,062 | \$ (17,531) | \$ 13,113 |

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

| | March 31, 2007 | March 31, 2006 |
|--|-------------------|-------------------|
| Deferred tax liabilities: | | |
| Non-U.S. taxes | \$ - | \$ 428 |
| Unremitted earnings of non-U.S. subsidiaries | 460 | 460 |
| Fixed assets | 13,162 | 24,941 |
| Total deferred tax liabilities | \$ 13,622 | \$ 25,829 |
| Deferred tax assets: | | |
| Reserves and accruals | \$ (29,796) | \$ (39,490) |
| Restructuring accruals | (741) | (2,526) |
| Tax credits | (64,614) | (70,495) |
| Tax loss carryforwards | (51,211) | (47,418) |
| Derivative transactions | (475) | (58) |
| Postretirement and other benefits | (21,692) | (26,151) |
| Other | (1,787) | (351) |
| Gross deferred tax assets | (170,316) | (186,489) |
| Valuation allowance | 77,937 | 85,813 |
| Total deferred tax assets | \$ (92,379) | \$(100,676) |
| Net deferred tax asset | \$ (78,757) | \$ (74,847) |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note L Income Taxes (Continued)

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

| | March 31, 2007 | March 31, 2006 |
|------------------------|-------------------|-------------------|
| Current asset | \$ (25,143) | \$ (37,003) |
| Current liability | 4,493 | 7,205 |
| Non current asset | (69,002) | (52,454) |
| Non current liability | 10,895 | 7,405 |
| Net deferred tax asset | \$ (78,757) | \$ (74,847) |

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

For the years ended March 31, 2007 and 2006, the valuation allowance (decreased)/increased by \$(7,876) and \$54,713, respectively, based on management's judgment as to realization of certain deferred tax assets, primarily foreign tax credit carryovers in the U.S. and state and non-U.S. tax loss carryovers. At March 31, 2007, the Company released \$(10,536) of the valuation allowance through continuing operations and established a valuation allowance of \$2,660 through discontinued operations. At March 31, 2007, the Company has non-U.S. tax loss carryovers of \$135,670 and U.S. state tax loss carryovers of \$268,343, respectively. Of the non-U.S. tax loss carryovers, \$9,231 will expire in 2008, \$9,228 in 2009, \$10,781 in 2010, \$8,094 in 2011, \$6,413 in 2012 and the remaining \$91,923 will expire in later years. Of the U.S. state tax loss carryovers, \$1,757 will expire in 2011 and \$266,586 will expire in later years. At March 31, 2007, the Company has foreign tax credit carryovers in the U.S. of \$60,117 that expire in 2016.

These tax credits result from taxable remittances of foreign income of \$419,927, plus tax gross-up, during the year ended March 31, 2006. Valuation allowances of \$77,937 and \$85,813 remain at March 31, 2007 and March 31, 2006, respectively, primarily related to foreign tax credits in the U.S. and state and non-U.S. tax loss carryovers that begin expiring in 2008.

Realization of deferred tax assets is dependent on generating sufficient taxable income prior to expiration of the loss carryovers. Although realization is not assured, management believes it is more likely than 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 carryover period.

The Company has provided deferred income taxes of \$460 at March 31, 2007 and March 31, 2006 for estimated U.S. income taxes, net of foreign tax credits, for undistributed earnings of foreign subsidiaries that it no longer considers permanently reinvested overseas. No provision has been made for U.S. or foreign taxes that may result from future remittances of approximately \$81,563 at March 31, 2007 and \$111,883 at March 31, 2006 of undistributed earnings of foreign subsidiaries because management expects that such earnings will be reinvested overseas indefinitely. Determination of the amount of any unrecognized deferred income tax liability on these unremitted earnings is not practicable.

In June 2006, the FASB issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48), which is a change in accounting for income taxes. FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim period guidance, among other provisions. FIN 48 is effective for fiscal years beginning after December 15, 2006 and as a result, is effective for the Company on April 1, 2007. The Company is currently evaluating the impact of FIN 48 on its consolidated financial position, results of operations, and cash flows. In addition, since the Company is subject to potentially inconsistent actions by the governments of certain foreign countries in which it operates, the Company will continue evaluating the material impact of this interpretation concerning transfer pricing, tax presence liabilities, and other tax matters.

Note M Employee Benefits

Retirement Benefits

As a result of the merger, the Company had multiple benefit plans across operations at several locations that resulted in increases in both pension cost and postretirement benefit cost. The Company evaluated alternatives for standardizing benefits and some plans have been combined. As a result of the integration of DIMON and Standard, the Company experienced workforce reductions that resulted in curtailment charges and credits, settlement charges and credits and partial plan terminations for pension and postretirement health plans in various locations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note M Employee Benefits *(Continued)*

Retirement Benefits *(Continued)*

The Company has a defined benefit plan that provides retirement benefits for substantially all U.S. salaried personnel based on years of service rendered, age and compensation. The Company merged the Standard Commercial Corporation Defined Benefit Plan into the Alliance One International, Inc. Pension Plan, a cash balance plan, effective January 1, 2006. Workforce reductions resulting from the merger of DIMON and Standard Commercial Corporations gave rise to a curtailment and a partial plan termination in the Alliance One International, Inc. Pension Plan. The Company also maintains various other Excess Benefit and Supplemental Plans that provide additional benefits to (1) certain individuals whose compensation and the resulting benefits that would have actually been paid are limited by regulations imposed by the Internal Revenue Code and (2) certain individuals in key positions. The Standard Commercial Corporation Supplemental Employee Retirement Plan was frozen as of December 31, 2005. Eligible individuals became participants in other Company benefit plans. The Supplemental Executive Retirement Plan and the Pension Equity Plan were amended and restated on March 30, 2007. Under the amended and restated plans, the participant's final average compensation is frozen as of March 31, 2007 while the value of offsetting benefits is not and will not be determined until the employee's termination of employment. These plans will be replaced with a Supplemental Retirement Account Plan (SRAP), a defined contribution program.

There were curtailments and special termination benefits recognized for several of these additional executive retirement plans. In fiscal 2006, pursuant to the merger, certain individuals were granted additional benefits under their employment agreements valued in excess of \$1,300.

Additional non-U.S. plans sponsored by certain subsidiaries cover substantially all of the full-time employees located in Germany, Greece, Turkey, and United Kingdom. The Company froze the plans of Standard Commercial Corporation in the United Kingdom on March 31, 2006. Eligible employees became participants in other benefit plans.

The Company's policy is to contribute amounts to the plans sufficient to meet or exceed funding requirements of local governmental rules and regulations.

Adoption of SFAS No. 158

On September 29, 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS No. 158"), which amends SFAS No. 87 and SFAS No. 106 to require recognition of the over funded or under funded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS No. 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS No. 87 and SFAS No. 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. SFAS No. 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006.

The Company adopted SFAS No. 158, as it relates to recognizing the funded status of its defined benefit pension and postretirement benefit plans in its statement of financial position and related disclosure provisions, on March 31, 2007. Upon adoption, the Company recorded an adjustment to accumulated other comprehensive income representing the recognition of previously unrecorded pension and postretirement healthcare liabilities related to net unrecognized actuarial losses, unrecognized prior service costs and unrecognized prior service credits. These amounts will be subsequently recognized as a component of net periodic pension cost pursuant to the Company's historical accounting policy for recognizing such amounts.

The incremental effects of adopting the provisions of SFAS No. 158 on the Company's statement of financial position at March 31, 2007 are presented in the following table. The adoption of SFAS No. 158 had no effect on the Company's consolidated statement of operations for the year ended March 31, 2007.

| | Prior to Adopting SFAS No. 158 | At March 31, 2007 Effect of Adopting SFAS No. 158 | As Reported |
|---|---|--|--------------------|
| Assets | | | |
| Non-current benefit asset | \$ - | \$ 6,864 | \$ 6,864 |
| Intangible asset | 244 | (244) | - |
| Deferred tax asset | 1,813 | (3,340) | (1,527) |
| Liabilities | | | |
| Current benefit liability | - | 5,922 | 5,922 |
| Non-current benefit liability | 69,753 | (14,129) | 55,624 |
| Shareholders equity | | | |
| Accumulated other comprehensive income (loss) | (2,628) | 11,487 | 8,859 |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note M Employee Benefits (Continued)**Retirement Benefits** (Continued)

Amounts included in accumulated other comprehensive income, net of tax, at March 31, 2007 which have not yet been recognized in net periodic benefit cost are as follows:

| | U.S. and Non-U.S. Pension Plans | Postretirement Healthcare Benefits | Total |
|---|--|---|--------------|
| Net actuarial loss (gain) | \$ 4,462 | \$ (7,225) | \$ (2,763) |
| Prior service cost | 599 | 12,550 | 13,149 |
| Deferred taxes | 337 | (1,864) | (1,527) |
| Amounts to be amortized | 5,398 | 3,461 | 8,859 |
| Reverse additional minimum pension liability, net of tax | 2,628 | - | 2,628 |
| Initial adoption of SFAS No. 158 | \$ 8,026 | \$ 3,461 | \$ 11,487 |

A reconciliation of benefit obligations, plan assets and funded status of the plans at March 31, 2007 and 2006,

the measurement dates, was as follows:

| | U.S. Plans | | Non-U.S. Plans | |
|--|------------|------------|----------------|------------|
| | March 31, | | March 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| Change in Benefit Obligation | | | | |
| Benefit obligation, beginning | \$ 80,713 | \$ 67,854 | \$56,446 | \$ 5,831 |
| Service cost | 2,576 | 2,696 | 331 | 2,252 |
| Interest cost | 4,758 | 4,503 | 3,088 | 2,767 |
| Actuarial (gain) loss | 1,764 | (3,553) | (1,903) | (3,389) |
| Plan amendments/settlements/curtailments | (1,433) | (857) | 2,678 | 1,041 |
| Effects of currency translation | - | - | 2,749 | - |
| Acquisition | - | 19,563 | - | 53,193 |
| Benefits paid | (7,445) | (9,493) | (9,408) | (5,249) |
| Benefit obligation, ending | \$ 80,933 | \$ 80,713 | \$53,981 | \$ 56,446 |
| Change in Plan Assets | | | | |
| Fair value of plan assets, beginning | \$ 46,258 | \$ 32,732 | \$41,858 | \$ - |
| Actual return on plan assets | 3,524 | 3,983 | 3,234 | 5,673 |
| Acquisition | - | 15,625 | 6,321 | 36,349 |
| Employer contribution | 3,517 | 3,411 | - | 5,085 |
| Effect of currency translation | - | - | 2,320 | - |
| Benefits paid | (7,445) | (9,493) | (9,408) | (5,249) |
| Fair value of plan assets, ending | \$ 45,854 | \$ 46,258 | \$44,325 | \$ 41,858 |
| Funded status of plan | \$(35,079) | \$(34,455) | \$(9,656) | \$(14,588) |
| Unrecognized net actuarial loss | - | (600) | - | (5,308) |
| Unrecognized prior service cost | - | 2,890 | - | 431 |
| Net amount recognized | \$(35,079) | \$(32,165) | \$(9,656) | \$(19,465) |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note M Employee Benefits (Continued)**Retirement Benefits** (Continued)

| | U.S. Plans | | Non-U.S. Plans | |
|--|------------|------------|----------------|------------|
| | March 31, | | March 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| Amounts Recognized in the Consolidated Balance Sheet | | | | |
| Consist of: | | | | |
| Prepaid benefit cost: | | | | |
| Non-current benefit asset | \$ - | \$ - | \$ 6,864 | \$ - |
| Accrued current benefit liability | (2,138) | - | (2,843) | - |
| Accrued non-current benefit | (32,941) | (38,392) | (13,677) | (20,483) |
| Intangible asset | - | 1,873 | - | 54 |
| Accumulated other comprehensive income | - | 4,354 | - | 964 |
| Net amount recognized | \$(35,079) | \$(32,165) | \$ (9,656) | \$(19,465) |

The pension obligations for all defined benefit pension plans:

| | U.S. Plans | | Non-U.S. Plans | |
|--|------------|----------|----------------|----------|
| | March 31, | | March 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| Information for Pension Plans with Accumulated Benefit | | | | |
| Obligation in Excess of Plan Assets: | | | | |
| Projected benefit obligation | \$80,933 | \$80,713 | \$35,740 | \$56,446 |

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| | | | | |
|--------------------------------|--------|--------|--------|--------|
| Accumulated benefit obligation | 79,970 | 79,048 | 32,977 | 55,353 |
| Fair value of plan assets | 45,854 | 46,258 | 21,343 | 41,858 |

Net periodic pension costs included the following components:

| | U.S. Plans | | | Non-U.S. Plans | | |
|------------------------------------|------------|----------|----------|----------------|----------|-------|
| | March 31, | | | March 31, | | |
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| Service cost | \$2,576 | \$ 2,696 | \$ 2,712 | \$ 331 | \$ 2,252 | \$458 |
| Interest cost | 4,758 | 4,503 | 3,999 | 3,089 | 2,767 | 358 |
| Expected return on plan assets | (3,589) | (3,703) | (2,732) | (3,290) | (2,360) | - |
| Amortization of actuarial loss | 526 | - | - | - | - | - |
| Amortization of prior service cost | 1,933 | 1,729 | 280 | 46 | 43 | 48 |
| Recognized net actual loss | - | 713 | 743 | - | 106 | 160 |
| Special termination benefits | 286 | 188 | 91 | 495 | 660 | (42) |
| One-time effects of curtailment | 260 | (155) | - | 132 | 602 | - |
| One-time effects of settlement | - | (35) | - | (195) | 473 | - |
| Net periodic pension cost | \$6,750 | \$ 5,936 | \$ 5,093 | \$ 608 | \$ 4,543 | \$982 |

| Additional Information: | U.S. Plans | | Non-U.S. Plans | |
|--|------------|-----------|----------------|-------|
| | March 31, | | March 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| Increase in minimum liability included in other comprehensive income | \$(314) | \$(1,534) | \$(4,747) | \$138 |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note M Employee Benefits (Continued)**Retirement Benefits** (Continued)

The following assumptions were used to determine the expense for the pension, postretirement, other postemployment and employee savings plans for the fiscal years ending March 31, 2007, 2006 and 2005:

| | U.S. Plans | | | Non-U.S. Plans | | |
|---|------------|-------|-------|-------------------|-------------------|----------------|
| | March 31, | | | March 31, | | |
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| Discount rate | 5.90% | 6.00% | 5.75% | 4.50% to 6.00% | 4.50% to 6.00% | 4.50% to 5.75% |
| Rate of increase in future compensation | 3.75% | 3.00% | 3.00% | 3.00% to 4.00% | 2.00% to 3.00% | 3.00% |
| Expected long-term rate of return on plan assets | 8.25% | 8.25% | 8.50% | 7.25% | 7.00% | N/A |

A March 31 measurement date is used for the pension, postretirement, other postemployment and employee savings plans. The expected long-term rate of return on assets was determined based upon historical investment performance, current asset allocation and estimates of future investment performance by asset class.

The following assumptions were used to determine the benefit obligations disclosed for the pension, postretirement, other postemployment and employee savings plans at March 31, 2007 and 2006:

U.S. Plans

Non-U.S. Plans

| | March 31, | | March 31, | |
|---|-----------|-------|----------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Discount rate | 6.00% | 5.75% | 4.50% to 6.00% | 4.50% to 5.75% |
| Rate of increase in future compensation | 3.00% | 3.00% | 4.00% to 3.00% | 3.00% |

For 2007 and 2006, the annual rate of increase in the per capita cost of covered health care benefits is not applicable as the Company's annual cost commitment to the benefits is capped and not adjusted for future medical inflation.

Net loss and prior service credits for the combined U.S. and non-U.S. pension plans expected to be amortized from accumulated comprehensive income into net periodic benefit cost during fiscal 2008 is \$650 and \$144 respectively.

Plan Assets

The Company's asset allocations at March 31, 2007 and 2006 by asset category are as follows:

| Asset Category: | U.S. Plans | | Non-U.S. Plans | |
|------------------------------|------------|------|----------------|------|
| | March 31, | | March 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| Equity securities | 73% | 80% | 70% | 78% |
| Fixed income | 18% | 15% | 19% | 17% |
| Real estate | 9% | - | - | - |
| Other short term investments | - | 5% | 11% | 5% |
| Total | 100% | 100% | 100% | 100% |

The Company's investment objectives are to generate consistent total investment return to pay anticipated plan benefits, while minimizing long-term costs. Financial objectives underlying this policy include maintaining plan contributions at a reasonable level relative to benefits provided and assuring that unfunded obligations do not grow to a level to adversely affect the Company's financial health. The Company's target asset allocation strategy is a 60%/30%/10% allocation between equity, fixed income securities and real estate for the domestic plans and 70%/20%/10% equity, fixed income securities and cash for the foreign plans. The asset allocation at March 31, 2007 reflects the investment allocation after all funds were transferred and invested by the new investment managers. Manager performance is measured against investment objectives and objective benchmarks, including: Salomon 90 Day Treasury Bill, Lehman Brothers Intermediate Govt. Credit, Lehman Aggregate Index, Russell 1000 Value, Russell 1000 Growth, Russell 2500 Value, Russell 2000 Growth, and MSCI EAFE. The Portfolio Objective is to exceed the actuarial return on assets assumption. Management regularly reviews portfolio allocations and periodically rebalances the portfolio to the targeted allocations when considered appropriate. Equity securities do not include the Company's common stock.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note M Employee Benefits (Continued)

Cash Flows

Contributions

The Company expects to contribute \$4,138 to its domestic benefits plans and \$1,640 to its foreign benefit plans in 2008.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| | Pension Benefits | | Other Benefits |
|-----------------|---------------------------------|-------------------------------------|---------------------------------|
| | U.S. Plans March 31, 2007 | Non-U.S. Plans March 31, 2007 | U.S. Plans March 31, 2007 |
| 2008 | \$ 5,488 | \$ 3,420 | \$ 941 |
| 2009 | 5,350 | 3,360 | 899 |
| 2010 | 5,043 | 3,382 | 864 |
| 2011 | 5,474 | 3,404 | 838 |
| 2012 | 5,658 | 3,430 | 799 |
| Years 2013-2017 | 37,427 | 17,990 | 3,700 |

The Company also sponsors 401-k savings plans for most of its salaried employees located in the United States. The Company's contributions to the plan were \$459 in 2007, \$498 in 2006, and \$354 in 2005.

The DIMON Compensation Deferral Plan was approved by the Board on June 23, 2003. The plan is available to certain employees and non-employee members of the Board. Eligible participants may elect to defer specified portions of cash or equity based compensation received and have the deferred amount treated as if invested in specified investment vehicles. The Compensation Deferral Plan is unfunded with a payable of \$189 at March 31, 2007. Withdrawals from the Plan are not permitted until the termination of a participant's service. The plan was frozen in 2006. See also Note K Stock-Based Compensation to the Notes to Consolidated Financial Statements for further information regarding equity based compensation.

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 cash deposits in a self insured term life insurance program. Effective February 1, 2006 the self insured term life insurance program was terminated. In 2005 the plan was amended to exclude new employees from the plan after September 2005 and to cap the Company's annual cost commitment to postretirement benefits for retirees. This plan amendment resulted in a reduction of \$14,118 to the benefit obligation. The Company retains the right, subject to existing agreements, to modify or eliminate these postretirement health and life insurance benefits in the future.

Additional retiree medical benefits are provided to certain individuals in accordance with their employment contracts. For 2007 the additional cost related to these contracts was \$27.

Prior service credits of \$1,622 and unrecognized net actuarial losses of \$421 are expected to be amortized from accumulated comprehensive income into postretirement healthcare benefits net periodic benefit cost during the fiscal year ending March 31, 2008.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note M Employee Benefits (Continued)

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

| | March 31, 2007 | March 31, 2006 |
|--------------------------------------|-------------------|-------------------|
| Change in Benefit Obligation | | |
| Benefit obligation, beginning | \$ 9,145 | \$ 20,682 |
| Service cost | 88 | 234 |
| Interest cost | 529 | 885 |
| Amendments | - | (14,118) |
| Actuarial loss | 1,083 | 985 |
| Special termination benefits | - | (272) |
| Acquisition | - | 2,517 |
| Benefits paid | (894) | (1,768) |
| Benefit obligation, ending | \$ 9,951 | \$ 9,145 |
| Change in Plan Assets | | |
| Fair value of plan assets, beginning | \$ 24 | \$ 142 |
| Actual return on plan assets | - | (81) |
| Employer contribution | 870 | 534 |
| Benefits paid | (894) | (571) |
| Fair value of plan assets, ending | \$ - | \$ 24 |
| Funded status of plan | \$(9,951) | \$ (9,121) |

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| | | |
|---------------------------------|-----------|-------------|
| Unrecognized actuarial loss | - | 6,488 |
| Unrecognized prior service cost | - | (14,172) |
| Net amount recognized | \$(9,951) | \$ (16,805) |

Amounts Recognized in the Consolidated Balance Sheet Consist of:

| | | |
|---------------------------------------|-----------|-------------|
| Accrued benefit liability | \$ (941) | \$ - |
| Accrued non-current benefit liability | (9,010) | (16,805) |
| Net amount recognized | \$(9,951) | \$ (16,805) |

Plan Assets

Plan assets were invested in fixed income securities.

Net periodic benefit costs included the following components:

| | Years Ended March 31, | | |
|------------------------------------|-----------------------|--------|---------|
| | 2007 | 2006 | 2005 |
| Service cost | \$ 88 | \$ 234 | \$ 403 |
| Interest cost | 529 | 885 | 1,203 |
| Expected return on plan assets | (1) | (7) | (2) |
| Amortization of prior service cost | - | (927) | (308) |
| Special termination benefits | - | 335 | - |
| One-time effect of settlement | - | (272) | - |
| Prior service credit | (1,622) | - | - |
| Actuarial loss | 347 | - | 284 |
| Net periodic benefit cost (income) | \$ (659) | \$ 248 | \$1,580 |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note M Employee Benefits *(Continued)*

The Company continues to evaluate ways to better manage these benefits and control their 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. The Company expects to contribute \$941 to its postretirement benefit plan in 2008.

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 2007, 2006 and 2005.

Note N Segment Information

The Company purchases, processes, sells, and stores leaf tobacco. Tobacco is purchased in more than 45 countries and shipped to more than 90 countries. The sales, logistics and billing functions of the Company are primarily concentrated in service centers outside of the producing areas to facilitate access to our major customers. Within certain quality and grade constraints, tobacco is fungible and, subject to these constraints, customers may choose to fulfill their needs from any of the areas where the Company purchases tobacco.

Based upon management's evaluation of performance using information included in management reports, the Company believes it has five operating segments. The five operating segments are the geographic segments: Africa, Asia, Europe, North America and South America. In reviewing these operations, the Company concluded that the economic characteristics of South America were dissimilar from the other operating segments. Based on this fact, the Company is disclosing South America separately and has aggregated the remaining four operating segments, Africa, Asia, Europe and North America into one reportable segment "Other Regions". The Company concluded that these operating segments have similar economic characteristics and are similar in each of the following areas:

- a. the nature of the products and services;
- b. the nature of the production processes;
- c. the type or class of customer for their products and services;
- d. the methods used to distribute their products or provide their services; and
- e. the nature of the regulatory environment.

Selling, logistics, billing, and administrative overhead, including depreciation, which originates primarily from the Company's corporate and sales offices, are allocated to the segments based upon segment operating income. The Company reviews performance data from purchase through sale based on the source of the product and all intercompany transactions are allocated to the region that either purchases or processes the tobacco.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note N Segment Information (Continued)

During the three months ended June 30, 2006, the Company entered into an agreement with local government in Brazil, which provides for realization of accumulated intrastate trade taxes related to the 2005 crop on a monthly basis as stipulated therein. As a result, intrastate trade taxes related to the 2005 crop of \$19,225 previously recorded as expense in fiscal 2006 were reversed in fiscal 2007.

| Analysis of Segment Operations | Years Ended March 31, | | |
|---|------------------------------|--------------|-------------|
| | 2007 | 2006 | 2005 |
| Sales and other Operating Revenues: | | | |
| South America | \$ 723,739 | \$ 759,369 | \$ 467,615 |
| Other Regions | 1,255,339 | 1,353,316 | 832,503 |
| Total Revenue | \$1,979,078 | \$ 2,112,685 | \$1,300,118 |
| Operating Income (Loss): | | | |
| South America | \$ 73,014 | \$ (166,561) | \$ 39,117 |
| Other Regions | 40,686 | (112,667) | 33,533 |
| Total Operating Income (Loss) | 113,700 | (279,228) | 72,650 |
| Debt Retirement Expense | 3,860 | 66,474 | - |
| Interest Expense | 105,635 | 108,585 | 52,840 |
| Interest Income | 8,591 | 7,107 | 4,448 |
| Derivative Financial Instruments Income | 290 | 5,092 | 13,122 |
| Income (Loss) Before Income Taxes and Other Items | \$ 13,086 | \$ (442,088) | \$ 37,380 |

Years Ended March 31,

| | 2007 | 2006 | 2005 |
|---|-------------|--------------|-------------|
| Analysis of Segment Assets | | | |
| Segment Assets: | | | |
| South America | \$ 757,861 | \$ 652,004 | \$ 538,158 |
| Other Regions | 896,011 | 1,252,120 | 865,901 |
| Total Assets | \$1,653,872 | \$ 1,904,124 | \$1,404,059 |
| Goodwill: | | | |
| South America | \$ - | \$ - | \$ 151,772 |
| Other Regions | | | |
| Tog | 4,186 | 4,186 | - |
| Total Goodwill | \$ 4,186 | \$ 4,186 | \$ 151,772 |
| Equity in Net Assets of Investee Companies: | | | |
| South America | \$ 693 | \$ 978 | \$ 918 |
| Other Regions | 17,768 | 16,579 | - |
| Total Investees | \$ 18,461 | \$ 17,557 | \$ 918 |
| Depreciation and Amortization: | | | |
| South America | \$ 11,265 | \$ 12,676 | \$ 9,149 |
| Other Regions | 25,028 | 30,835 | 23,108 |
| Total Depreciation and Amortization | \$ 36,293 | \$ 43,511 | \$ 32,257 |
| Capital Expenditures: | | | |
| South America | \$ 2,733 | \$ 5,215 | \$ 10,636 |
| Other Regions | 12,491 | 14,558 | 4,586 |
| Total Capital Expenditures | \$ 15,224 | \$ 19,773 | \$ 15,222 |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries

(in thousands)

Note N Segment Information (Continued)

Geographic information as to sales and other operating revenues is based on the destination of the product shipped. The Belgium destination represents a storage and distribution center from which the tobacco will be shipped on to manufacturing facilities.

| Sales by Destination | Years Ended March 31, | | |
|-------------------------------------|-----------------------|--------------|-------------|
| | 2007 | 2006 | 2005 |
| Sales and Other Operating Revenues: | | | |
| Belgium | \$ 357,368 | \$ 295,055 | \$ 67,691 |
| United States | 340,772 | 397,037 | 223,168 |
| Germany | 169,405 | 181,114 | 155,583 |
| Netherlands | 150,560 | 99,842 | 49,293 |
| Other | 960,973 | 1,139,637 | 804,383 |
| | \$ 1,979,078 | \$ 2,112,685 | \$1,300,118 |

Sales and Other Operating Revenues to Major Customers:

Of the 2007, 2006 and 2005 sales and other operating revenues, approximately 53%, 52% and 43%, respectively, were to various tobacco companies which 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 | \$ 679,086 | \$ 719,051 | \$ 358,760 |
| Customer B | 368,087 | 376,274 | 195,400 |
| | \$ 1,047,173 | \$ 1,095,325 | \$ 554,160 |

Property, Plant and Equipment:

| | | | |
|-------------------------------|------------|------------|------------|
| United States | \$ 43,994 | \$ 48,532 | \$ 18,733 |
| Brazil | 72,403 | 77,352 | 54,857 |
| Turkey | 41,979 | 47,467 | 18,039 |
| Malawi | 38,567 | 43,298 | 22,413 |
| Tanzania | 16,407 | 18,183 | 20,231 |
| Zimbabwe | - | - | 35,735 |
| Europe | 21,824 | 23,738 | 29,433 |
| Argentina | 12,794 | 13,983 | 1,112 |
| Asia | 8,780 | 9,139 | 7,466 |
| Other | 5,320 | 5,443 | 8,366 |
| Property, Plant and Equipment | \$ 262,068 | \$ 287,135 | \$ 216,385 |

Note O 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) gains in 2007, 2006 and 2005 were \$(168), \$2,313 and \$527, respectively, and are included in the respective statements of income.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note P Contingencies and Other Information

Tax

The Company does business in many countries outside the United States in which the tax systems are very unpredictable.

During June 2004, the Company received from Brazilian tax officials notices of proposed adjustments to income tax returns for the Company's Brazil operations for tax years 1999 through 2002, inclusive, that total \$54,360 as of March 31, 2005. Of these proposed adjustments \$39,446 related to disallowance of local currency foreign exchange losses on U.S. dollar funding. In March 2005, the Taxpayer's Council dismissed the assessment relating to the disallowance of local currency foreign exchange losses. The remaining \$14,914 related to disallowance of other sales related expenses. As of March 31, 2007, this amount is valued at \$21,864 due to the devaluation of the U.S. dollar to the Brazilian real. The Company is continuing to argue its position on the disallowance of sales related expenses, and believes it has a defensible position. This issue is also being reviewed under the rules of FIN 48. No provision has been set up for this issue as the outcome is not considered probable.

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 extend over many years. Through March 2005, the Company has utilized \$20,377 of IPI credit bonus in lieu of cash payments for Brazilian federal income and other taxes. No benefit for this IPI credit bonus has been recognized, and it has been recorded as deferred revenue, because the Company has been unable to predict whether the Brazilian Government will require payment of amounts offset. In January 2005, the Company received a Judicial Order to suspend the IPI compensation. An appeal was filed and the Company received notification from the tax authorities in March 2005 to present all documentation pertaining to the IPI credit bonus. On April 24, 2006, the Company received an assessment of \$26,600 for federal income taxes in 2005 that were offset by the IPI credit bonus. As of March 31, 2007, this amount is valued at \$28,367 due to devaluation of the U.S. dollar to the Brazilian real. The Company has appealed the assessment and believes it has properly utilized the IPI credit bonus. No provision has been set up for this issue as the outcome is not considered probable.

In 1998, a tax law was issued in which the taxable basis for PIS/Cofins taxes in Brazil was increased. PIS and Cofins are taxes paid on sales revenues. The tax law issued in 1998 increased the basis of calculation to include other revenues such as interest income. The constitutionality of the increase of the tax basis was challenged and on

November 10, 2005, the Brazilian Supreme Court declared the increase of the tax basis unconstitutional. Based on this decision, the Company reversed the PIS/Cofins tax expense amount of \$ 3,933 during the third quarter of fiscal 2006. In November 2006, the Supreme Court in Brazil rendered a specific decision in favor of the Company. The Company began the administrative process of requesting the release of the escrow deposits, including unrecognized interest income of approximately \$3,065, in December 2006. During the fourth quarter of fiscal 2007, the Company received the total funds of \$7,084 and recognized interest income of \$3,117.

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, including interest, as of December 31, 2006 is equivalent to approximately \$4,903 for federal corporate income tax and \$2,758 for local trade income tax, without interest accrued. On January 2, 2007, the Company received notice of the decision rendered by the Fiscal Tax Court. The Court decided in favor of the tax authorities and denied the Company's request for appeal. The Company believes it has grounds for appeal against this decision and it is now preparing an application to appeal. The total tax assessed by the German tax authorities, including interest to date, was €7,608 or \$10,005 as of December 31, 2006. The Company increased the previous reserve against this contingent exposure by an additional \$7,111, bringing it from \$2,894 to \$10,005 as of December 31, 2006. As of March 31, 2007, the reserve is \$10,224.

In September 2002 and in January 2004, the Company's Tanzanian operations received assessments for income taxes equivalent to approximately \$1,413 and \$4,907, respectively as of March 31, 2007. In September 2005, additional assessments for 2001, 2002, 2003 and 2004 were received. The assessments for 2001, 2002 and 2003 reduce tax loss carryovers equivalent to \$5,616 as of March 31, 2007. The 2004 assessment carries a tax equivalent to \$1,693 as of March 31, 2007. The Company has filed protests and appeals and is currently awaiting replies. The Company has established a reserve of \$921 for this assessment as it is considered probable and estimable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note P Contingencies and Other Information *(Continued)*

Tax *(Continued)*

In September 2006, the Company's Serbian operations were assessed for VAT and government pension liability for payments to farmers. In December 2006, one third of the assessment was reduced. The remaining issues are still being discussed. The Company is contesting these assessments and has established a reserve of \$386 for the VAT component of the assessment.

On August 28, 2006, the Company's South Africa shipping office received an assessment from the South Africa Revenue Service (SARS) for approximately 40,500 Rand (equivalent to \$5,400). The assessments, at that time, had no explanations. Due to devaluation of the US\$ against the Rand, as of March 31, 2007, the U.S. dollar equivalent value of the assessment was \$5,565. On January 31, 2007, the company received the SARS report explaining the assessment. Upon reviewing the SARS report it is clear the assessment has been based on an inaccurate analysis of the business and contains significant internal mathematical mistakes. The Company has assembled a team to appeal the assessments and is preparing its response. Under current South Africa law, the Company may be required to deposit the taxes to continue its appeal. As of March 31, 2007, the Company has received a deferral of such payment and is currently negotiating to extend that deferral. No provision has been set up for this issue as the outcome is not considered probable.

As discussed in other footnotes, the Company does business in countries and taxing jurisdictions where the rules are unclear and the enforcement is inconsistent. These inherent risks are most pronounced in the area of the pricing of intercompany sales and services. The Company has estimated a reserve for probable transfer pricing issues of \$4,000.

While the Company believes it has properly reported its income and provided for taxes in Brazil, Germany, Serbia, South Africa and Tanzania in accordance with applicable laws, the final resolution of the proposed adjustments is uncertain and involves unsettled areas of the law. The Company has evaluated each issue described above, based on currently available information, and has provided for the probable liability associated with these matters. While the resolution of these issues may result in tax liabilities that may differ from the specific accruals established for the matters, the Company currently believes that the resolution will not have a material adverse effect on its financial position or liquidity. However, an unfavorable resolution could have a material adverse effect on its

results of operations or cash flows in the quarter and year in which an adjustment is recorded or the tax is due or paid. As the Company is no further than the initial stages of the appeals process for any of the above matters, the timing of the ultimate resolution and any payments that may be required for the above matters cannot be determined at this time.

In June 2006, the FASB issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which is a change in accounting for income taxes. FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim period guidance, among other provisions. FIN 48 is effective for fiscal years beginning after December 15, 2006 and as a result, is effective for the Company on April 1, 2007. The Company is currently evaluating the impact of FIN 48 on its consolidated financial position, results of operations, and cash flows. In addition, since the Company is subject to potentially inconsistent actions by the governments of certain foreign countries in which it operates, the Company will continue evaluating the material impact of this interpretation concerning transfer pricing, tax presence liabilities, and other tax matters.

Other

The Company has received correspondence from an Italian company, Mindo S.r.l., which was the purchaser, in June, 2004, of the Company's Italian subsidiary, DIMON Italia S.r.l., alleging that the Company and various of its subsidiaries, employees and other individuals not employed by the Company, failed to disclose, at the time of Mindo's purchase, certain events or circumstances which, if disclosed, would have caused Mindo not to purchase the Company's subsidiary and which amount to a breach of the purchase agreement. Although no formal legal proceeding has yet been filed, Mindo is apparently contending that it is entitled to the rescission of the purchase agreement. The Company has investigated the claims, believes them to be without merit and intends to vigorously defend any legal proceeding which might be brought.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note P Contingencies and Other Information *(Continued)*

Other *(Continued)*

In March 2004, the Company discovered potential irregularities with respect to certain bank accounts in southern Europe and central Asia. The Audit Committee of the Company's Board of Directors engaged an outside law firm to conduct an investigation of activity relating to these accounts. That investigation revealed that, although the amounts involved were not material and had no material impact on the Company's historical financial statements, there were payments from these accounts that may have violated the U.S. Foreign Corrupt Practices Act (the "FCPA"). In May 2004, the Company voluntarily reported the matter to the U.S. Department of Justice. Soon thereafter, the Company closed the accounts in question, implemented personnel changes and other measures designed to prevent similar situations in the future, including the addition of new finance and internal audit staff and enhancement of existing training programs, and disclosed these circumstances in its filings with the U.S. Securities and Exchange Commission (the "SEC"). In August 2006, the Company learned that the SEC had issued a formal order of investigation of the Company and others to determine if these or other actions may have violated certain provisions of the Securities Exchange Act of 1934 and rules thereunder. The Company is cooperating fully with the SEC with respect to the investigation.

If the U.S. authorities determine that there have been violations of federal laws, they may seek to impose sanctions on the Company that may include, among other things, injunctive relief, disgorgement, fines, penalties and modifications to business practices. It is not possible to predict at this time whether the authorities will determine that violations have occurred, and if they do, what sanctions they might seek to impose. It is also not possible to predict how the government's investigation or any resulting sanctions may impact the Company's business, results of operations or financial performance, although any monetary penalty assessed may be material to the Company's results of operations in the quarter in which it is imposed.

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 March 31, 2007, the Company was guarantor of an amount not to exceed \$330,484 with \$302,644 outstanding under these

guarantees. Of these guarantees, \$286,527 relates to Brazilian farmers. The Company has reserved \$18,207 for loans under these guarantees. This reserve approximates the value of the guarantees. Risks of significant loss under the remaining guarantees is considered to be remote.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note Q Selected Quarterly Financial Data (Unaudited)

Summarized quarterly financial information is as follows:

| | First Quarter | | | Second Quarter | | | Third Quarter | | | Fourth Quarter | | Fiscal Year |
|--|------------------|-----|-----|-------------------|-----|-----|------------------|-----|-----|-------------------|-----|----------------|
| | (2) | (3) | (4) | (2) | (3) | (4) | (2) | (3) | (4) | (2) | (3) | |
| <u>Year Ended March 31, 2007</u> | | | | | | | | | | | | |
| Sales and other operating revenue | \$493,485 | | | \$593,630 | | | \$458,759 | | | \$433,204 | | \$1,979,078 |
| Gross profit | 77,504 | | | 103,837 | | | 60,736 | | | 53,662 | | 295,739 |
| Income (loss) from continuing operations | 8,667 | | | 9,133 | | | (17,412) | | | (3,003) | | (2,615) |
| Loss from discontinued operations | (3,794) | | | (833) | | | (10,926) | | | (3,177) | | (18,730) |
| Net income (loss) | 4,621 | | | 8,300 | | | (28,338) | | | (6,180) | | (21,597) |
| Per Share of Common Stock: | | | | | | | | | | | | |
| Basic Earnings (Loss) (1) | | | | | | | | | | | | |
| Income (loss) from continuing operations | .09 | | | .11 | | | (.21) | | | (.03) | | (.03) |
| Loss from discontinued operations | (.04) | | | (.01) | | | (.12) | | | (.04) | | (.22) |
| Net income (loss) | .05 | | | .10 | | | (.33) | | | (.07) | | (.25) |
| Diluted Earnings (Loss) | | | | | | | | | | | | |
| Income (loss) from continuing operations | .09 | | | .10 | | | (.21) | | | (.03) | | (.03) |
| Loss from discontinued operations | (.04) | | | (.01) | | | (.12) | | | (.04) | | (.22) |
| Net income (loss) | .05 | | | .09 | | | (.33)* | | | (.07)* | | (.25)* |

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| | | | | | |
|--|-----------|-----------|-----------|-----------|-------------|
| Cash Dividends per Share | - | - | - | - | - |
| Market Price - High | 4.95 | 4.41 | 7.31 | 9.35 | 9.35 |
| - Low | 3.57 | 3.57 | 3.97 | 6.75 | 3.57 |
| <u>Year Ended March 31, 2006</u> | | | | | |
| Sales and other operating revenue | \$403,149 | \$613,157 | \$515,070 | \$581,309 | \$2,112,685 |
| Gross profit | 43,978 | 66,882 | 51,299 | 62,526 | 224,685 |
| Loss from continuing operations | (77,986) | (6,313) | (23,575) | (315,468) | (423,342) |
| Income (loss) from discontinued operations | (2,672) | (14,235) | 709 | (7,906) | (24,104) |
| Net Loss | (80,658) | (20,548) | (22,866) | (323,374) | (447,446) |
| Per Share of Common Stock: | | | | | |
| Basic Loss (1) | | | | | |
| Loss from continuing operations | (1.17) | (.07) | (.28) | (3.67) | (5.21) |
| Income (loss) from discontinued operations | (.04) | (.17) | .01 | (.09) | (.30) |
| Net Loss | (1.21) | (.24) | (.27) | (3.76) | (5.51) |
| Diluted Loss (1) | | | | | |
| Loss from continuing operations | (1.17) | (.07) | (.28) | (3.67) | (5.21) |
| Income (loss) from discontinued operations | (.04) | (.17) | .01 | (.09) | (.30) |
| Net Loss | (1.21)* | (.24)* | (.27)* | (3.76)* | (5.51)* |
| Cash Dividends per Share | .075 | .030 | - | - | .105 |
| Market Price - High | 6.80 | 6.30 | 4.32 | 5.06 | 6.80 |
| - Low | 5.61 | 3.28 | 2.16 | 3.59 | 2.16 |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note Q Selected Quarterly Financial Data (Unaudited) (Continued)

Summarized quarterly financial information notes on the above are as follows:

(1)

Does not add due to quarterly change in average shares outstanding

(2)

2007 includes charges of \$1,698, \$20,856, \$5,545 and \$1,674 associated with restructuring and asset impairments in the first, second, third and fourth quarters, respectively. See Note D Restructuring and Asset Impairment Charges to the Notes to Consolidated Financial Statements for further information. In the first quarter, the Company reversed charges of \$19,225 related to Brazilian intrastate taxes. The Company recorded recoveries of Iraqi receivables of \$264 and \$2,484 in the first and second quarters, respectively. In the first and second quarters, gross profit was reduced \$1,086 and \$341, respectively, due to a fair value of inventory purchase accounting adjustment. Charges of \$3,860 associated with debt retirement expense were recorded in the fourth quarter. For more information on Brazilian intrastate taxes, Iraqi receivables, inventory purchase accounting adjustment and debt retirement expense see Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

(3)

2006 includes charges of \$15,165, \$1,798, \$13,366 and \$55,082 associated with restructuring and asset impairments in

the first, second, third and fourth quarters, respectively. See Note D Restructuring and Asset Impairment Charges to the Notes to Consolidated Financial Statements for further information. Also, in the fourth quarter, goodwill impairment charges of \$256,916 were recognized. See Note E Goodwill and Other Intangible Assets to the Notes to Consolidated Financial Statements for further information. Charges of \$64,907 and \$1,567 associated with debt retirement expense are included in the first and second quarters, respectively. Gross profit was reduced due to fair value of inventory purchase accounting adjustments of \$9,420, \$3,670, \$4,374 and \$489 in the first, second, third and fourth quarters, respectively. For more information on debt retirement expense and inventory purchase accounting adjustments see Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

(4)

Amounts presented differ from amounts previously reported in our 2006 quarterly reports on Form 10-Q due to the classification of certain of our businesses as discontinued operations in accordance with SFAS No. 144.

*

Assumed conversion of Convertible Debentures at the beginning of each period has an antidilutive effect on earnings (loss) per share. In the quarter ended September 30, 2005, the Company retired its Convertible Debentures due 2007 of \$73,328. For the quarters ended December 31, 2006 and March 31, 2007 and all quarters in the year ended March 31, 2006, all outstanding restricted stock and stock options are excluded because their inclusion would have an antidilutive effect on the loss per share.

Note R Sale of Receivables

On September 27, 2006, Alliance One International, A.G., a wholly owned subsidiary of the Company, entered into a revolving trade accounts receivable securitization agreement to sell receivables to a limited liability company (LLC). The LLC is funded through loans from a bank-sponsored commercial paper conduit which has committed up to a maximum of \$55,000 in funding at any time. The agreement, which matures September 25, 2009, provides for the periodic, non-recourse sale of receivables. To the extent that the balance of the receivables sold into the pool is less than \$55,000, the Company is subject to a 0.5% fee on the unused amount. Pursuant to the agreement, the Company retains servicing responsibilities and subordinated interests in the receivables sold. The Company receives annual servicing fees of 0.5% of the outstanding balance, which approximates the fair value of services to be rendered under

the agreement, and rights to future cash flows in excess of funds contractually obligated to investors. The value of the subordinated interest is subject to credit and interest rate risks on the transferred financial assets.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA *(Continued)*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Alliance One International, Inc. and Subsidiaries
(in thousands)

Note R Sale of Receivables *(Continued)*

The Company has recorded the transaction as a sale of receivables and has removed such receivables from its financial statements and has recorded a receivable for the retained interest in such receivables. In recording the sale of receivables, the Company has recognized pre-tax losses of \$1,707 on sales of receivables through March 31, 2007. In addition, the Company has recorded charges of \$1,320 related to the negotiation of the agreement. As of March 31, 2007, \$31,282 receivables were sold and outstanding under the revolving agreement resulting in cash proceeds of \$30,667 and a Company retained interest of \$58. It is the Company's intention to maximize the receivables sold under the revolving agreement meaning that amounts collected by the pool would be reinvested in the purchase of additional eligible receivables. Since September 27, 2006, the average outstanding balance of receivables sold has been \$29,607 with a minimum outstanding balance of \$13,786 and a maximum of \$44,831. During this time, aggregate receivables sold have been \$111,858 of which the Company's cash receipts have been \$81,499 from the current purchase price, \$26,807 from deferred purchase price and \$74 of service fees.

In valuing the retained interests at the date of the sale of the receivables, the Company assumed a weighted average life of 67 days and a discount rate of 8.7% as well as an additional 0.5% on the unused balance for the same term. Theoretical increases in the discount rate by 10% and 20% would have decreased the value of retained interests by \$53 and \$107 respectively. Historically, credit loss and prepayments on the customer base included in these agreements have been negligible.

Note S Subsequent Events

Sale of Malawi Factory

On December 21, 2006, the Company disclosed that it had executed a Letter of Intent with Tribac Leaf Limited (Tribac), for an anticipated transaction in which the Company's wholly-owned subsidiary, Alliance One Tobacco (Malawi) Limited (AOI Malawi), will sell to Tribac (or an affiliate thereof) its Lilongwe North Factory facility, including one threshing line and other related assets. On April 17, 2007, the Company signed a definitive agreement. Closing on such sale is scheduled to occur in early 2008; however, such closing is subject to the occurrence of several

significant conditions, many of which are outside of the Company's or the buyer's control.

The sale of the Lilongwe North facility is consistent with the Company's stated strategy, which includes: the ongoing refinement of its global footprint, enhancing operational efficiencies and meeting customer demands for high quality value added service.

AOI Malawi will continue to operate the facility and report it as held and used until the closing of the transaction. Following completion of such transaction, it is anticipated that AOI Malawi will make an additional investment in its Lilongwe South Factory, reflecting the Company's continued commitment to and confidence in the Malawi Tobacco Industry.

Additional Commitment to the Amended and Restated Revolver Agreement

On May 4, 2007, the Company made an optional prepayment of \$50 million on its \$145 million Term Loan B portion of its Senior Secured Credit Facility, leaving \$95 million outstanding as of that date.

On May 25, 2007, the Company closed the First Amendment to the Amended and Restated Credit Agreement dated March, 30 2007. As contemplated by the original credit agreement, the First Amendment expands the aggregate commitments available from \$240 million to \$250 million. As of March 31, 2007 and as of the date of the First Amendment, there were no outstanding loans under the Senior Secured Credit Facility.

On May 29, 2007, the Company closed the Second Amendment to the Amended and Restated Credit Agreement dated March, 30 2007. The Second Amendment clarifies several definitions used for covenant compliance purposes to better conform them to the calculations being used by the Company and the lenders.

On June 20, 2007, the Company entered into a Waiver and Consent (the "Waiver and Consent") by and among Intabex Netherlands B.V. as Borrowers, Alliance One International AG, as a Guarantor, and Wachovia Bank, National Association, as Administrative Agent for the Lenders to cure any potential defaults under the Credit Agreement.

Pursuant to the terms of the Waiver and Consent, the lenders under the Credit Agreement (i) waive any prospective event of default relating to the Company's restated results for the first three quarters of fiscal year 2007 and the reporting of the associated material weakness in the Company's internal controls over financial reporting as identified by the Company and (ii) consent to the extension of the time for delivery of certain financial statements and certificates required to be delivered by the Company to the lenders. Failure to reach agreement with the lenders on these matters would have triggered a default under the Credit Agreement and would have allowed the lenders to accelerate payments thereunder, which could have significantly impacted the Company's liquidity and access to capital.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Alliance One International, Inc.

We have audited the accompanying consolidated balance sheet of Alliance One International, Inc. (the Company) as of March 31, 2007 and 2006, and the related statements of consolidated operations and comprehensive income, stockholders' equity, and consolidated cash flows for the years then ended. Our audits also included the financial statement schedule listed in the Index at Item 15a as it relates to 2007 and 2006. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits. The consolidated financial statements of the Company for the year ended March 31, 2005 were audited by other auditors whose report, dated June 10, 2005, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of March 31, 2007, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated June 21, 2007, expressed an unqualified opinion on

management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in Notes A and M to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an Amendment of FASB Statements No. 87, 88, 106, and 132(R) as of March 31, 2007.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina

June 21, 2007

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Alliance One International, Inc. (formerly DIMON Incorporated)

We have audited the accompanying consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the year ended March 31, 2005 of Alliance One International, Inc. and subsidiaries. Our audit also included the financial statement schedule in the index listed at Item 15(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 based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows for the year ended March 31, 2005 of Alliance One International, Inc. and subsidiaries in conformity with U.S. generally accepted accounting principles. 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.

/s/ Ernst & Young LLP

Greensboro, North Carolina

June 10, 2005

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Alliance One International, Inc.

We have audited management's assessment, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*, that Alliance One International, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of March 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of March 31, 2007, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended March 31, 2007, of the Company and our report dated June 21, 2007, expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina

June 21, 2007

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of March 31, 2007, an evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15 (e) under the Securities Exchange Act (the Act). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports we file under the Act is recorded, processed, summarized, and reported by management of the Company on a timely basis in order to comply with the Company's disclosure obligations under the Act and the Securities and Exchange Commission (SEC) rules thereunder. Disclosures controls and procedures include without limitation controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management to allow timely decisions regarding disclosure.

Internal Control Over Financial Reporting

Management's Report On Internal Control Over Financial Reporting

Alliance One's management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting refers to the processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes policies and procedures that:

-

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

-

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

-

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in all control systems, no evaluation of internal control can provide absolute assurance that all control issues and instances of fraud, if any, within Alliance One have been detected.

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria contained in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on that evaluation, management has concluded that, as of March 31, 2007, Alliance One's internal control over financial reporting was effective based on those criteria.

ITEM 9A. CONTROLS AND PROCEDURES *(Continued)*

Internal Control Over Financial Reporting *(Continued)*

Alliance One's independent registered public accounting firm auditors has issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears on page 97 herein.

Changes in Internal Control over Financial Reporting

During the fourth quarter of 2007, management identified a material weakness related to accounting for income taxes. Specifically, there was insufficient review of the tax workpapers by management on an interim basis.

In connection with the material weakness in internal controls over financial reporting the Company has taken the following remedial measures:

- Review and approval of effective tax rates and reconciliation of these rates by the local preparers and their supervisor.
- Review and approval of effective tax rates and reconciliation of these rates by the Corporate Foreign Tax Manager and their supervisor.
- Increased rate reconciliation procedure, including a checklist of specific steps to be followed by subsidiaries and reviewers.
- Increase the visibility of statutory write-offs through changes in local accounting systems.

Other than the changes outlined above, there were no other changes in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning directors and persons nominated to become directors of Alliance One International, Inc. included in the Proxy Statement under the headings Board of Directors - Proposal One-Election of Directors and Board of Directors - Director Biographies is incorporated herein by reference. The information concerning the executive officers of the Company included in Part I, Item I of this Annual Report on Form 10-K under the heading Business - Executive Officers of Alliance One International, Inc., is incorporated herein by reference.

Audit Committee

The information included in the Proxy Statement under the headings Board of Directors - Board Committees and Membership and Audit Matters is incorporated herein by reference.

Section 16(a) Compliance

The information included in the Proxy Statement under the heading Ownership of Equity Securities - Section 16(a) Beneficial Ownership Reporting Compliance is incorporated herein by reference.

Code of Business Conduct

The information included in the Proxy Statement under the heading Governance of the Company - Code of Business Conduct is incorporated herein by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE (Continued)

Corporate Governance

The Board of Directors has adopted corporate governance guidelines and charters for its Audit Committee, Executive Compensation Committee, Governance and Nominating Committee and Finance Committee. These governance documents are available on our website, www.aointl.com, or by written request, without charge, addressed to: Corporate Secretary, Alliance One International, Inc., 8001 Aerial Center Parkway, Morrisville, NC 27560-8417.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in the Proxy Statement under the captions Board of Directors Compensation of Non-Employee Directors and Executive Compensation is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
AND RELATED STOCKHOLDER MATTERS**

The information contained in the Proxy Statement under the caption "Ownership of Equity Securities," together with the information included in Part II, Item 5 of this Annual Report on Form 10-K under the heading Market For Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities - Equity Compensation Plan Information, is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR
INDEPENDENCE**

The information contained in the Proxy Statement under the captions Governance of the Company -Determination of Independence of Directors, Board of Directors - Independence and "Board of Directors - Other Agreements and Business Relationships" is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information contained in the Proxy Statement under the captions Audit Matters - Policy for Pre-Approval of Audit and Non-Audit Services and Audit Matters - Audit and Non-Audit Fees is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) (1) and (2)

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

Statements of Consolidated Operations and Comprehensive Income Years
ended March 31, 2007, 2006 and 2005
Consolidated Balance Sheet March 31, 2007 and 2006
Statement of Stockholders' Equity--Years ended March 31, 2007, 2006 and 2005
Statement of Consolidated Cash Flows-- Years ended March 31, 2007, 2006 and 2005
Notes to Consolidated Financial Statements
Report of Deloitte & Touche LLP
Report of Ernst & Young LLP
Report of Independent Registered Public Accounting Firm on Internal Control
Management's Report on Internal Control Over Financial Reporting
Financial Statement Schedules:
Schedule II - Valuation and Qualifying Accounts

- (b) 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 Alliance One International, Inc., incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed May 19, 2005. |
| 3.02 | Amended and Restated Bylaws of Alliance One International, Inc., incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K, filed May 19, 2005. |
| 4.01 | Specimen of Common Stock certificate incorporated by |

reference to Exhibit 4.3 to the Registration Statement on Form S-8, filed June 3, 2005.

- 4.02 Indenture, dated October 30, 2001, between DIMON Incorporated as issuer, and SunTrust Bank as trustee, related to 9 5/8% Senior Notes due 2011, incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, filed November 6, 2001.
- 4.03 First Supplemental Indenture, dated as of November 1, 2004, between DIMON Incorporated as issuer and SunTrust Bank as trustee, related to 9 5/8% Senior Notes due 2011, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed November 13, 2004.
- 4.04 Second Supplemental Indenture, dated March 22, 2005, between DIMON Incorporated as issuer and SunTrust Bank as trustee, related to 9 5/8% Senior Notes due 2011, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed May 16, 2005.
- 4.05 Indenture, dated May 30, 2003, between DIMON Incorporated as issuer and SunTrust Bank as trustee, related to 7 3/4% Senior Notes due 2013, incorporated by reference to Exhibit 4.7 of the Annual Report on Form 10-K for the year ended June 30, 2003, filed August 28, 2003.
- 4.06 First Supplemental Indenture, dated as of November 1, 2004, between DIMON Incorporated as issuer and SunTrust Bank as trustee, related to 7 3/4% Senior Notes due 2013, incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, filed November 13, 2004.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES (Continued)

(b) Exhibits (Continued)

- | | |
|------|--|
| 4.07 | Second Supplemental Indenture, dated March 22, 2005, between DIMON Incorporated as issuer and SunTrust Bank as trustee, related to 7 3/4% Senior Notes due 2013, incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, filed May 16, 2005. |
| 4.08 | Indenture, dated as of April 1, 1997, between DIMON Incorporated and LaSalle National Bank, relating to 6 1/4% Convertible Subordinated Debentures due March 31, 2007, incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed April 16, 1997 (Commission File No. 001-13684). |
| 4.09 | Indenture dated April 2, 2004, among Standard Commercial Corporation, Standard Commercial Tobacco Corp., Inc. and SunTrust Bank, as trustee, related to 9% Senior Notes due 2012, Series B, incorporated by reference to Exhibit 4.11 of Standard's Annual Report on Form 10-K for the year ended March 31, 2004, filed June 14, 2004. |
| 4.10 | Supplemental Indenture, dated March 22, 2005, among Standard Commercial Corporation, Standard Commercial Tobacco Corp., Inc. and SunTrust Bank, as trustee, related to 9% Senior Notes due 2012, Series B, incorporated by reference to Exhibit 4.3 of Alliance One's Current Report on Form 8-K, filed May 16, 2005. |
| 4.11 | |

- Indenture, dated May 13, 2005, between Alliance One International, Inc., Law Debenture Trust Company of New York, as trustee and Deutsche Bank Trust Company Americas, as registrar and paying agent, relating to 12 ¾% Senior Subordinated Notes due 2012, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed May 19, 2005.
- 4.12 Indenture, dated May 13, 2005, between Alliance One International, Inc., Law Debenture Trust Company of New York, as trustee and Deutsche Bank Trust Company Americas, as registrar and paying agent, relating to 11.0% Senior Notes due 2012, incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, filed May 19, 2005.
- 4.13 Indenture, dated March 7, 2007, between Alliance One International, Inc., Law Debenture Trust Company of New York, as trustee and Deutsche Bank Trust Company Americas, as registrar and paying agent, relating to 8 1/2% Senior Notes due 2012, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed March 8, 2007.
- 10.01 Alliance One International, Inc. Pension Equity Plan, as amended May 24, 2006, incorporated by reference to Exhibit 10.01 to Alliance One International, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2006, filed June 23, 2006.*
- 10.02 Standard Commercial Corporation Performance Improvement Compensation Plan, incorporated by reference to Exhibit 99.1 to Alliance One International, Inc.'s Registration Statement on Form S-8, filed June 3, 2005.*
- 10.03 Standard Commercial Corporation 2001 Performance Improvement Compensation Plan, incorporated by reference to Appendix B to Standard Commercial Corporation's definitive proxy statement filed July 16, 2001.*
- 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, filed September 28,

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES (Continued)

(b) Exhibits (Continued)

- | | |
|-------|---|
| 10.05 | Employment Agreement, dated November 7, 2004, between DIMON Incorporated and Brian J. Harker, incorporated by reference to Exhibit 10.1 to DIMON Incorporated's Current Report on Form 8-K, filed November 8, 2004.* |
| 10.06 | Employment Agreement, dated November 7, 2004, between DIMON Incorporated and Robert E. Harrison, incorporated by reference to Exhibit 10.2 to DIMON Incorporated's Current Report on Form 8-K, filed November 8, 2004.* |
| 10.07 | Employment Agreement, dated as of January 13, 1995, effective as of November 1, 1994, between Dibrell Brothers, Incorporated and H.P. Green, III, incorporated by reference to Exhibit 10.5 to Dibrell Brothers, Incorporated's Form 10-Q for the quarter ended December 31, 1994, filed February 13, 1995 (Commission File No. 000-2912).* |
| 10.08 | Amendment to Employment Agreement, dated August 29, 1995, between DIMON Incorporated and H.P. Green, III, incorporated by reference to Exhibit 10.15 of DIMON Incorporated's Annual Report on Form 10-K for the year ended March 31, 2004, filed June 10, 2004.* |
| 10.09 | DIMON Incorporated Supplemental Executive Retirement Plan, amended March 1, 2005, incorporated by reference to Exhibit 10.09 to Alliance One International, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2006, filed June 23, |

2006.*

- 10.10 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, filed September 28, 1999 (Commission File No. 001-13684).*
- 10.11 DIMON Incorporated's Compensation Deferral Plan, incorporated by reference to Exhibit 10.15 to DIMON Incorporated's Annual Report on Form 10-K for the year ended June 30, 2003, filed August 28, 2003.*
- 10.12 DIMON Incorporated 2003 Stock Incentive Plan, incorporated by reference to Exhibit 10.14 of DIMON's Annual Report on Form 10-K for the year ended March 31, 2004, filed June 10, 2004.*
- 10.13 Credit Agreement, dated as of May 13, 2005, among Alliance One International, Inc., as borrower, Intabex Netherlands, B.V., as the Dutch borrower, the material domestic subsidiaries of the borrowers, as domestic guarantors, DIMON International AG, as foreign guarantor, Wachovia Bank, National Association, as administrative agent, ING Bank N.V. London Branch, as Syndication agent and certain banks forming the bank syndicate, incorporated by reference to Exhibit 10.1 of Alliance One's Current Report on Form 8-K, filed May 19, 2005.
- 10.14 Registration Rights Agreement, dated May 13, 2005, among DIMON Incorporated, Wachovia Capital Markets LLC, Deutsche Bank Securities Inc. and ING Bank NV, London Branch, incorporated by reference to Exhibit 10.2 of Alliance One's Current Report on Form 8-K, filed May 19, 2005.
- 10.15 Purchase Agreement between Alliance One International, Inc., formerly known as DIMON Incorporated, and Wachovia Capital Markets, LLC, Deutsche Bank Securities Inc. and ING Bank N.V., London Branch, dated May 10, 2005, incorporated by reference to Exhibit 10.1 of Alliance One's Current Report on Form 8-K, filed May 16, 2005.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES (Continued)

(b) Exhibits (Continued)

- | | |
|-------|--|
| 10.16 | First Amendment to Credit Agreement dated as of October 28, 2005, by and among Alliance One International, Inc., Intabex Netherlands B.V., DIMON International AG, the several banks and other financial institutions from time to time party (the Lenders) and Wachovia Bank, National Association, as administrative agent for the Lenders, incorporated by reference to Exhibit 10.1 of Alliance One s Current Report on Form 8-K, filed October 31, 2005. |
| 10.17 | Second Amendment to Credit Agreement, dated as of November 30, 2005, by and among Alliance One International, Inc., Intabex Netherlands B.V., DIMON International AG, the several banks and other financial institutions from time to time party, and Wachovia Bank, National Association, as administrative agent for the Lenders, incorporated by reference to Exhibit 10.1 of Alliance One s Current Report on Form 8-K, filed December 1, 2005. |
| 10.18 | Amendment to DIMON Incorporated Compensation Deferral Plan, dated December 30, 2005, incorporated by reference to Exhibit 10.1 of Alliance One s Current Report on Form 8-K, filed January 5, 2006.* |
| 10.19 | Amendment to Standard Commercial Corporation Supplemental Retirement Plan, dated December 30, 2005, incorporated by reference to Exhibit 10.2 of Alliance One s Current Report on Form 8-K, filed January 5, 2006.* |

- 10.20 Standard Commercial Corporation Supplemental Retirement Plan, dated March 27, 1990, as amended, incorporated by reference to Exhibit 10.3 of Alliance One's Current Report on Form 8-K, filed January 5, 2006.*
- 10.21 Third Amendment To Credit Agreement, dated as of November 8, 2006, by and among Alliance One International, Inc., Intabex Netherlands B.V., Alliance One International AG, the several banks and other financial institutions from time to time party hereto (the Lenders) and Wachovia Bank, National Association, as administrative agent for the Lenders, incorporated by reference to Exhibit 10.1 of Alliance One's Quarterly Report on Form 10-Q for the quarterly period ending September 30, 2006, filed November 9, 2006.
- 10.22 Fourth Amendment To Credit Agreement, dated as of January 16, 2007, by and among Alliance One International, Inc., Intabex Netherlands B.V., Alliance One International AG, the several banks and other financial institutions from time to time party hereto, and Wachovia Bank, National Association, as administrative agent for the Lenders, incorporated by reference to Exhibit 10.1 of Alliance One's Current Report on Form 8-K, filed January 17, 2007.
- 10.23 Fifth Amendment To Credit Agreement, dated as of February 23, 2007, by and among Alliance One International, Inc., Intabex Netherlands B.V., Alliance One International AG, the several banks and other financial institutions from time to time party hereto, and Wachovia Bank, National Association, as administrative agent for the Lenders, incorporated by reference to Exhibit 10.1 of Alliance One's Current Report on Form 8-K, filed February 23, 2007.
- 10.24 Purchase Agreement, dated March 2, 2007, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed March 8, 2007.
- 10.25 Registration Rights Agreement, dated March 7, 2007, incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed March 8, 2007.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES (Continued)

(b) Exhibits (Continued)

- | | |
|--------------|--|
| 10.26 | Amended and Restated Credit Agreement, dated March 30, 2007 by and among Alliance One International, Inc. and Intabex Netherlands B.V., as Borrowers, Alliance One International AG, as a Guarantor, the Lenders from time to time parties thereto, Wachovia Bank, National Association, as Administrative Agent, Deutsche Bank Securities Inc., as Syndication Agent, and ING Bank N.V., London Branch, Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. Rabobank Nederland, New York Branch and Societe Generale, as Documentation Agents, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed April 5, 2007. |
| 10.27 | DIMON Incorporated Supplemental Executive Retirement Plan, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed April 5, 2007. |
| 10.28 | Alliance One International, Inc. Pension Equity Plan, incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed April 5, 2007. |
| 10.29 | Alliance One International, Inc. Supplemental Retirement Account Plan, incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K, filed April 5, 2007. |
| <u>10.30</u> | Waiver and Consent, dated June 20, 2007, by and among Intabex Netherlands B.V. as Borrowers, Alliance One International AG, as a Guarantor, and Wachovia Bank, National Association, as Administrative Agent for the |

| | |
|--------------|--|
| | Lenders (filed herewith). |
| <u>12</u> | Ratio of Earnings to Fixed Charges (filed herewith). |
| <u>21</u> | List of Subsidiaries (filed herewith). |
| <u>23.1</u> | Consent of Deloitte & Touche LLP (filed herewith). |
| <u>23.2</u> | Consent of Ernst & Young LLP (filed herewith). |
| <u>31.01</u> | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| <u>31.02</u> | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| <u>32</u> | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith). |

* Indicates management contract or compensatory plan or arrangement.

(c) Financial Statement Schedules:

Schedule II, Valuation and Qualifying Accounts, appears on the following pages. The consolidated financial statement schedules listed in Item 15(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.

SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS
ALLIANCE ONE INTERNATIONAL, INC. AND SUBSIDIARIES

| COL. A | COL. B | COL. C | | COL. D | COL. E |
|---------------------------------|--------------------------------------|-------------------------------------|---|-------------------------|--------------------------------|
| DESCRIPTION | | ADDITIONS | | | |
| | | (1) | (2) | | |
| | Balance at Beginning of Period | Charged to Costs and Expenses | Charged to Other Accounts -Describe | Deductions -Describe | Balance at End of Period |
| Year ended March 31, 2005 | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | \$2,290,636 | \$105,280 | \$ - | \$ 681,184 (A) | \$1,714,732 |
| Total | \$2,290,636 | \$105,280 | \$ - | \$ 681,184 | \$1,714,732 |
| Year ended March 31, 2006 | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | \$1,714,732 | \$414,680 | \$2,371,171 (B) | \$ 548,019 (A) | \$3,952,564 |
| Total | \$1,714,732 | \$414,680 | \$2,371,171 | \$ 548,019 | \$3,952,564 |
| Year ended March 31, 2007 | | | | | |
| Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | \$3,952,564 | \$1,325,472 | \$ - | \$1,885,922 (A) | \$3,392,114 |
| Total | \$3,952,564 | \$1,325,472 | \$ - | \$1,885,922 | \$3,392,114 |

(A) Currency translation and direct write off.

(B) Reserves related to pre-acquisition Standard Commercial Corporation accounts receivable.

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 June 21, 2007.

ALLIANCE ONE INTERNATIONAL, INC. (Registrant)

/s/ Robert E. Harrison

By _____

Robert E. Harrison

President 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 June 21, 2007.

/s/ Robert E. Harrison

By _____

Robert E. Harrison

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Gilbert L. Klemann, II

By _____

Gilbert L. Klemann, II

Director

/s/ James A. Cooley

By _____

James A. Cooley

Executive Vice President-Chief Financial Officer

/s/ Joseph L. Lanier, Jr.

By _____

Joseph L. Lanier, Jr.

Director

(Principal Financial Officer)

/s/ Thomas G. Reynolds

/s/ Albert C. Monk III

By _____ By _____

Thomas G. Reynolds

Albert C. Monk III

Vice President-Controller

Director

(Principal Accounting Officer)

/s/ Brian J. Harker

/s/ B. Clyde Preslar

By _____ By _____

Brian J. Harker

B. Clyde Preslar

Chairman and Director

Director

/s/ C. Richard Green, Jr.

/s/ Norman A. Scher

By _____ By _____

C. Richard Green, Jr.

Norman A. Scher

Director

Director

/s/ John M. Hines

/s/ William S. Sheridan

By _____ By _____

John M. Hines

William S. Sheridan

Director

Director

/s/ Nigel G. Howard

/s/ Martin R. Wade III

By _____ By _____

Nigel G. Howard

Martin R. Wade III

Director

Director

/s/ Mark W. Kehaya

By _____

Mark W. Kehaya

Director

EXHIBIT INDEX

Exhibits

- | | |
|------|---|
| 3.01 | Amended and Restated Articles of Incorporation of Alliance One International, Inc., incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed May 19, 2005. |
| 3.02 | Amended and Restated Bylaws of Alliance One International, Inc., incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K, filed May 19, 2005. |
| 4.01 | Specimen of Common Stock certificate incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-8, filed June 3, 2005. |
| 4.02 | Indenture, dated October 30, 2001, between DIMON Incorporated as issuer, and SunTrust Bank as trustee, related to 9 5/8% Senior Notes due 2011, incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, filed November 6, 2001. |
| 4.03 | First Supplemental Indenture, dated as of November 1, 2004, between DIMON Incorporated as issuer and SunTrust Bank as trustee, related to 9 5/8% Senior Notes due 2011, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed November 13, 2004. |
| 4.04 | Second Supplemental Indenture, dated March 22, 2005, between DIMON Incorporated as issuer and SunTrust Bank as trustee, related to 9 5/8% Senior Notes due 2011, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, |

filed May 16, 2005.

- 4.05 Indenture, dated May 30, 2003, between DIMON Incorporated as issuer and SunTrust Bank as trustee, related to 7 3/4% Senior Notes due 2013, incorporated by reference to Exhibit 4.7 of the Annual Report on Form 10-K for the year ended June 30, 2003, filed August 28, 2003.
- 4.06 First Supplemental Indenture, dated as of November 1, 2004, between DIMON Incorporated as issuer and SunTrust Bank as trustee, related to 7 3/4% Senior Notes due 2013, incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, filed November 13, 2004.
- 4.07 Second Supplemental Indenture, dated March 22, 2005, between DIMON Incorporated as issuer and SunTrust Bank as trustee, related to 7 3/4% Senior Notes due 2013, incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, filed May 16, 2005.
- 4.08 Indenture, dated as of April 1, 1997, between DIMON Incorporated and LaSalle National Bank, relating to 6 1/4% Convertible Subordinated Debentures due March 31, 2007, incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed April 16, 1997 (Commission File No. 001-13684).
- 4.09 Indenture dated April 2, 2004, among Standard Commercial Corporation, Standard Commercial Tobacco Corp., Inc. and SunTrust Bank, as trustee, related to 9% Senior Notes due 2012, Series B, incorporated by reference to Exhibit 4.11 of Standard's Annual Report on Form 10-K for the year ended March 31, 2004, filed June 14, 2004.

EXHIBIT INDEX

Exhibits

(Continued)

- 4.10 Supplemental Indenture, dated March 22, 2005, among Standard Commercial Corporation, Standard Commercial Tobacco Corp., Inc. and SunTrust Bank, as trustee, related to 9% Senior Notes due 2012, Series B, incorporated by reference to Exhibit 4.3 of Alliance One's Current Report on Form 8-K, filed May 16, 2005.
- 4.11 Indenture, dated May 13, 2005, between Alliance One International, Inc., Law Debenture Trust Company of New York, as trustee and Deutsche Bank Trust Company Americas, as registrar and paying agent, relating to 12 ¾% Senior Subordinated Notes due 2012, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed May 19, 2005.
- 4.12 Indenture, dated May 13, 2005, between Alliance One International, Inc., Law Debenture Trust Company of New York, as trustee and Deutsche Bank Trust Company Americas, as registrar and paying agent, relating to 11.0% Senior Notes due 2012, incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, filed May 19, 2005.
- 4.13 Indenture, dated March 7, 2007, between Alliance One International, Inc., Law Debenture Trust Company of New York, as trustee and Deutsche Bank Trust Company Americas, as registrar and paying agent, relating to 8 1/2% Senior Notes due 2012, incorporated by

reference to Exhibit 4.1 to the Current Report on Form 8-K, filed March 8, 2007.

- 10.01 Alliance One International, Inc. Pension Equity Plan, as amended May 24, 2006, incorporated by reference to Exhibit 10.01 to Alliance One International, Inc. s Annual Report on Form 10-K for the year ended March 31, 2006, filed June 23, 2006.*
- 10.02 Standard Commercial Corporation Performance Improvement Compensation Plan, incorporated by reference to Exhibit 99.1 to Alliance One International, Inc. s Registration Statement on Form S-8, filed June 3, 2005.*
- 10.03 Standard Commercial Corporation 2001 Performance Improvement Compensation Plan, incorporated by reference to Appendix B to Standard Commercial Corporation s definitive proxy statement filed July 16, 2001.*
- 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, filed September 28, 1999 (Commission File No. 001-13684).*
- 10.05 Employment Agreement, dated November 7, 2004, between DIMON Incorporated and Brian J. Harker, incorporated by reference to Exhibit 10.1 to DIMON Incorporated s Current Report on Form 8-K, filed November 8, 2004.*
- 10.06 Employment Agreement, dated November 7, 2004, between DIMON Incorporated and Robert E. Harrison, incorporated by reference to Exhibit 10.2 to DIMON Incorporated s Current Report on Form 8-K, filed November 8, 2004.*

EXHIBIT INDEX

Exhibits

(Continued)

- 10.07 Employment Agreement, dated as of January 13, 1995, effective as of November 1, 1994, between Dibrell Brothers, Incorporated and H.P. Green, III, incorporated by reference to Exhibit 10.5 to Dibrell Brothers, Incorporated's Form 10-Q for the quarter ended December 31, 1994, filed February 13, 1995 (Commission File No. 000-2912).*
- 10.08 Amendment to Employment Agreement, dated August 29, 1995, between DIMON Incorporated and H.P. Green, III, incorporated by reference to Exhibit 10.15 of DIMON Incorporated's Annual Report on Form 10-K for the year ended March 31, 2004, filed June 10, 2004.*
- 10.09 DIMON Incorporated Supplemental Executive Retirement Plan, amended March 1, 2005, incorporated by reference to Exhibit 10.09 to Alliance One International, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2006, filed June 23, 2006.*
- 10.10 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, filed September 28, 1999 (Commission File No. 001-13684).*

- 10.11 DIMON Incorporated's Compensation Deferral Plan, incorporated by reference to Exhibit 10.15 to DIMON Incorporated's Annual Report on Form 10-K for the year ended June 30, 2003, filed August 28, 2003.*
- 10.12 DIMON Incorporated 2003 Stock Incentive Plan, incorporated by reference to Exhibit 10.14 of DIMON's Annual Report on Form 10-K for the year ended March 31, 2004, filed June 10, 2004.*
- 10.13 Credit Agreement, dated as of May 13, 2005, among Alliance One International, Inc., as borrower, Intabex Netherlands, B.V., as the Dutch borrower, the material domestic subsidiaries of the borrowers, as domestic guarantors, DIMON International AG, as foreign guarantor, Wachovia Bank, National Association, as administrative agent, ING Bank N.V. London Branch, as Syndication agent and certain banks forming the bank syndicate, incorporated by reference to Exhibit 10.1 of Alliance One's Current Report on Form 8-K, filed May 19, 2005.
- 10.14 Registration Rights Agreement, dated May 13, 2005, among DIMON Incorporated, Wachovia Capital Markets LLC, Deutsche Bank Securities Inc. and ING Bank NV, London Branch, incorporated by reference to Exhibit 10.2 of Alliance One's Current Report on Form 8-K, filed May 19, 2005.
- 10.15 Purchase Agreement between Alliance One International, Inc., formerly known as DIMON Incorporated, and Wachovia Capital Markets, LLC, Deutsche Bank Securities Inc. and ING Bank N.V., London Branch, dated May 10, 2005, incorporated by reference to Exhibit 10.1 of Alliance One's Current Report on Form 8-K, filed May 16, 2005.

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Exhibits

(Continued)

- 10.16 First Amendment to Credit Agreement dated as of October 28, 2005, by and among Alliance One International, Inc., Intabex Netherlands B.V., DIMON International AG, the several banks and other financial institutions from time to time party (the Lenders) and Wachovia Bank, National Association, as administrative agent for the Lenders, incorporated by reference to Exhibit 10.1 of Alliance One s Current Report on Form 8-K, filed October 31, 2005.
- 10.17 Second Amendment to Credit Agreement, dated as of November 30, 2005, by and among Alliance One International, Inc., Intabex Netherlands B.V., DIMON International AG, the several banks and other financial institutions from time to time party, and Wachovia Bank, National Association, as administrative agent for the Lenders, incorporated by reference to Exhibit 10.1 of Alliance One s Current Report on Form 8-K, filed December 1, 2005.
- 10.18 Amendment to DIMON Incorporated Compensation Deferral Plan, dated December 30, 2005, incorporated by reference to Exhibit 10.1 of Alliance One s Current Report on Form 8-K, filed January 5, 2006.*
- 10.19 Amendment to Standard Commercial Corporation Supplemental Retirement Plan, dated December 30, 2005, incorporated by reference to Exhibit 10.2 of Alliance One s Current Report on Form 8-K, filed January 5, 2006.*

- 10.20 Standard Commercial Corporation Supplemental Retirement Plan, dated March 27, 1990, as amended, incorporated by reference to Exhibit 10.3 of Alliance One's Current Report on Form 8-K, filed January 5, 2006.*
- 10.21 Third Amendment To Credit Agreement, dated as of November 8, 2006, by and among Alliance One International, Inc., Intabex Netherlands B.V., Alliance One International AG, the several banks and other financial institutions from time to time party hereto (the Lenders) and Wachovia Bank, National Association, as administrative agent for the Lenders, incorporated by reference to Exhibit 10.1 of Alliance One's Quarterly Report on Form 10-Q for the quarterly period ending September 30, 2006, filed November 9, 2006.
- 10.22 Fourth Amendment To Credit Agreement, dated as of January 16, 2007, by and among Alliance One International, Inc., Intabex Netherlands B.V., Alliance One International AG, the several banks and other financial institutions from time to time party hereto, and Wachovia Bank, National Association, as administrative agent for the Lenders, incorporated by reference to Exhibit 10.1 of Alliance One's Current Report on Form 8-K, filed January 17, 2007.
- 10.23 Fifth Amendment To Credit Agreement, dated as of February 23, 2007, by and among Alliance One International, Inc., Intabex Netherlands B.V., Alliance One International AG, the several banks and other financial institutions from time to time party hereto, and Wachovia Bank, National Association, as administrative agent for the Lenders, incorporated by reference to Exhibit 10.1 of Alliance One's Current Report on Form 8-K, filed February 23, 2007.
- 10.24 Purchase Agreement, dated March 2, 2007, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed March 8, 2007.

EXHIBIT INDEX

Exhibits

(Continued)

- 10.25 Registration Rights Agreement, dated March 7, 2007, incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed March 8, 2007.
- 10.26 Amended and Restated Credit Agreement, dated March 30, 2007 by and among Alliance One International, Inc. and Intabex Netherlands B.V., as Borrowers, Alliance One International AG, as a Guarantor, the Lenders from time to time parties thereto, Wachovia Bank, National Association, as Administrative Agent, Deutsche Bank Securities Inc., as Syndication Agent, and ING Bank N.V., London Branch, Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. Rabobank Nederland, New York Branch and Societe Generale, as Documentation Agents, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed April 5, 2007.
- 10.27 DIMON Incorporated Supplemental Executive Retirement Plan, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed April 5, 2007.
- 10.28 Alliance One International, Inc. Pension Equity Plan, incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed April 5, 2007.
- 10.29 Alliance One International, Inc. Supplemental Retirement Account Plan, incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K, filed April 5, 2007.

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| <u>10.30</u> | Waiver and Consent, dated June 20, 2007, by and among Intabex Netherlands B.V. as Borrowers, Alliance One International AG, as a Guarantor, and Wachovia Bank, National Association, as Administrative Agent for the Lenders (filed herewith). |
| <u>12</u> | Ratio of Earnings to Fixed Charges (filed herewith). |
| <u>21</u> | List of Subsidiaries (filed herewith). |
| <u>23.1</u> | Consent of Deloitte & Touche LLP (filed herewith). |
| <u>23.2</u> | Consent of Ernst & Young LLP (filed herewith). |
| <u>31.01</u> | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| <u>31.02</u> | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| <u>32</u> | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith). |

* Indicates management contract or compensatory plan or arrangement.