UPPER GANGES SUGAR & INDUSTRIES LTD.

MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT

[for the quarter ended 31st December, 2006]

1. The season of 2006-2007 is witnessing a complete change in the sugar scenario world over. In contrast to earlier expectations that in the season 2005-06 the demand and supply shall be balanced, the previous October/September crop circle is now seen as a distinctively surplus year. The expected world production for the season 2006-07 is now estimated at a record 158.03 million tonnes raw value (mtrv). This makes the world production 5.81 million tonnes higher than the world consumption.

2. The sharp increase in world market sugar prices at the end of 2005 and first half of 2006 has encouraged strong production resulting in 3.82% increase in the expected production for the year 2006-07 over the previous year's level. This anticipated improved in world production has resulted in high volatility in sugar prices globally. Softening of sugar prices has already started with prices falling from $415 to around $335.

3.

World Sugar Balance
(mln tonnes, raw value)

	2006-07	2005-06	Change in min t in %	
Production	158.300	152.472	5.828	3.82
Consumptions	152.492	149.760	2.732	1.82
Surplus/Deficit	5.808	2.712		
Import demand	44.914	46.678	-1.764	-3.78
Export availability	47.685	46.659	1.026	2.20
End Stocks	62.915	59.878	3.037	5.07
Stocks/Consumption ratio in %	41.26	39.98		

4. **Indian Sugar Scenario**

Indian sugar production has made a strong comeback with estimates of around 23.5 million tonnes for the season 2006-07. With consumption pegged at 19.5 million tonnes and an inexplicable export ban, domestic prices of sugar have been on a free fall since the first quarter of the sugar season 2006-2007. Sugarcane prices, on the other hand, have risen significantly by 8.7% in Uttar Pradesh and around 7% in Bihar putting pressure on margins. In December the Government has relaxed the export ban which has had a positive impact on the trade sentiment and the fall in prices was arrested. Sugar prices have bottomed out and prices are expected to climb to more reasonable levels by the start of the summer months.

5.

Indian Sugar Balance

		(Lakh Tonnes)
	For the season 2005-06 October, 2005 to Sept. 2006	For the season 2006-07 October, 2006 to Sept. 2007
Opening Stock as on 1st October	48.25	44.62
Production During the Season	192.67	235.00
Imports	0.00	0.000
Total availability	240.92	279.62
Domestic Consumption	185.00	195.00
Exports	11.30	15.00
Closing Stock	44.62	69.62

6. **Operations**

Crushing of sugarcane by the Company during the 2006-07 has commenced during the first half of November, 2006. The comparative figures of canes crushed and sugar produced by three units of the Company are given below:

Crushing & Production (lacs qtls.)

	Season 2005-06								Season 2006-07			
	Total Season				Up to 31.12.2005				Up to 31.12.2006			
	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total
1. Total cane crushed	139.67	34.25	12.68	186.6	134.57	61.61		70.78	51.56	10.62		62.18
2. Average recovery	9.57%	9.31%	9.40%		9.52%	8.81			9.70%	8.87		
3. Sugar production	13.35	3.19	1.18	17.72	12.72	5.35		6.14	4.83	0.89		5.72
4. Crushing started	26.10.05	21.11.05	28.11.05						11.11.06	10.11.06	04.11.06	
5. Crushing stopped	12.04.06	05.04.06	12.02.06									

7. **Ethanol**

The ethanol programme has finally restarted in India with the oil industry inviting tenders to blend 5% with effect from November 2006. This is likely to be increased to 10% by June 2007. The total requirement is estimated at 580 million litres for 5% blending and 1.1 billion litres for 10% blending. The oil industry has started lifting ethanol at a basic price of Rs 21.50/litre.

8. **Growth Initiatives**

The Company has undertaken expansion programme at its centres of production with emphasis on co-products such as ethanol and co-generation of power.

The expansion program of Seohara Distillery from 55 KLPD to 100 KLPD along with a co-generation power plant of 24 MW at a capital outlay of Rs. 136.50 crores is progressing as per schedule. The expansion of crushing capacity at Sidhwalia from 2,500 TCD to 5,000 TCD with a co-generation power plant of 18 mw capacity at Rs. 137.67 crores and the increase of crushing capacity at Hasanpur from 1,750 TCD to 5,000 TCD at Rs. 130.00 crores are progressing as per schedule.