

UPPER GANGES SUGAR & INDUSTRIES LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

[For the quarter ended 31st March, 2009]

The management of Upper Ganges Sugar & Industries Limited is pleased to present its assessment of the prevailing industrial scenario for the quarter ending 31st March, 2009.

1. World Sugar Market

World market prices have shown a slow but steady improvement on the back of strong sugar market fundamentals. In its third assessment of world sugar market for the season 2008-2009 International Sugar Organization (ISO) has presented a general picture of the global supply/demand gap. World sugar production is put at 161.527 million tonnes and global consumption is estimated to grow at the rate of 2.19% per annum to reach a level of 165.801 million tonnes raw value thus leaving a shortfall in supply of 4.27 million tonnes as against a shortfall of 3.626 million tonnes projected in November, 2008.

A summary of the second revision for the world sugar balance in 2008-2009 is provided in the table below.

World Sugar Balance (million tonnes, raw value)

| | 2008/2009 | 2007/2008 | Change | |
|--------------------------------------|----------------|----------------|----------------|---------------|
| | | | In Mln ton | In % |
| Production | 161.527 | 168.611 | - 7.084 | - 4.20 |
| Consumption | 165.801 | 162.241 | 3.560 | 2.19 |
| Surplus/Deficit | - 4.27 | 6.370 | | - |
| Import demand | 49.621 | 45.948 | 3.673 | 7.99 |
| Export Availability | 49.608 | 46.245 | 3.363 | 7.27 |
| End Stocks | 66.272 | 70.533 | -4.261 | - |
| Stocks/Consumption ratio in % | 39.97 | 43.47 | | 6.04 |

A Significant production shortfall in India and a further contraction of production in the EU, on the one hand, and a continuing expansion of sugar output in Brazil, on the other hand, are three major supply features of 2008-2009. The combined effect of output reduction in the EU and India is expected to shave off a massive 7.084 million tonnes from world sugar supply, despite record high growth in sugar output in Brazil.

2. Indian Sugar Industry

After a drop in sugar output in 2007-2008, a further reduction in production in India is anticipated in 2008-2009, as reported in previous quarter. The country's anticipated output of sugar for the current season is around 15 million tonnes or 42% below the output achieved in the previous year 2007-2008 at 26.3 million tonnes. This is in view of significant 12% decrease in cane areas. Uttar Pradesh, the second largest sugar producing state, reportedly produced 3.1 million tonnes of sugar in the first four months of the current season (October – January) which is 13% less than a year ago. The consumption demand for the current year is assessed at the level of 22.10 million tonnes slightly lower than the consumption for the previous year.

According to data collected by the India sugar Mills Association (ISMA), sugarcane output only is set to decline by nearly 15% to 290 million tonnes from 340 million tonnes harvested in the previous season.

The Government of India, Directorate of Sugar has released 17.91 lakh tonnes of sugar for the month of February, 2009 from out of normal quota to be sold as levy sugar.

3. Prices

The Centre is said to be considering a Statutory Minimum Price (SMP) in the region of Rs. 100 to Rs.115 a quintal for sugarcane to be crushed during the 2009-10 season (October – September) on the basis of the recommendation of the Food Ministry. This is as against the recommendation of Rs 125/- per quintal by the Commission for Agricultural Costs & Prices (CACP) and is substantially higher than the SMP of Rs. 81.18 per quintal for the current season of 2008-09 and Rs. 80.25 per quintal for the immediately preceding season of 2008-09.

4. Exports / Imports

Despite a decrease in world sugar output, Brazil is expected to retain its position of highest exporter of sugar and world export availability is expected to rise due to the projected growth in output in exporting countries. The ISO puts world export availability for the season 2008-2009 at 49.608 million tonnes, raw value, as against 46.245 million tonnes in the previous season.

Contrary to its position as the 3rd largest exporter of sugar in the previous season only after Brazil and Thailand, India is expected to be the importer of sugar to the extent of 2.5 million tones. The Union Government has reimposed the release order mechanism for sugar exports. The government will now strictly fix the quantum of sugar that each mill can export, similar to controls placed on domestic production each month. The move to restrict exports under the open general license comes in the wake of apprehensions of low sugar production in the 2008-2009 sugar year.

The government would allow duty free import of raw sugar for sale to local customers, without the obligation to export similar quantity within two years.

Indian Sugar Equation

| All figures (lac tonnes) | | | |
|--------------------------|--|------------------------------------|---------------------------------|
| | | Estimates for the season 2008-2009 | Actual for the season 2007-2008 |
| 1. | Opening Stock as on 1 st October | 80.00 | 92.00 |
| 2. | Production | 150.00 | 262.56 |
| 3. | Imports | 25.00 | 0.00 |
| 4. | Total Availability | 255.00 | 354.56 |
| 5. | Domestic Consumption | 210.00 | 225.00 |
| 6. | Exports | 0.00 | 49.56 |
| 7. | Closing Stock as on 30 th September | 45.00 | 80.00 |

5. Operations

The comparative figures of cane crushed and sugar produced by three units of the Company are given below:

Crushing & Production (lac qtls)

| | Season 2007-08 | | | | Season 2008-09 | | | | |
|----|--------------------------|-----------|----------|-------|----------------|-----------|----------|----------|--------|
| | Total Season | | | | Total Season | | | | |
| | Seohara | Sidhwalia | Hasanpur | Total | Seohara | Sidhwalia | Hasanpur | Total | |
| 1. | Total cane crushed | 140.60 | 23.93 | -- | 164.53 | 89.18 | 16.34 | 10.78 | 116.30 |
| 2. | Average recovery % | 10.26 | 8.73 | -- | -- | 9.88 | 8.51 | 8.25 | -- |
| 3. | Raw sugar (re-processed) | -- | -- | -- | -- | 1.12 | -- | -- | 1.12 |
| 4. | Sugar production | 14.44 | 2.04 | -- | 16.48 | 9.85 | 1.36 | 83.59 | 94.80 |
| 5. | Crushing started | 26.11.07 | 08.01.08 | -- | -- | 20.11.08 | 7.12.08 | 23.12.08 | |
| 6. | Crushing stopped | 14.04.08 | 22.03.08 | -- | -- | 21.03.09 | 10.02.09 | 28.02.09 | |

6. Ethanol / Industrial Alcohol

Global fuel ethanol production and consumption is forecasted to halve in 2009.

A shortfall in production has thrown out of gear the Government's plans to blend Ethanol with petrol. The Government had made it mandatory to blend 5% ethanol with petrol 16 months ago. But the plan did not materialize and the target of the Government to successively raise this limit to 10% by the end of October, 2008 has been missed primarily due to operation of sugar mills, which produce ethanol as a by-product, at a very low level.

7. The production of industrial alcohol including Ethanol by the company's Seohara unit during the quarter is as follows:

Production (lac litres)

| Sl. No. | Particulars | Season 2007-08 From 01.01.08 to 31.03.08 | Season 2008-09 From 01.01.09 to 31.03.09 |
|---------|--------------------|--|--|
| 1 | Average recovery % | 23.71 | 23.79 |
| 2 | Alcohol production | 89.66 | 40.58 |

8. Co-Generation

The Company has co-generation power plants at Seohara and Sidhwalia. The export of power to State Grid by the company during the quarter is as follows:

Production (Units)

| | Season 2007-08 | | | | | | Season 2008-09 | | |
|----------------|------------------------------|-----------|----------|---------------------------------|-----------|----------|--------------------------------|-----------|----------|
| | Up to 31.03.08 (3 months) | | | Up to 30.06.2008 (12 months) | | | Up to 31.03.2009 (3 months) | | |
| | Seohara | Sidhwalia | Total | Seohara | Sidhwalia | Total | Seohara | Sidhwalia | Total |
| Power Exported | 28179600 | --- | 28179600 | 90728000 | --- | 90728000 | 19102880 | 4083054 | 23185934 |

Presently, sugar mills in UP can sell the power produced from bagasse to the State Grid only. There is no development regarding UP sugar industry's request to Uttar Pradesh Electricity Regulatory Commission to permit them to sell cogenerated power in the open market to private traders and users.

9. Cautionary Statement

The statements in the Management Report detailing the Company's objectives, projections, estimates, expectations or predictions may be forward looking statements within the meaning of applicable securities laws and regulations. As these statements are based on certain assumptions and expectations of future events, actual results could differ materially from those expressed or implied. The Company assumes no responsibility in respect of such forward looking statements which may be revised or modified in the future on the basis of subsequent developments, information or events.