UPPER GANGES SUGAR & INDUSTRIES LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS REPORT
[For the quarter ended 30th September, 2008]

The management of Upper Ganges Sugar & Industries Limited is pleased to present its assessment of the prevailing industrial scenario for the quarter ending 30th September, 2008.

1. World Sugar Market

After two years of large surplus, the world sugar economy is facing a season with a significant gap between world consumption and production. In 2008-09, for the first time since 2004-05, world sugar production is expected to decrease to 161.649 million tonnes, raw value, a massive 7.353 million tonnes down from the last season. The first forecast of the world sugar balance for the period from October 2008 to September 2009 puts world production 3.898 million tonnes lower than world consumption. Thus, the distinctive surplus phase, characterized by a significant excess of global production over consumption as well as export availability considerably higher than import demand, has ended and the market is likely to move into a deficit phase.

A summary of the first assessment of the world sugar balance in 2008-09 is provided in the table below :

World Sugar Balance (million tonnes, raw value)

	2008- 09	2007-08	Change	
			In million tonnes	In %
Production	161.649	169.002	-7.353	-4.35
Consumption	165.547	161.752	3.795	2.35
Surplus/deficit	-3.898	7.250		
Import demand	46.702	45.506	1.196	2.63
Export availability	46.791	47.926	-1.135	-2.37
End stocks	65.230	69.217	-3.987	-5.76
Stock/consumption ratio (%)	39.40	42.79		

Source- ISO-August,2008

A significant production shortfall in India and a continuing contraction of production in the EU are two major supply features of 2008-09. The combined effect is a massive 7.4 million tonne reduction in world sugar output in 2008-

09. Global sugar consumption, on the other hand, will continue to rise. Similar to the previous season the market is expected to be shaped by developments in two sugar giants – Brazil and India. The level of shipments from India, which became a major supply power in the previous season, is of particular importance.

2. Indian Sugar Market

Production

After a drop in sugar output in 2007-08, a further reduction in production of sugar is anticipated in 2008-09. In 2007-08 season, the sugar output is likely to close at 26.50 million tonnes against 28.3 million tonnes in 2006-2007. India would end the 2007-08 season with a closing stock of 9.5 million tonnes. Maharashtra is likely to report an unprecedented fall in sugar production due to diversion of farmers from sugarcane to other crops and poor rainfall. Uttar Pradesh is forecast to witness a fall of about 15 percent in sugar output in the year ending, September, 2009. Unprecedented flood in Bihar, has caused considerable damage to the sugarcane crop.

3. Prices

The sugar sector witnessed a reversal of trend with prices improving. Sugar prices are expected to rise because of the sustained demand and lower anticipated production. However, to control rising sugar prices, the Government has decided to release 0.12 million tonnes of free sale sugar for September, 2008.

The Uttar Pradesh Government had fixed Rs 125 a quintal as the State-Advised-Price (SAP) for common variety sugarcane and Rs 130 for early variety canes for the 2007-08 season ending October, 2008. The industry had challenged this price in the Allahabad High Court who squashed the State Advised Price. The matter is now pending in the Supreme Court who on 8th September, 2008 directed the sugar mills of Uttar Pradesh to pay their arrears to cane growers at the interim price of Rs 110 per quintal for season 2007-08.

4. Exports / Imports

Rising domestic prices coupled with expectation of lower production may lead to a decline in India's sugar exports in the season 2008-09. The freight subsidy on sugar exports which the Government had been charging on the coastal states extending to Rs.1350 and Rs. 1450 on other states has been withdrawn with effect from 1st October, 2008. This move will affect all sugar exporters. Overseas sales might decline to around 1-1.5 million tonnes in the next season compared to 4 million tonnes in 2007-08 season. Further, in a bid to control spiraling sugar prices, the Government is contemplating a series of measures to curb exports and increase local availability. With India buying sugar from Brazil as the crop shrinks and the demand in world's top consumer rises, the Indian sugar industry is expected to turn in to a major importer of the sugar from October, 09.

Indian Sugar Equation

All Figures (lac tonnes)

		Estimates for the season 2007-08	**Actual for the season 2006-07**
1.	Opening Stock as on 1st October.	92.00	36.00
2.	Production	263.00	283.28
3.	Imports	-	-
4.	Total availability	355.00	319.28
5.	Domestic Consumption	225.00	210.00
6.	Exports	45.00	17.28
7.	Closing Stock as on 30th September	85.00	92.00

Source- ISMA-August, 2008

5. Decontrol

Owing to the increase in prices of sugar ahead of the festive season, the centre has deferred decontrol of sugar.

6. Operations

As the factories have been closed for the off season, there has been no production during this period. The operations at the company's various plants are for the season 2007-08 and 2006-07 are as follows :

	Crushing & Production (lac qtls)							
	Season 2007-08				Season 2006-07			
	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total
1. Total cane crushed	140.60	23.93	--	164.53	176.35	40.83	24.22	241.40
2. Average recovery %	10.26%	8.73%	--		9.93%	8.86%	8.69%	
3. Sugar production	14.44	2.04	--	16.48	17.48	3.62	2.10	23.20
4. Crushing started	26/11/07	08/01/08			11/11/06	10/11/06	04/11/06	
5. Crushing stopped	14/04/08	22/03/08			18/05/07	19/04/07	25/03/07	

7. Ethanol / Industrial Alcohol

Global fuel ethanol production and consumption is forecasted to rise by almost one-third in 2008 to around 65.7 bln litres. Not only are production and consumption forecast to expand substantially in the world's dominant players – the United States and Brazil by 38% and 22% respectively, but aggregate growth is considerable in the rest of the world up by 31%.

Fuel ethanol production in India this year is proving to be much less than originally anticipated and is presently thought likely to reach no more than 350 million litres. The Government is pushing to implement the deadline for implementing mandatory blending of 10 percent ethanol in petrol to next year. The ethanol that will be blended with petrol will be produced from molasses. The Government is also planning to bring bio-diesel and bio-ethanol under the ambit of 'declared goods'. This will help in unrestricted movement of the bio fuel within and outside the States.

8. The Company has a distillery at Seohara which produces Industrial Alcohol including Ethanol.

9. Co-Generation

Cogeneration in the sugar industry brings additional benefits. Cogeneration represents a good investment opportunity for sugar mills throughout India it increases their financial health and the health of the agricultural sector as a whole. It provides an alternative to the conventional utility power and reduces the overall emissions from the power sector. In order to be cost effective, the sugar industry has begun to diversify.

10. The Company has co-generation power plant at Seohara. The Export of power to State Grid by the company's Seohara Power Plant is 10000753 unit. It is expected that Sidhwalia Power Plant will be commissioned by the end of November, 2008.

11. Capital Projects

The Company invested Rs. 9878.17 lakhs in capital expenditure for projects expansion and modernisation, including co-generation and distillery modules across its three operating units.

12. Cautionary Statement

The statements in the Management Report detailing the Company's objectives, projections, estimates, expectations or predictions may be forward looking 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 forward looking statements that may be revised or modified in the future on the basis of subsequent developments, information or events.