UPPER GANGES SUGAR & INDUSTRIES LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS REPORT
[For the quarter ended 31st December, 2008]

The management of Upper Ganges Sugar & Industries Limited is pleased to present its assessment of the prevailing industrial scenario for the quarter ending 31st December, 2008.

1. World Sugar Market

In its second assessment of the world sugar balance for season 2008-2009, International Sugar Organization (ISO) has revised its forecast for the world sugar balance. World sugar production is estimated at 162.258 million tonnes raw value, a significant 6.389 million tonnes or 3.8 % lower from last season. World consumption is expected to reach 165.884 million tonnes, raw value, 2.35 % up from the previous season. Thus, global production is forecasted to be 3.626 mln tonnes lower than the world consumption. For the first time since 2004-05, the world sugar balance in 2008-09 reconfirms a fall in world production. After two years of record breaking crops and surpluses, the sugar market seems to have turned the table.

A summary of the 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	162.258	168.647	-6.389	-3.79
Consumption	165.884	162.073	3.811	2.35
Surplus/deficit	-3.626	6.574		
Import demand	47.766	45.811	1.955	4.27
Export availability	47.781	47.471	0.310	0.65
End stocks	65.660	69.301	-3.641	-5.25
Stock/consumption ratio (%)	39.58	42.76		

A significant production shortfall in India and a further contraction of production in the EU, on the one hand and continuing expansion of sugar output in Brazil, on the other hand, are the three major supply features of 2008-09. The

combined effect of reduction in sugar output by India and EU is expected to reduce 8.7 mln tonnes from the world sugar supply. Further, the Global current financial crisis has strongly affected the sugarcane industry in Brazil. It is struggling with rising production costs and volume of debt. This sudden thinning of financing for Brazilian cane processing has already generated considerable spill over effects that could slowdown the sector expansion in the future. Fewer than expected Greenfield projects may be implemented in 2009-10.

2. Indian Sugar Industry

After a drop in sugar output in 2007-08, India's sugar production is estimated to fall from 264 lac tonne in last season to an estimated 175 lac tonne in 2008-09 season that began in October 2008. The primary reason for this drop has been a reduction in sugarcane plantation due to the dispute of cane price between the State Governments and the sugar industry coupled with large cane arrears. Anticipating high sugar prices and delayed commencement of crushing, the sugar mills in Uttar Pradesh (UP) are experiencing large scale diversion of sugarcane to gur and khandsari units during the current season. This apart, sugar recovery from sugarcane is significantly lower in North India by 50 -100 basis points as compared with the previous season due to extraordinarily high rainfall in September that has hampered sucrose formation. This could prompt an even further downward revision in output from the country's premiers cane producing areas. Uttar Pradesh is forecast to witness a fall of about 30 percent in sugar output in the year ending, September, 2009. Unprecedented flood in Bihar has caused considerable damage to the sugarcane crop.

The Central Government has decided to make available 50 lac tonnes of non-levy (free sale) sugar for the quarter January-March 2009 as against 44 lac tonnes made available during the corresponding quarter January-March 2008 in an effort to control rising sugar prices.

The Government has also decided that any unsold/undespatched stocks out of normal quota during a month (January, 2009 – 15 lac tons, February, 2009 – 15 lac tons and March, 2009 – 16 lac tons) and 20% of the remaining 75% of dismantled second buffer stock (4 lac tons) which is required to be sold/despatched by the end of the January – March, 2009 quarter, shall be converted into levy sugar.

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 released 0.12 million tonnes of free sale sugar in November, 2008.

For the 2008-09 crushing season, the Centre has fixed SMP of Rs. 81.18 per quintal. The UP government has announced a SAP of Rs. 137.50 per quintal of cane for rejected variety, Rs. 140 for general variety (up from Rs. 125 from last year) and Rs. 145 for early variety.

4. Exports / Imports

In the previous season, India became the third largest sugar exporter after Brazil and Thailand. India replaced Brazil in supplying raw sugar to the world's largest sugar refinery in Dubai. Rising domestic prices coupled with expectation of lower production may lead to a decline in India's sugar exports in the season 2008-09. With effect from January 1, 2009, the Government started regulating exports by re-imposing the release order mechanism for exports. On the other side, it is expected that India will restart raw sugar imports.

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Indian Sugar Equation

All Figures (lac tones)

		Estimates for the season 2008-09	Actual for the season 2007-08
1.	Opening Stock as on 1st October.	80.72	92.00
2.	Production	175.00	263.28
3.	Imports	5.00	--
4.	Total availability	260.72	355.28
5.	Domestic Consumption	220.00	225.00
6.	Exports	5.00	49.56
7.	Closing Stock as on 30th September	35.72	80.72

5. Operations

Crushing of sugarcane by the Company during 2008-09 has commenced. 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				Up to 31.12. 07 (3 months)				Up to 31.12.08(3 months)			
	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total	Seohara	Sidhwalia	Hasanpur	Total
1. Total cane crushed	140.60	23.93	--	164.53	35.14	--	--	35.14	42.93	6.79	0.42	50.14
2. Average recovery %	10.26	8.73	--		9.81	--	--		9.68	8.20	7.50	
3. Sugar production	14.44	2.04	--	16.48	3.26	--	--	3.26	3.98	0.41	--	4.39
4. Crushing started	26.11.07	08.01.08	--	--	26.11.07	--	--	--	20.11.08	07.12.08	23.12.08	--
5. Crushing stopped	14.04.08	22.03.08	--	--	Continued	--	--	--	Continued	Continued	Continued	--

6. Ethanol / Industrial Alcohol

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

India has a great potential for production of bio fuel and Ethanol being one of the bio fuel is being blended with petrol. The blending programme at 5% is running successfully particularly in Northern India. U.P is the biggest supplier

of the ethanol and feeding almost all the state in North India, i.e Uttar Pradesh, Delhi, Haryana, Punjab, Rajasthan, Madhya Pradesh and Jharkhand. To continue the blending programme, the OMC has expressed its intention to extend the existing contract with the vendors for another two years. The Group of Minister's (GOM) has also approved nationwide E-10 mandate since October, 2008.

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

Production (lac litres)

Sl. No.		**Season 2007-08** Up to 31.12.07	**Season 2008-09** Up to 31.12.08
1	Average recovery %	22.44	22.90
2	Alcohol production	77.11	31.71

8. Co-Generation

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

Production (Units)

	Season 2007-08						**Season 2008-09**		
	Up to 31.12.07 (3 months)			**Up to 30.06.2008 (12 months)**			**Up to 31.12.2008 (3 months)**		
	Seohara	Sidh-walia	Total	Seohara	Sidh-walia	Total	Seohara	Sidhwalia	Total
Power Exported	27835440	---	27835440	90728000	---	90728000	**14006480**	**2557700**	**16564180**

Presently, sugar mills in UP can sell the power produced from bagasse to the State Grid only. The UP sugar industry has sought Uttar Pradesh Electricity Regulatory Commission's permission 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 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.