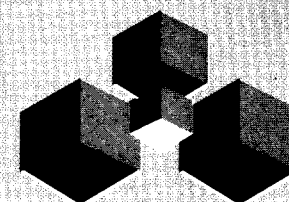
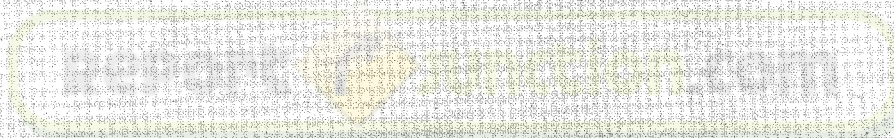




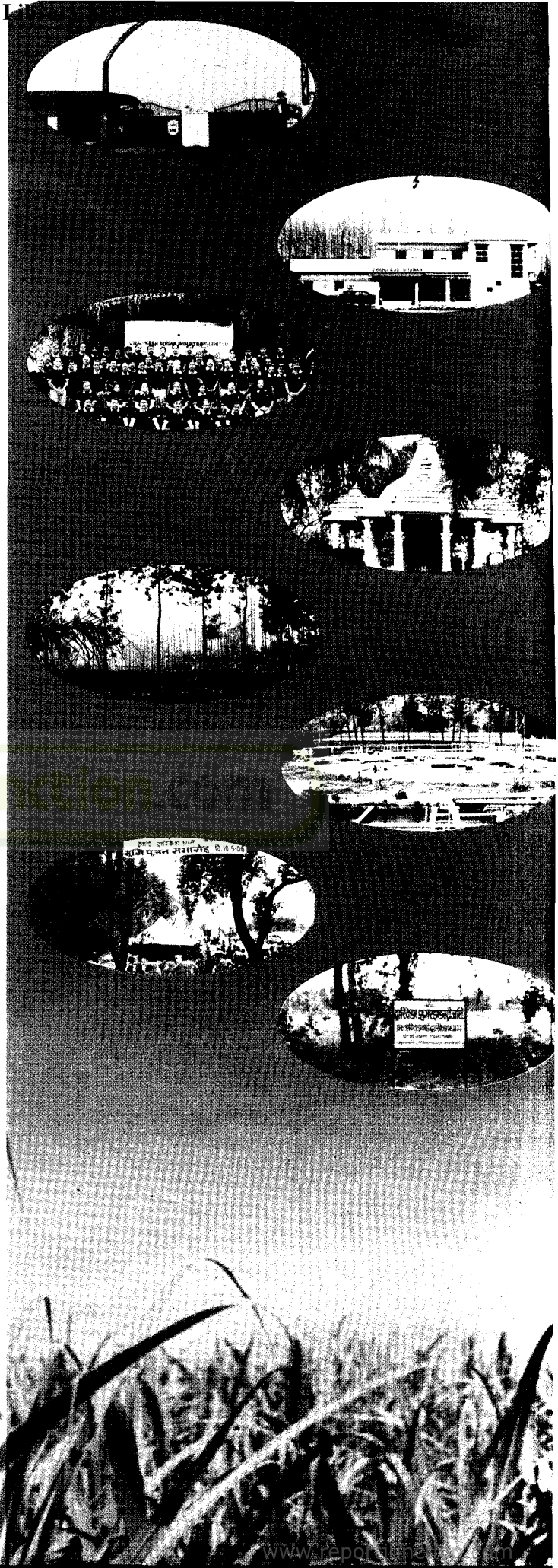
We will either find a way or make one



Dwarikesh Sugar Industries Limited
Annual Report 2005 - 2006

"In our endeavour to be the torch-bearers of the Indian sugar industry, we are specially committed to our farmers, workforce and shareholders. It is our endeavour to provide our farmers the agreed price in time and to provide a transparent system of sugar cane procurement. We also seek to provide a congenial atmosphere and work place for the employees of the company, who are our lifeline. Adherence to the best corporate governance practices and a deep-rooted commitment to excellence is our resolve. All this culminates in our permanent effort to enhance shareholder value and wealth through growth of the company."

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DIRECTORS

SK Neotia

MG Diwan

SS Vaidya

KP Medhekar

LN Heda

Milind J. Vichare IDBI Nominee Director

Balkumar Agarwal Appointed w.e.f. 14th October, 2005

GR Morarka Chairman & Managing Director.

REGISTERED OFFICE & FACTORY

Dwarikesh Nagar - 246 762

District: Bijnor

Uttar Pradesh

Other Units

Dwarikesh Puram

Tehsil Dhampur, Dist. Bijnor,

Uttar Pradesh

Dwarikesh Dham (Under Construction)

Tehsil Faridpur, Dist. Bareilly,

Uttar Pradesh

ASSTT. VICE PRESIDENT [TAXATION] & COMPANY SECRETARY

B J Maheshwari

CHIEF GENERAL MANAGER- CORPORATE AFFAIRS

J R Banka

CORPORATE OFFICE

511, Maker Chambers - V

221, Nariman Point

Mumbai - 400 021

GENERAL MANAGER - WORKS - DN UNIT

M N Agarwal

GENERAL MANAGER - WORKS - DP UNIT

RK Goel

SOLICITORS

Mulla & Mulla & Craigie Blunt & Caroe

Kanga & Co.

GENERAL MANAGER-CANE

Nagendra Singh Shekhawat

GENERAL MANAGER-COMMERCIAL

K P Gadia

BANKERS

Punjab National Bank

Abn Amro Bank NV

AUDITORS

SS Kothari Mehta & Co.

Chartered Accountants



DWARIKESH SUGAR INDUSTRIES LIMITED

BOARD OF DIRECTORS

Meet the Directors:

Gautam Morarka : Chairman & Managing Director

A commerce graduate and ICWA Inter, he is a dynamic entrepreneur with close to two decades of experience. The son of late Mr. Radheshyam Morarka who was an eminent parliamentarian for over two decades, Gautam Morarka started his career by overseeing the family run Pampasar Distillery Limited (PDL), which he subsequently divested in favour of Shaw Wallace. The proceeds were invested in setting up a sugar plant called Dwarikesh for 2500 TCD which was set up in record period of 14 months and there has been no looking back thereafter. He has successfully set up another plant of 7500 TCD with 9 MW cogeneration at Dwarikesh Puram in a record time of 10 months. He is recipient of Indira Gandhi Priyadarshini Award for Management. He has also been honoured with "Bhamasha award" for the year 2006 by Rajasthan State Government for social service in the field of education.

Suresh Neotia – Independent Non-Executive Director

A Law graduate from Kolkata University, he is the co-founder and Chairman of Gujarat Ambuja Cements, a leading cement manufacturing company in India. He has won the Harvard Business School-Economic Times Award for Corporate excellence apart from many other awards in different fields. He is involved in running of many social and cultural institutions.

S.S. Vaidya - Independent Non-Executive Professional Director

An advocate and solicitor, who has been associated as a Partner with M/s. Kanga & Company for the past two decades. The Company benefits from his rich experience and expertise in legal matters pertaining to Company and Property Law.

M.G. Diwan - Independent Non-Executive Director

With a Masters Degree in Science and Fellowship of the Institute of Actuaries, London (F.I.A.), fellow ship of Actuarial Society of India, Mumbai (F.A.S.I.) and Fellowship of the Insurance Institute of India, Mumbai (F.I.I.I.), he was the Chairman & Managing Director of Life Insurance Corporation of India.

K.P. Medhekar - Independent Non-Executive Director

After a distinguished career in the Indian Police Services, he retired in 1985 after 37 years of service as Director General of Police, Maharashtra. At present, he is a Corporate Management Consultant in HRD, Disaster & Crisis Management & Remuneration Policy.

Balkumar Agarwal - Independent Non-Executive Director

An IAS Officer of the 1967 batch, he retired as Additional Chief Secretary, Govt of Maharashtra in August, 2002. He was a Representative of the Government of Maharashtra on the Board of Bombay Stock Exchange from 1994-1995. He has also been on the Board of Industrial Investment Bank of India, SIDBI and SICOM and was also Managing Director of the Maharashtra State Financial Corporation. He also holds degrees in Commerce and Law.

Milind Vichare - Independent Nominee Director

Engaged as a Deputy General Manager with Industrial Development Bank of India [IDBI], he has been appointed as the Nominee of IDBI.

L.N. Heda - Independent Non-Executive Director

A post graduate in Commerce, with several years of management experience, he oversees the accounting and administration functions of the Company.

13th ANNUAL REPORT

2005 - 2006



From the Desk of Chairman

It gives me great pleasure to present the 13th Annual General Report to our esteemed shareholders.

The Road Traversed during the year:

The sugar sector in India has passed through certain structural changes in terms of improved cane utilization, capacity expansion, cane acreage and production.

The company commenced the sugar production at its Dwarikesh Puram plant w.e.f. 1st January 2006. Further there were teething troubles in the plant and certain capital expenditure were incurred in the current year to balance the plant and make it fully operational during the season 2006-07.

During 2006, the total production in the country touched 19 million tonnes, a growth of 49.60% when compared to previous year. Sugar price rose sharply to around Rs. 2000/- per quintal (excluding duties & taxes) in February 2006 & there after dropped to Rs 1750 to Rs 1800 per quintal (excluding duties & taxes). However, it took a beating on account of export ban and anticipation of higher production in 2006-07 beginning from October 2006 & is now hovering around Rs 1650 per quintal (excluding duties & taxes).

Your company is expanding its crushing capacity by setting up a new green field plant of 7500 TCD expandable to 10000 TCD and Co-generation of 36 MW, out of which 24 MW will be supplied to State Grid. The new plant (Dwarikesh Dham) is being set up in Bareilly District at a cost of Rs. 2.50 billion which is expected to be operational by November, 2007. Further the company is also expanding its co-generation capacity by setting up additional 24 MW co-generation at Dwarikesh Puram Plant at a cost of Rs. 1 Billion for export to State Grid, which is also expected to be operational by November, 2007.

Inventory and Imports:

For the season 2006-2007, the sugar production is expected to touch 22.2 million tonnes, While the demand is expected to be around 20.5 Million tonnes, the closing stock may remain around 4.7 Million tonnes. The level of closing stock to sales has come down drastically from 8.6 months in 2002-03 to less than 2 months in 2004-2005 and is expected to be around three months in 2006-07. Total sweetener consumption is expected to go up by 3%, where as Gur production is expected to fall by 25%. This will cause increase in demand for sugar.

Although the production is expected to increase by around 17%, it does not pose any panic situation as the stock to consumption ratio continues to be low. The Government in order to maintain comfortable stock levels has banned export of sugar till March, 2007.





DWARIKESH SUGAR INDUSTRIES LIMITED

Benefitting from By-Products

Against the backdrop of Shortage in cane production over the last two sugar – seasons, realization from the by-products have helped the sugar companies to improve their margins. The improved outlook for by products such as industrial alcohol, power and molasses has added significantly to revenues of your company. Price of molasses used in Alcohol was around Rs. 2400 per tonne.

Your company's co-generation revenues were almost Rs 53 million from surplus power exported to State Grid. During the year, the Company has started projects to increase its co-generation capacity to 86 MW from the present capacity of 26 MW of which 56 MW will be supplied to state Grid. PPA for all projects are already executed. The Company expects substantial revenue to come from Co-generation.

Clean Development Mechanism

We also expect substantial revenue of around Rs 100 million from sale of carbon credits to accrue from 2007-08 and onwards. The process of validation of our cogeneration projects at all the units is under way & we expect Registration of these projects with UNFCCC to take place in next 4 to 6 months time.

Exploring new growth areas: Ethanol – blending

The Government has made it mandatory to blend 5% Ethanol in all states and Union territories w.e.f. 1st November, 2006 and gradually to increase blending up to 10% by October, 2007.

The Government has announced the system of open tender from sugar factories for determining ethanol price and your company is expecting reasonable orders for supply of ethanol in the state of Uttar Pradesh & New Delhi at a basic price of Rs 21.50 per litre (excluding duties & taxes).

GDR Issue Success : Milestone

During the year, the company raised funds amounting to Rs. 540,549,427/-, through 3 million Global Depositary Receipts (GDR) representing 3 million Equity Shares of face value of Rs 10/- each @ USD 4 per GDR. The GDRs have been listed on Luxembourg Stock Exchange. Out of 3 million GDRs issued and allotted 29,37,500 GDR investors have opted for conversion in to equity shares and balance 62,500 GDRs underlying equity shares are pending for conversion till 30th September, 2006.

I am pleased to inform you that issue received a good response. The proceeds from GDR issue are utilized in part financing of new sugar plant coming up at Dwarikesh Dham and expansion of cogeneration capacity at Dwarikesh Puram.

Thus so far, we have achieved our objective of maximizing shareholder wealth, both in the form of capital appreciation as well as dividend payouts. On behalf of my Board and management team I take this opportunity to reassure you that we are on track to fulfill our vision of becoming a large sugar conglomerate with interests in synergistic business.

Winning with Financials:

It is with great pride that I wish to inform you that Year under review has been satisfactory year. We recorded reasonable profits. Whereas our net revenue increased by 52% from Rs. 1549 millions in fiscal year 2005 to Rs. 2347 millions in fiscal year 2006, our net profit was Rs. 208 millions in 2006 as compared to Rs. 266 millions in 2005. EBITDA was Rs. 456 millions during the year ended September 30, 2006, as compared to Rs. 467 millions for year ended September 30, 2005.



13th ANNUAL REPORT

2005 - 2006



During Fiscal year 2006, profit was adversely affected due to lower recovery of sugar in entire Western/Central UP due to adverse climatic conditions, lower realisation of sugar, molasses and Bagasse higher cost of sugar cane. Recovery at Dwarikesh Nagar was at 10.10% during the season 2005-2006 as against 10.48% of 2004-2005. Recovery at Dwarikeshpuram unit was at 10.20% in 2005-2006.

Sugar Trail Ahead:

Our Green Field Project at Dwarikesh Dham of 7500 TCD expandable to 10000 TCD with 36 MW Co-generation and additional 24 MW co-generation of Dwarikesh Puram is likely to be operational by November, 2007, which will reap dividend to investors in the financial year 2007-08.

We believe that the financial year 2006-07 should witness a remarkable growth on account of likely increase in volumes as our Dwarikesh Puram unit is now fully operational.

We also expect that the production from our Distillery of rectified spirit and ethanol for the full year will provide good margins and boost our bottom line.

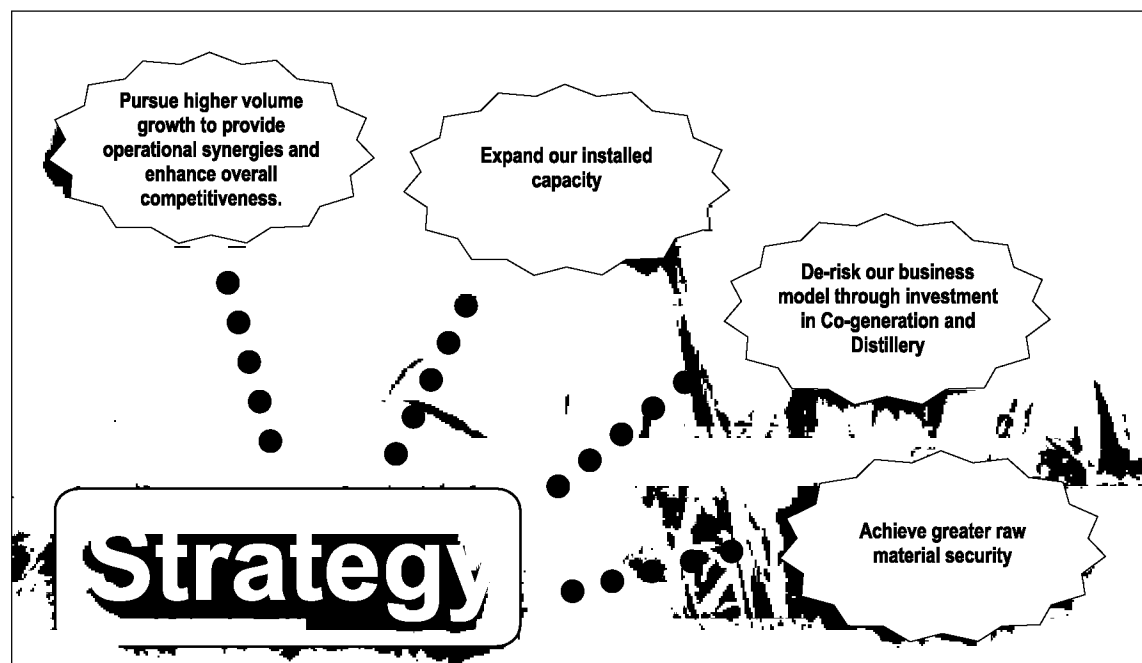
Furthermore, revenue from co-generation of around 7.5 MW being supplied to state grid from its existing unit at Dwarikesh Nagar at the optimum capacity for the full year would also add to the bottom line.

Sign Off:

With these good tidings and the prospect of a better year ahead, I sign off, with the re-assurance that shareholders rank foremost in our minds and every effort is being and will be made to perform optimally and enhance shareholders' wealth.

Gautam R. Morarka
(Chairman and Managing Director)

Place : New Delhi
Date : 27th November, 2006.,





DWARIKESH SUGAR INDUSTRIES LIMITED

OPERATIONAL OVERVIEW

Global Sugar Scenario

Production for 2006-07 is expected to be around 154.7 Million tonnes, up 4.8 Million tonnes. Meanwhile world consumption is projected at 152.5 Million tonnes (up 1.83% YOY). (Source :ISO). The production outlook for 2006-07 clearly indicates surplus building up globally of about 2.2 Million tonnes.

World's largest sugar producer viz. Brazil is expected to produce 31.6 Million tonnes of sugar during 2006-07, up 1.3 Million tonnes vis-à-vis 2006-07 (Source :ISO).

Relationship between Global crude prices and sugar production :

Realising the need to combat global warming, World over search for clean and regenerating fuel has resulted in great potential of ethanol blended Gasoline to the extent that most advanced countries are moving towards vehicles which may run on E80. This has established a direct relationship between global crude price and sugar production. As the crude prices climb stairs, sugar production suffers since the world's largest sugar producer Brazil diverts the sugar cane for ethanol production. This also restricts the crude prices. However, it should be remembered unlike crude reserves which are depleting with development, ethanol is clean, green and regenerative fuel.

International Sugar Prices to further face a downward pressure:

With the expectation of the global sugar production rise, we expect global inventory to firm up further putting a downward pressure on the international sugar prices.

Per Capita Sugar Consumption in India one of the lowest:

India, the second largest producer of sugar after Brazil has one of the lowest per capita consumption rates of sugar.

Sugar's weightage

The weightage of sugar in wholesale price Index (WPI) is unduly excessive at 3.6% as against 1.8%. ISMA has made representation to correct this anomaly to the Government.

PRESENT BUSINESS OPERATIONS:

The Company is currently engaged in the business of manufacture and sale of Sugar, Co-generation of Power and Industrial Alcohol including ethanol .

Sugar Division:

The Company has 2 sugar manufacturing units in Bijnor District of UP. The present capacity of the plants is 14000 TCD. The Company manufactures and sells three grades of sugar viz. L,M and S. The Company sells sugar in Bulk to wholesalers / Agents. The Company's sugar is recognized in the market by the name "Bundki" which is original name of the place where the factory is located or by the name "Dwarikesh".



Power Co-generation:

The Company is also engaged in Co-generation of Power. The Company has a power plant with a capacity of 17 MW and is using 9 MW for captive consumption in manufacture of sugar and balance 8 MW is supplied to SEB viz. Uttar Pradesh Power Corporation Limited (UPPCL). During the crushing season 2005-06, the company sold Power worth Rs. 53 millions to UPPCL.

Industrial Alcohol / (Ethanol):

The Company has a ready capacity of 30 KLPD distillery for the manufacture of Industrial Alcohol. During 2005-06, company sold Industrial Alcohol of Rs. 87 millions.

MEASURES TAKEN BY DSIL FOR CANE DEVELOPMENT:

Dwarikesh Sugar Industries Limited (DSIL) follows an extensive cane development process, assisted by the Cane Development Councils. The main objectives of DSIL's cane development measures are listed below:

- Production of improved and early varieties of sugar cane.
- Increase in per acre yield so that farmers can maximize their earnings and DSIL is assured of an increased supply.
- Providing seeds, fertilizers and pesticides to farmers through Kisan Seva Kendras at different locations, covering the command area of DSIL, so that their crop is not vulnerable to disease etc.
- Procurement of cane seeds from Sugarcane Research Station, and distribution of seeds to growers for raising foundations and primary nurseries.
- Financial assistance for raising and maintenance of nurseries.
- Conducting training seminars for farmers at the Research Station, at DSIL's expenses.
- Road development as well as repair and maintenance of difference link roads in the respective command areas.

Existing market and selling arrangements:

Presently, 10% of the sugar produced is released to the Government as levy sugar. The remaining 90% can be sold in the open market. However, the actual quantity that can be sold in the open market is controlled by the Government through a system called Monthly Release Mechanism (MRM). The price of the sugar sold in the open market depends on market forces. The factories can sell sugar in open market only such quantities that are released by the Government of India every month for each factory.

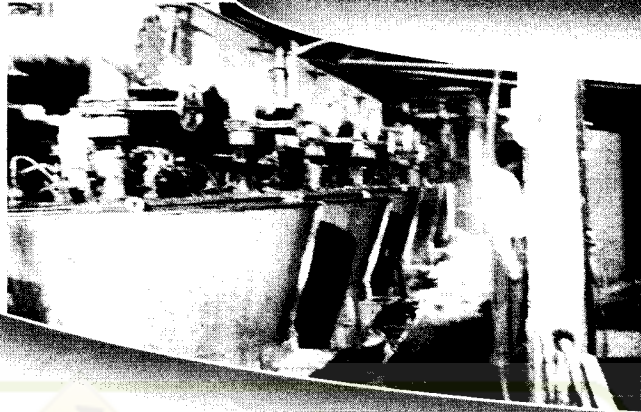
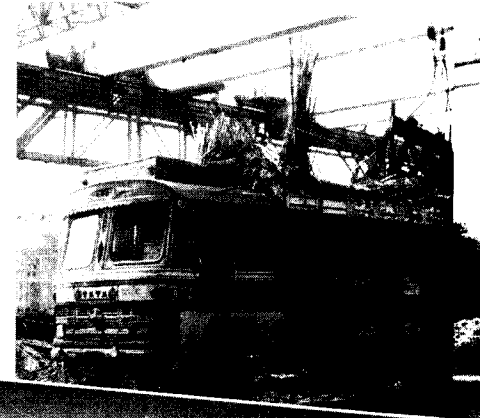
The Company sells free sale sugar through a network of agents, who in turn sell to wholesalers. Trade settlement are usually on cash terms. Besides, the company sells its sugar in Central & West UP, part of West Bengal, Bihar, Jharkhand, Assam, Punjab, Haryana, Rajasthan & Delhi.



A VIRTUAL TOUR OF DSIL'S PLANT & MANUFACTURING PROCESS



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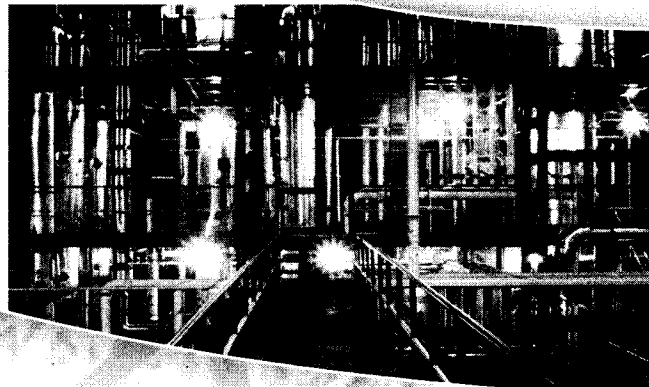
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