

KENYA TEA INDUSTRY PERFORMANCE REPORT FOR 2011 AND PROJECTIONS FOR 2012

1.0 PRODUCTION

Tea production for the year 2011 reached 377.9 Million Kgs, which was 5% lower compared to 399 Million Kgs recorded in 2010. Lower production was largely attributed to adverse weather conditions experienced during the half of the year. In 2011, most tea growing regions experienced depressed and poorly distributed rainfall during the second quarter besides relatively hot and dry weather conditions in the first quarter. However, compared to the last five years, production for 2011 was higher than the output recorded in 2007 to 2009.

West of Rift was the most affected with its tea output dropping by 5.5% from 246.1 Million Kgs recorded in 2010 to 232.6 Million Kgs. Within the East of Rift, production for the year was lower by 4.9% from 152.8 Million Kgs recorded in 2010 to 145.3 Million Kgs.

Compared to 2010, tea output within smallholder sub-sector was down by 2.8% from 224.9 Million Kgs to 218.5 Million Kgs while that of the Plantation sub-sector was lower by 8.4% from 174.1 Million Kgs to 159.4 Million Kgs.

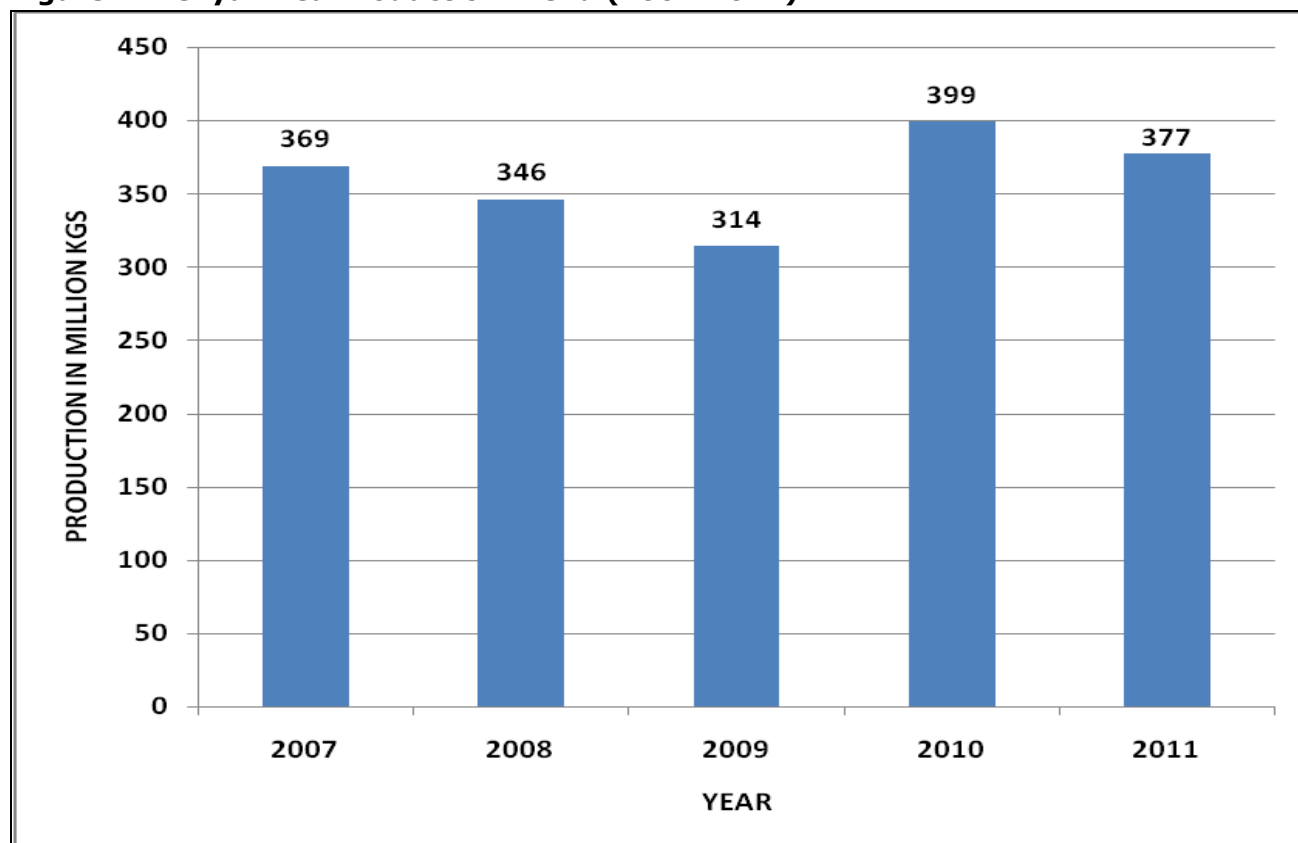
Out of the total production, the smallholder sub-sector contributed 58% while the Plantation sub-sector contributed 42%.

Table 1: Production by Sub-sector and Region in Million Kgs (2011 and 2010)

PRODUCTION (KGS)		Jan - Dec 2011	Jan -Dec 2010	Variance +/-	Var.(%)
Plantation	West of Rift	143.4	155.5	- 12.1	-7.77%
	East of Rift	16.0	18.6	- 2.6	-13.90%
	Total	159.4	174.1	- 14.7	-8.43%
Smallholder	West of Rift	89.2	90.7	-1.5	-1.64%
	East of Rift	129.3	134.2	- 4.9	-3.68%
	Total	218.5	224.9	- 6.4	-2.86%
Plantation & Smallholder	West of Rift	232.6	246.2	- 13.6	-5.51%
	East of Rift	145.3	152.8	- 7.5	-4.92%
	Total	377.9	399.0	- 21.1	-5.29%

Source: Tea Board of Kenya

Figure 1: Kenyan Tea Production Trend (2007-2011)



2.0 SALE

2.01 AUCTION

During the year, the volume of Kenya tea sold through Mombasa Auction stood at 247.3 Million Kgs, 5% lower compared to 259.0 Million kgs sold in 2010. The average Auction price for Kenyan tea held firm at USD 2.99 per Kg compared to USD 2.75 recorded in 2010. Notably, the average price for the year was the highest that the industry has ever recorded for more than two and a half decades.

Table 2: Monthly Kenyan Tea Auction Prices in USD/KG of made tea (2006-2011)

MONTH/YEAR	2011	2010	2009	2008	2007	2006
JANUARY	3.16	3.00	2.33	2.28	1.79	1.77
FEBRUARY	3.07	3.13	2.29	2.47	1.75	2.24
MARCH	2.89	3.01	2.31	2.23	1.70	2.11
APRIL	2.87	2.82	2.42	2.31	1.65	2.10
MAY	2.88	2.53	2.49	2.30	1.65	2.14
JUNE	2.97	2.37	2.70	2.43	1.75	2.22
JULY	3.16	2.35	2.90	2.55	1.74	2.25
AUGUST	3.18	2.78	3.02	2.75	1.75	2.15
SEPTEMBER	3.05	2.80	3.18	2.70	1.87	1.93
OCTOBER	2.89	2.77	2.79	2.29	1.87	1.81
NOVEMBER	2.85	2.79	3.05	1.82	1.80	1.79
DECEMBER	2.86	2.94	3.21	1.88	1.85	1.79
AVERAGE	2.99	2.75	2.72	2.33	1.76	2.03

2.02 EXPORTS

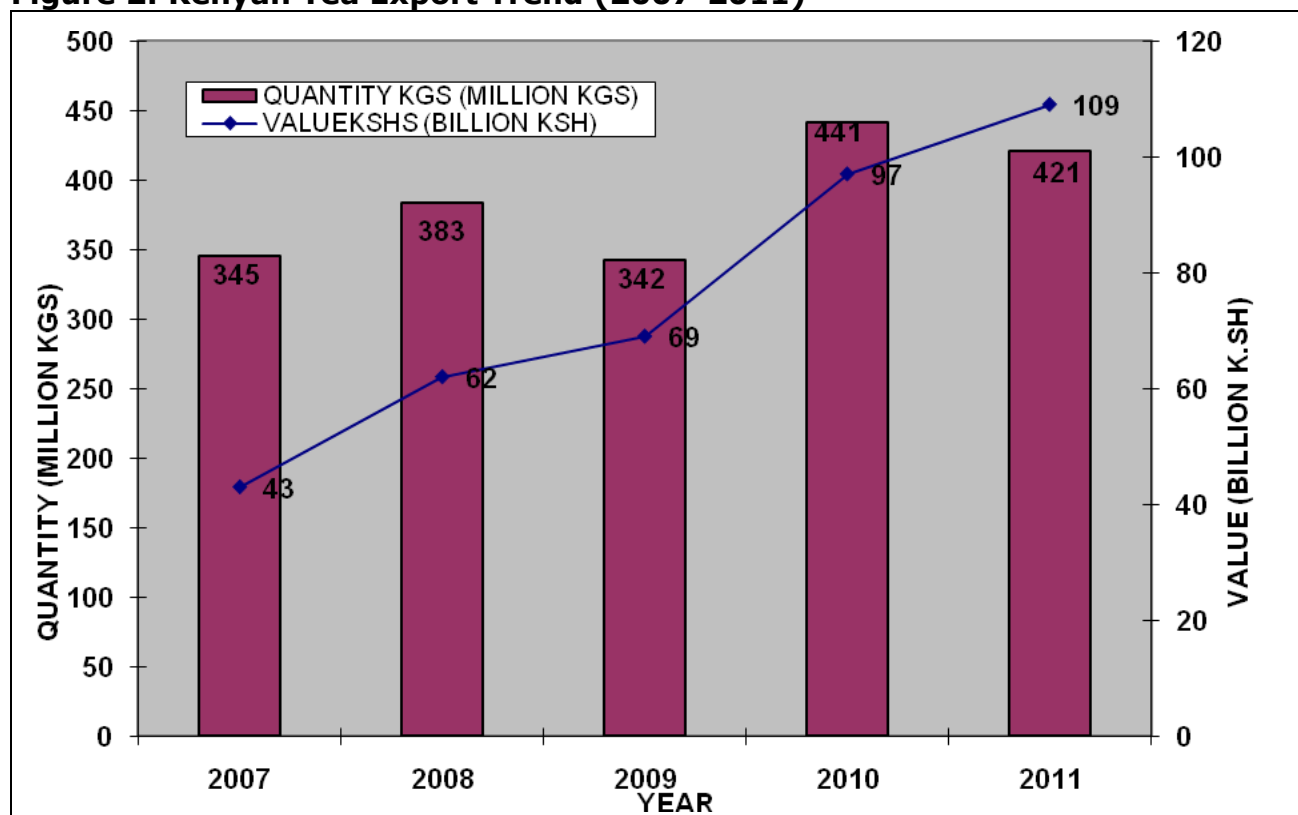
During the year 2011, Kenya tea export volume reached 421 Million Kgs which was slightly lower compared to 441 Million Kgs recorded in 2010. Tea export earnings for the period amounted to K.shs 109 Billion, which was higher compared to K.shs 97 Billion recorded in 2010. The export earnings for the year, which were the highest that the industry has ever recorded were attributable to improved prices coupled with the weakening shilling against the USD. During the year, the average export unit price was USD 2.92 per Kg. while the average exchange rate was K.sh 88.6 to the USD. These rates were however more favourable to the industry compared to the export unit price of USD 2.80 and the average exchange rate of K.sh 79.2 to the USD recorded during the previous year.

Kenya tea was exported to fifty four market destinations world-wide compared to forty eight destinations in 2010. Increased number of export destinations was due to re-entry of seasonal buyers such as Switzerland; Finland; Tanzania; Chad; Israel; Uganda; Brazil and Australia. Amongst Kenya's tea export markets, Pakistan was the leading export destination having taken over from Egypt after importing 80.8 Million Kgs. Pakistan tea imports accounted for 19% of the total export volume. Other key export markets were Egypt, which imported 79.9 Million Kgs, UK (68.3 Million Kgs), Afghanistan (44.4 Million Kgs) and Sudan (26.1 Million Kgs). These five markets accounted for 71% of Kenya tea export volume while the other forty nine markets accounted for 29%. Among the five key markets, Pakistan recorded a growth of 6%. However, there was a drop in tea exports to Egypt (14%), UK (6%), Afghanistan (10%), and Sudan (16%). Increased exports to Pakistan and subsequent drop of tea exports to Afghanistan were attributed to continued reduction in incidences of commodity smuggling into the country through Afghanistan. The reduced volume of tea to Egypt was largely attributed to political unrest within the country at the beginning of the year. The wave of political unrest which has been going on in the Muslim religious countries also affected Kenya tea exports to Yemen, which recorded a drop of 9%. Lower export volume to Sudan was attributable to shortage of foreign exchange due to reduction in oil revenue after the country lost 75% of its oil reserves to Southern Sudan following the secession in 2011.

Amongst the key emerging markets, Russia recorded 11% growth (from 15.6 Million Kgs to 17.4 Million Kgs); Kazakhstan (18%, from 10.0 Million Kgs to 11.9 Million Kgs); Poland (3%, from 5.5 Million Kgs to 5.7 Million Kgs); Iran (70% from 3.1 Million Kgs to 5.4 Million Kgs); Nigeria (33% from 3.3 Million Kgs to 4.4 Million Kgs); Somalia (17% from 2.9 Million Kgs to 3.7 Million Kgs); Saudi Arabia (17% from 1.9 Million Kgs to 2.3 Million Kgs); China(40%, from 1.5 Million Kgs to 2.1 Million Kgs); Canada (3% from 1.5 Million Kgs to 1.6 Million Kgs); Germany (45%, from 0.80 Million Kgs 1.1 Million Kgs); Netherlands (43% from 0.8 Million Kgs to 1.1 Million Kgs) and Bangladesh (1051%, from 0.099 Million Kgs to 1.1 Million Kgs). Though most

of these emerging markets have traditionally been consuming Orthodox tea, they are gradually shifting to CTC teas particularly for their teabags market segment. The change in preference from Orthodox to CTC tea is partially attributable to enhanced promotions by the Kenya tea industry as well as significantly higher prices for Orthodox tea.

Figure 2: Kenyan Tea Export Trend (2007-2011)



2.03 LOCAL CONSUMPTION

The cumulative local tea consumption for the year 2011 stood at 20 Million Kgs which was 7% higher compared to 18.7 Million Kgs recorded in 2010. Earnings from local consumption were Kshs. 11 billion. Higher local consumption is a consequence of sustained promotion campaign by the Tea Board of Kenya, intensive brand promotion by the tea packers as well as intense sales by factories through factory door sales. Over the last five years local tea consumption has been growing at an average rate of 3% per annum.

4.0 Global Performance for 2011

Amongst the key tea producing countries, production for the year 2011 was varied. Production in Kenya up to the month of December 2011 was lower by 5% from 399 Million Kgs recorded in 2010 to 377.9 Million Kgs owing to adverse weather conditions. In Sri Lanka, the output in the eleven month period was marginally lower by 0.7 percent at 302.1 Million Kgs from 304.1 Million Kgs registered in the same period last year. However, due to good crop in North India on account of well distributed rainfall, India tea output for the period up to November was

higher by 3.2% from 907.6 Million Kgs recorded in 2010 to stand at 937.5 Million Kgs. In 2010, production in North India, which accounts for over 75% of the country's total production, was adversely affected by pest attack.

Table 3: Production across Major Tea Producing Countries (2011 Vis-à-vis 2010)

Country	Month	To Date 2011 (Million Kgs)	To Date 2010 (Million Kgs)	+/-	% +/-
Kenya	Dec.	377.9	399.0	-21	-5.6%
Sri Lanka	Nov	302.1	304.1	-2	-0.7%
North India	Nov	714.8	682.7	32.1	4.5%
South India	Nov	222.7	224.9	-2.2	-1.0%
Total India	Nov	937.5	907.6	29.9	3.2%
Bangladesh	Nov	55.36	54.52	0.84	1.5%
Malawi	Nov	42.6	45.9	-3.3	-7.7%
Indonesia	Nov	56.3	67	-11	-19.0%

Source: International Tea Committee

During the year, global tea auction prices were generally firm. Sri Lanka registered the highest auction prices at an average of USD 3.16 per Kg. Kenya recorded an average price of USD 2.99 while India recorded an average price of USD 2.16.

5.0 KENYA TEA INDUSTRY PRELIMINARY OUTLOOK FOR 2012

Due to dry weather spell from end of December 2011 combined with incidences of frost that affected the tea growing areas at the beginning of 2012, production in Kenya for the first quarter of the year is expected to be lower than that of 2011. With the current hot and dry weather conditions, production for the first quarter of the year is likely to drop by 17% from 85 Million Kgs recorded during the first quarter of 2011 to about 70 Million Kgs. Consequently, this is likely to affect production for the year marginally by 2% from 377 Million Kgs recorded in 2011 to 369 Million Kgs. However, due to expected firm prices, the Kenya tea export earnings for the year 2012 are projected to reach K.sh 115 Billion thereby surpassing the 2011 record earnings of K.sh 109 Billion (USD 1.23 Billion).

Table 4: Kenya Tea Exports by Destination 2011 Vis-a-Vis 2010

DESTINATION	2011		2010		QUANTITY	%AGE
	QUANTITY	VALUE	QUANTITY	VALUE		
	KGS	KSHS	KGS	KSHS		
PAKISTAN	80,810,694.00	21,813,741,923.67	76,210,654.00	17,135,867,659.77	4,600,040	6%
EGYPT	79,955,481.00	20,657,948,785.14	93,218,452.00	20,197,895,276.43	-13,262,971	-14%
UK	68,315,829.00	16,641,818,147.43	73,035,089.00	15,071,323,421.66	-4,719,260	-6%
AFGHANISTAN	44,446,959.00	13,163,297,446.29	49,335,916.00	12,031,381,181.98	-4,888,957	-10%
SUDAN	26,119,755.00	4,914,723,994.13	31,238,302.00	5,752,744,807.27	-5,118,547	-16%
U.A.E	22,604,275.00	5,850,615,622.25	22,157,877.00	4,811,939,607.44	446,398	2%
RUSSIA	17,458,854.00	4,719,388,096.59	15,694,042.00	3,540,903,015.71	1,764,812	11%
YEMEN	14,803,961.00	4,247,037,906.52	16,345,851.00	4,013,314,628.84	-1,541,890	-9%
KAZAKHSTAN	11,932,985.00	3,606,411,400.28	10,082,803.00	2,824,098,447.72	1,850,182	18%
POLAND	5,729,223.00	1,550,517,065.81	5,552,954.00	1,245,923,327.87	176,269	3%
IRAN	5,432,263.00	1,605,055,201.57	3,195,768.00	785,152,625.11	2,236,495	70%
INDIA	4,510,786.00	1,048,500,858.55	5,392,859.00	1,084,209,808.27	-882,073	-16%
NIGERIA	4,486,606.00	1,211,792,280.59	3,360,865.00	747,682,771.46	1,125,741	33%
IRELAND	3,781,692.00	1,014,733,982.46	4,298,846.00	1,213,443,865.11	-517,154	-12%
SOMALIA	3,735,011.00	313,030,615.94	2,943,893.00	271,707,374.82	791,118	27%
SRI LANKA	3,364,862.00	871,217,808.13	3,475,181.00	730,845,105.39	-110,319	-3%
SAUDI ARABIA	2,338,907.00	643,391,189.57	1,999,713.00	490,100,784.71	339,194	17%
JAPAN	2,134,952.00	844,636,246.43	2,538,238.00	948,744,039.31	-403,286	-16%
CHINA	2,112,197.00	612,423,436.46	1,510,866.00	421,634,955.16	601,331	40%
U.S.A.	2,095,135.00	706,080,431.60	3,618,142.00	1,202,231,732.04	-1,523,007	-42%
DJIBOUTI	1,922,113.00	196,624,455.71	3,059,737.00	314,802,135.86	-1,137,624	-37%
INDONESIA	1,801,527.00	492,163,300.42	2,328,433.00	477,118,276.81	-526,906	-23%
CANADA	1,604,744.00	361,018,331.52	1,562,303.00	318,242,199.46	42,441	3%
GERMANY	1,184,348.00	298,858,174.96	817,176.00	219,928,569.62	367,172	45%
NETHERLANDS	1,171,361.00	321,978,762.22	817,319.00	177,535,345.12	354,042	43%
BANGLADESH	1,149,439.00	155,258,058.29	99,840.00	13,464,634.31	1,049,599	1051%
UKRAINE	973,512.00	265,266,006.90	899,121.00	205,820,344.70	74,391	8%
TURKEY	897,449.00	244,990,419.46	1,753,352.00	458,578,148.73	-855,903	-49%
OMAN	869,881.00	98,209,159.94	811,425.00	88,967,884.67	58,456	7%
MALAYSIA	733,165.00	205,517,145.52	836,360.00	242,420,727.54	-103,195	-12%
SOUTH AFRICA	660,501.00	187,994,526.64	706,076.00	158,331,881.26	-45,575	-6%
ERITREA	420,000.00	102,688,522.47	384,084.00	72,578,296.31	35,916	9%
CHILE	362,248.00	96,078,042.64	623,721.00	149,646,886.68	-261,473	-42%
BELGIUM	361,994.00	60,085,097.39	177,520.00	25,744,623.66	184,474	104%
SWITZERLAND	293,760.00	58,166,503.13			293,760	
SINGAPORE	132,990.00	56,030,706.55	190,720.00	89,934,740.15	-57,730	-30%
TAIWAN	81,170.00	21,823,420.18	13,530.00	2,493,473.93	67,640	500%
ITALY	78,750.00	38,928,326.24	219,070.00	90,582,835.83	-140,320	-64%
KYRGYZSTAN	76,435.00	22,215,086.32	35,856.00	8,798,259.23	40,579	113%
FINLAND	57,034.00	15,231,876.07			57,034	
NEW ZEALAND	43,423.00	11,390,215.02	23,080.00	5,175,885.95	20,343	88%
GREECE	35,000.00	6,655,116.79	34,220.00	5,424,039.64	780	2%
TANZANIA	26,270.00	13,111,721.75			26,270	
CHAD	24,164.00	2,731,498.56			24,164	
GEORGIA	23,568.00	6,236,153.89	13,910.00	3,146,191.40	9,658	69%
ISRAEL	22,052.00	3,703,604.96			22,052	
MAURITIUS	21,050.00	4,045,668.20	22,000.00	3,505,193.13	-950	-4%
PUERTO RICO	16,656.00	4,378,015.44	266,496.00	61,557,490.33	-249,840	-94%
EPZ (MOMBASA)	14,550.00	4,230,008.74	15,780.00	3,481,228.67	-1,230	-8%
UGANDA	12,000.00	2,818,955.08			12,000	
JORDAN	11,600.00	2,535,563.50	27,915.00	3,893,491.74	-16,315	-58%
BRAZIL	8,000.00	7,256,325.00			8,000	
SEYCHELLES	7,120.00	1,619,347.60	6,840.00	1,366,601.00	280	4%
AUSTRALIA	4,072.00	2,575,439.94			4,072	
SYRIA			65,400.00	15,295,508.76	-65,400	-100%
SWAZILAND			3,898.00	1,159,908.66	-3,898	-100%
GTOTAL	421,272,373.00	109,408,775,996.45	441,021,493.00	97,740,139,239.22	-19,749,120	-4%

Source: Tea Board of Kenya