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2nd April, 2016

The Manager
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The General Manager
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The Secretary
The Calcutta Stock
Exchange Ltd.
7, Lyons Range
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Dear Sirs,

Cigarette Factories - Shutdown

We write to advise that ITC has been compelled to shut its cigarette factories with effect from April 1, 2016 until clarity emerges in the current uncertain state of the rules on health warning.

In 2009, the Central Government introduced pictorial health warning on cigarette packages. The warning, which carried a disturbing image, also prominently featured the statements "SMOKING KILLS" and "Tobacco causes cancer", occupying 40% of the front panel of the cigarette package. This health warning was decided upon by a group of senior Union ministers after extensive deliberations and consultations, and after considering all aspects of the matter, including its adverse implications for the livelihood of millions of farmers and labourers dependent on tobacco. Although this warning was much in excess of the requirement under the Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, ITC has been complying with it ever since.

While so, by Notification GSR 727(E) dated 15 October 2014, the Ministry of Health and Family Welfare ("MoHF") specified new health warnings consisting of gruesome pictures of several large and ulcerous goitres around the neck of a person, and a hole in the throat of a person, with the text "WARNING: Smoking causes throat cancer", and required that these health warnings should occupy 85% of the front and the back panels of the cigarette package. The effective date of this new warning was notified as April 1, 2015.

Aggrieved by the excessive new warnings, numerous representations were made to the Government by tobacco farmers, dealers, the bidi industry, and cigarette industry, pointing out the illegality and potential adverse impact of these new health warnings. Pursuant to these, the rules prescribing the new health warning were referred to the Parliamentary Committee on Subordinate Legislation, for its examination. Following the Parliamentary Committee's recommendation, in its interim report, to keep the implementation of GSR 727-E in abeyance till the Committee finalized its examination of the subject, the MoHF notified the deferment of the implementation of the new warnings till after the Committee's findings are published and considered.



The legal validity of the new warnings has also been challenged by several parties, including the Tobacco Institute of India, in the Hon'ble Karnataka High Court. However, since the Parliamentary Committee was seized of the matter and the implementation of the new warnings was deferred by the Government itself, the writ petitions were not taken up for hearing.

Even as the Parliamentary Committee was actively engaged in hearing and considering the representations of various interested parties, MoHF, contrary to its earlier decision to await the Committee's findings, on September 28, 2015 notified that the new warnings would come into effect on April 1, 2016. Subsequent to this, in December 2015 and thereafter, the Hon'ble Karnataka High Court, through various orders in various writ petitions, stayed the implementation of the new warnings. While some of these stay orders have since been vacated, it appears that the others may not have been vacated.

On March 15, 2016, the Parliamentary Committee tabled its report in the Lok Sabha, in which it recommended that the new health warnings be modified to occupy 50% of the front and the back panels of the cigarette package. Although it is learnt that the MoHF, in a PIL pending in the Hon'ble Rajasthan High Court, has filed an affidavit stating that the recommendations of the Committee are being considered by the Government, it has so far not notified the deferment of the new warnings pending consideration of the Committee's report. The Tobacco Institute of India has, therefore, requested the Hon'ble Karnataka High Court to take up its petition for hearing. The hearing is expected to commence soon.

The implementation of any change in the health warnings on the cigarette packages is an elaborate process for the manufacturers, entailing months of preparation involving substantial cost and effort. Since the matter of new health warning was under the Parliamentary Committee's consideration, and the Government had itself held out that it would await the Committee's report, the industry was led to believe that the Government would re-notify new health warnings after considering the Committee's recommendations. Further, the question of the legality of the new warnings has been and continues to be pending before the Court. In this situation, the Company, as any prudent person would, did not commit to wasting substantial resources in creating the large number of cylinders and other tools necessary for a change-over of the warnings. As a result, the Company is at present not in readiness to print the health warnings as now once again notified.

Yours faithfully,
ITC Limited

(B. B. Chatterjee)
Executive Vice President &
Company Secretary



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