

MEMORANDUM OF UNDERSTANDING

BETWEEN

**GAIL (INDIA) LTD.
AND
TRANSPARENCY INTERNATIONAL INDIA**

This Memorandum of Understanding ("MOU") is entered into on this 23rd Day of July, 2007 by and between GAIL (INDIA) LIMITED, a Government of India Public Sector having its registered office at 16, Bhikaiji Cama Place, R.K.Puram, New Delhi 11 00 66 (here-in-after referred to as "GAIL"),

AND

TRANSPARENCY INTERNATIONAL INDIA having its office at Balwantrai Mehta Vidya Bhavan, Masjid Moth, Greater Kailash-II, New Delhi – 110048 (here-in-after referred to as "TII").

(GAIL and TII are here-in-after referred to individually as "Party" or "collectively as "Parties".)

1. Considering that bribery and corruption are identified as a widespread social and economic crime undermining good governance and economic development in India which also corrodes the moral fiber of our society;
2. Considering that all companies and major organizations within India share a common responsibility to combat bribery and corruption in all forms and manifestations;
3. Recognizing that achieving progress in this area requires sustained efforts not only at the national level but also at the level of individual Organization, Company or a Government department;
4. Welcoming the efforts of Transparency International-India (TI India) and other non-governmental organizations as well as various business organizations such as GAIL (India) Ltd.;



5. GAIL, as a Navratna Public Sector Organization targeting on being the leading company in natural gas and beyond with global focus, committed to customer care, value creation for all stake holders and duly aware of environmental responsibility enjoined upon it, enters into various activities in gas / petroleum sector both nationally and internationally. 'Excellence with Ethics' being the mantra of GAIL in conduct of its business in which it has to deal with a number of domestic and international bidders / contractors / vendors of goods and services (Counterparties) in the normal course of its business, it is the constant endeavour of GAIL to maintain and foster most ethical and corruption free business environment. GAIL cherishes its relationships with all Counterparties and deals with them in a just, fair and transparent manner as partners in progress;
6. Integrity Pact is a tool developed by the Transparency International to ensure that all activities and transactions between a Company or Government Departments and their Suppliers are handled in a fair and transparent manner completely free of corruption;
7. GAIL and TI India have developed attached Integrity Pact Programme which is similar to the IP Programme developed by ONGC in consultation with Central Vigilance Commission and GAIL is implementing this programme within its organization. Based on the experience gained in implementing the Integrity Pact Programme in GAIL and other organizations, the IP programme may be further refined to improve its effectiveness;
8. GAIL is committed to implement the Integrity Pact Programme both, in letter and in spirit;
9. TI India pledges to support GAIL in this regard and provide it with advice and resources within its means to ensure successful implementation of Integrity Pact Programme for achievement of its objectives;
10. In case GAIL and TI India have differences concerning implementation of the Integrity Pact Programme, they undertake to resolve them through dialogue and discussion. In case such differences cannot be resolved, either party can terminate this Memorandum of Understanding by giving thirty days notice, in writing, to the other party and make such termination public only after it has taken effect;
11. This MOU shall be construed and governed in all respect in accordance with the laws of India. Full attempt must be made to resolve all disputes amicably and with the best of intentions, and the Courts at Delhi shall have exclusive jurisdiction on the disputes relating to this MOU;



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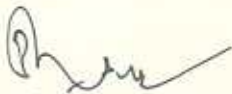


12. Now therefore, this Memorandum of Understanding is signed on this date i.e. 23.07.2007 which will be subject to ratification by the Board of GAIL and shall remain in effect unless terminated in accordance with the above provision.

SEALED & SIGNED AT NEW DELHI ON THIS 23rd DAY OF JULY, 2007.

For and on behalf of

GAIL (India) Ltd.



(Dr. U.D. Choubey)
Chairman & Managing Director,
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Transparency International India




(Admiral (Retd.) R.H. Tahiliani)
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Witness



(Arvind Jadhav), IAS
Chief Vigilance Officer,
GAIL (India) Ltd.,
New Delhi



(Dr. S.K. Agarwal),
Vice Chairman,
Transparency International India,
New Delhi

INTEGRITY PACT PROGRAMME

I. INTRODUCTION:

GAIL (India) Ltd. (GAIL), a Navratna Public Sector Organization, targeting on being the leading company in natural gas and beyond with global focus, committed to customer care, value creation for all stake holders and duly aware of environmental responsibility enjoined upon it, enters into various activities in gas/petroleum sector both nationally and internationally. 'Excellence with Ethics' is the mantra of GAIL in conduct of its business.

GAIL has to deal with a number of domestic and international bidders / contractors / vendors of goods and services (Counterparties) in the normal course of its business. It is constant endeavour of GAIL to maintain and foster most ethical and corruption free business environment. GAIL cherishes its relationships with all Counterparties and deals with them in a just, fair and transparent manner as partners in progress.

In order to achieve these goals, GAIL and TI India have developed Integrity Pact Programme which is similar to the IP Programme developed by ONGC in consultation with Central Vigilance Commission. As part of this initiative, GAIL in consultation with CVC and TI India would appoint Independent External Monitors to help GAIL implement the Integrity Pact Programme.

- Following are the ingredients of GAIL's Integrity Pact Programme:
 - Commitments and Obligations of GAIL.
 - Commitments and Obligations of Counterparties.
 - Violations and Consequences.
 - Independent External Monitor.
 - Implementation of Guidelines.
 - Periodic Review and Evaluation.

II. COMMITMENTS AND OBLIGATIONS OF GAIL:

- a) GAIL is committed to attain 'Excellence with Ethics' and corruption – free business environment with counterparties.
- b) GAIL values its relationship with all counterparties and will deal with them in a just, fair and transparent manner.
- c) GAIL and / or its associates / stakeholders (employees, agents, consultants, advisors etc.) will not seek or take bribes / undue benefits directly or indirectly for themselves or for third parties.

- d) In the matter of general procurement or competitive tenders, GAIL will deal with its counterparties on the basis of cardinal virtues of equity and fair play.
- e) GAIL will exclude all associates who may be prejudiced or have a conflict of interest in dealing with Counterparties.
- f) GAIL will honour its commitments and make due payments to counterparties in timely manner. Any delay in due payments beyond five days shall be put on record with reason thereof and the counterparties shall be informed. Such cases shall be brought to the notice of Chief Vigilance Officer of the Company.
- g) GAIL will also ensure that files containing financial proposals are processed within a definite time frame. Files will be tracked through the File Movement System (FMS) and a maximum of 15 days should be assigned for clearance at each level. Efforts will be made to finalize the tenders / award of contracts within the validity of tender period. Reasons will have to be recorded for any undue delay in processing of tenders keeping in view the guidelines issued by the Central Vigilance Commission in this regard from time to time. All such cases of delay shall also be brought to the notice of the Chief Vigilance Officer / Independent External Monitor for their indulgence.
- h) GAIL will initiate prompt action and pursue it vigorously whenever corrupt or unethical behaviour comes or brought to its notice.

III. COMMITMENTS AND OBLIGATIONS OF THE "COUNTERPARTY"

- a) The Counterparty, directly or indirectly (through agent, consultant, advisor, etc.), shall not pay any bribe / influence or give undue / unlawful benefit to anyone to gain undue advantage in dealing with GAIL.
- b) The Counterparty will not engage in collusion of any kind including price fixation etc with other Counterparts unless specifically authorized by GAIL in tender process.
- c) The counterparty will not pass GAIL's confidential information to any third party unless specifically authorized by GAIL in writing.
- d) The Counterparties shall promote and observe best ethical practices within their respective organizations.
- e) The Counterparty shall inform the Independent External Monitor:

- i) If it receives any demand, directly or indirectly, for a bribe / favour or any illegal gratification / payment / benefit;
 - ii) If it comes to know of any unethical or illegal payment / benefit;
 - iii) If it makes any payment to any GAIL associate.
- f) The Counterparty shall not make any false or misleading allegations against GAIL or its associates.

IV) VIOLETIONS & CONSEQUENCES:

- a) If a Counterparty commits a violation of its Commitments and Obligations under the Integrity Pact Programme during bidding process, their entire Earnest Money Deposit / Bid Security, would be forfeited and in addition, they may be blacklisted from the GAIL business in future.
- b) In case of violation of the Integrity pact by Counterparty after award of the Contract, GAIL shall be entitled to terminate the Contract. GAIL would forfeit the security deposits, encash the bank guarantee(s) and other payments payable to Counterparty in such cases.
- c) Subject to satisfaction of the Independent External Monitor, GAIL may ban / blacklist / put on holiday and exclude the Counterparty from future dealings until GAIL is satisfied that the Counterparty shall not commit any such violation in future.
- d) In addition to above, GAIL reserves its rights to initiate criminal proceedings against the violating Counterparty, if the allegations by Counterparty are found frivolous, untrue and misleading and may also impose exemplary cost for the same.
- e) The Counterparty will be entitled to claim as determined by the Independent External Monitor, if the above (d) is found incorrect.

V) INDEPENDENT EXTERNAL MONITOR:

- a) C&MD, GAIL is the authority to appoint Independent External Monitor(s) to oversee implementation and effectiveness of Integrity Pact Programme. The process for their appointment shall be similar to Outside Expert Committee (OEC) of ONGC. For this purpose, a panel of Independent External Monitors may be constituted by GAIL in consultation with Transparency International India (TI India) which may be referred to CVC for clearance before notifying their appointments.

- b) It will be a voluntary, non-salaried tenure for a three year term. Independent External Monitor will have the status / benefits equivalent to those of the Chairman of Audit Committee of Board / status of the Directors of GAIL.
- c) The Independent External Monitors will be chosen from amongst the persons of impeccable Integrity with experience in commercial activities and preferably conversant of GAIL's business.
- d) The Independent External Monitors shall be responsible to oversee the implementation of Integrity Pact Program to prevent corruption, bribery or any other unethical practices in the GAIL.
- e) The Independent External Monitors will not have administrative or enforcement responsibilities. They will coordinate their efforts with the help of the Chief Vigilance Officer, GAIL and other anti-corruption institutions such as the Central Vigilance Commission, New Delhi. They may engage services of outside agencies such as accounting firms, law firms, etc. with the prior approval of GAIL at GAIL's expense, if required, in discharge of their responsibilities.
- f) The Independent External Monitors will have access to all officers and internal records of GAIL. He will also have access to Counterparty's records and information regarding its dealing with GAIL.
- g) The Independent External Monitors will have the right to attend any meeting between GAIL and the Counterparties.
- h) If the Independent External Monitors observe or suspect an irregularity, they will inform the Chairman of GAIL and Chairman of the Audit Committee of its Board of Directors. Once the Independent External Monitor is satisfied that an irregularity has taken place, he may inform the Board of GAIL.

VI. IMPLEMENTATION GUIDELINES

To implement the Integrity Pact Programme, the following general Guidelines are suggested:

- a) To select and appoint Independent External Monitors in consultation with CVC and TI India.
- b) To ensure commitment of all Senior Level Executives / Officials of GAIL to implement the programme.

- c) To develop detailed implementation plan and finalize the Integrity Pact document in consultation with the Independent External Monitors.
- d) To notify the Board of Directors, Officials of GAIL, various GAIL establishments, stakeholders and major suppliers of GAIL about the decision to implement the Integrity Pact Programme.
- e) The Integrity Pact Programme is to be hosted on GAIL's website and released to the media for wide publicity.

VII. PERIODIC REVIEW & EVALUATION

GAIL may periodically review the effectiveness of Integrity Pact Programme by all or some of the following means:

- a) An annual self-assessment of Integrity Pact Programme by senior leadership of GAIL and the Independent External Monitors to test the efficacy and identify areas / ways to further improve.
- b) The Independent External Monitors to submit an annual report on the progress / effectiveness of Integrity Pact Programme to the Board of Directors of GAIL.
- c) An annual 360 degree review (by an outside agency) to be conducted in consultation with senior / junior executives of GAIL, suppliers and competitors to test the effectiveness of Integrity Pact Programme in reducing corruption.
- d) On completion of two years, assessment performance improvement index based on identified parameters shall be made by independent agency of repute in consultation with TI India.
- e) An annual review of the programme by the CVC, TI India and GAIL to test the efficacy and identify areas / ways to further improve.

VIII. JURISDICTION OF COURTS

This Pact shall be construed and governed in all respect in accordance with the laws of India. Full attempt must be made to resolve all disputes amicably and with the best of intentions, and the Courts at Delhi shall have exclusive jurisdiction on the disputes relating to this Pact.