

Regulations on Practical Matters for Establishing and Operating Internal Review Committees for Subcontracting Transactions

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I. Purpose

The purpose of these implementation guidelines is to contribute to establishing a fair subcontracting transaction order by requiring the principal contractor to conduct its own prior review of the fairness and legality of subcontracting transactions above a certain scale. They also present general matters for the prior prevention of violations of the "Act on Fairness in Subcontracting Transactions" (hereinafter referred to as the "Subcontracting Act") as stipulated in the "Fairness in Subcontracting Transactions Guidelines".

II. Practical Measures for Establishing and Operating an Internal Review Committee

1. Basic Principles

These implementation guidelines present only the minimum necessary general matters to ensure the autonomy, appropriateness, and effectiveness of the internal review committee established and operated by the principal contractor for fair subcontracting transactions. For matters not covered herein, the relevant principal contractor may establish and operate individual, specific details considering all relevant conditions.

2. Practical Guidelines for Establishing and Operating

Internal Deliberation Committees A. Appropriateness

of Internal Deliberation Committee Composition

(1) The internal review committee shall consist of three or more executives and employees, including an executive officer responsible for subcontracting-related tasks. and may appoint external experts, such as outside directors, as necessary.

(2) If an existing deliberative body established for operating a Compliance Program (CP) meets the requirements in (1) above, it may be operated as the internal review committee.

b. Effectiveness of Internal Deliberation Committee Operation

(1) The internal review committee must be convened regularly at least once a month, and may be convened at any time when urgent matters arise.

(2) The internal review committee shall determine the amount of the previous fiscal year's subcontracting transactions for each subcontractor based on the prime contractor's total subcontracting transaction amount for that fiscal year.

The committee must pre-review the fairness of the contract execution and price determination process, as well as the legality of relevant laws such as the Subcontracting Act, for transactions exceeding a certain percentage (10% if the previous fiscal year's subcontracting transaction amount was less than KRW 100 billion, 5% if between KRW 100 billion and KRW 500 billion, 2% if between KRW 500 billion and KRW 1 trillion, and 1% for amounts of 1 trillion won or more).

<Examples of Pre-Review Items Related to the Subcontracting Act>

- ① Compliance with the obligation to issue a written contract
- ② Compliance with the obligation to open a domestic letter of credit
- ③ Compliance with the obligation to provide a payment guarantee for subcontracted work
- ④ Violation of prohibition against unfair determination of subcontracting payments
- ⑤ Violation of the prohibition against forcing the purchase of goods, etc.
- ⑥ Violation of the prohibition against demanding unfair economic benefits

(3) The internal review committee shall conduct a preliminary review of the appropriateness of the criteria and procedures for registering and canceling partner companies.

(4) The internal review committee shall deliberate on appeals regarding the non-selection or deregistration of partner companies.

(5) The Internal Review Committee shall mediate various disputes arising during transactions with partner companies.

(6) When necessary, it may hear the opinions of relevant contractors, and in such cases, anonymity must be guaranteed if required.

(7) If a deliberation item potentially violates relevant laws such as the Subcontracting Act, it shall be corrected internally. If there is intentional misconduct or gross negligence by relevant officers or employees, disciplinary measures commensurate with the severity of the violation (e.g., personnel disadvantages) shall be taken. The Disciplinary Committee may be utilized if necessary.

(8) Documents related to the deliberation results and measures taken by the internal deliberation committee shall be retained for at least three years from the date of deliberation completion.

3. Dispute Mediation Procedure

a. The principal contractor shall operate the following means for hearing opinions when disputes arise with partner companies.

- (1) Cyber Audit Office (Prime Contractor's website)
- (2) Supplier CEO Meeting

(3) VOC

B. The dispute mediation procedure shall follow the following items.

- (1) When an employee of the principal contractor receives a dispute through the above means, they shall report it without delay to the Shared Growth Task Force or the Chairperson.
- (2) The Chairperson may instruct the Shared Growth Department to investigate the facts regarding the dispute, and the Shared Growth Department shall report to the Chairperson immediately upon completing the investigation.
- (3) The Chairperson may convene a deliberation committee for important matters.
- (4) The Chairperson may summon the parties involved in the dispute to hear their opinions when necessary.
- (5) The Deliberation Committee shall comprehensively evaluate the transaction relationship with the partner company and the allocation of responsibility based on accurate facts to derive a reasonable adjustment outcome.
- (6) The Chairperson shall report the adjustment results directly to the CEO and notify the partner company.

c. Post-Verification of Subcontracting Act Violations

(1) The Review Committee shall inspect the following items regarding subcontracting transactions with partner companies and report to the Chairperson. Support from the Shared Growth Department may be requested for the inspection.

- ① Whether payments were completed within the payment deadline
- ② Whether responsibility for defect repairs was unfairly shifted
- ③ Whether any acts of technology misappropriation have occurred
- ④ Whether subcontracting-related documents such as reduction notices or unit price adjustment agreements are properly maintained

(2) The post-verification procedure standards shall follow the following items.

- ① Verify through the system whether payment was completed within 60 days from the tax invoice issuance date. However, if payment cannot be made due to special circumstances such as payment hold, confirm whether a formal request was submitted.
- ② Verify compliance with the contract and relevant laws and regulations regarding defect repair claims against subcontractors
- ③ Verify the availability of subcontracting-related documentation
- ④ Verify compliance with the Subcontracting Act through other VOC activities

(3) The chairperson may submit important matters reported to the committee as agenda items.

4. Disciplinary Proposals

a. Employees of the principal contractor shall comply with the "Hanssem Ethics Code (Prohibition of Unfair Trade Practices Against Partner Companies, etc.)" and the "Subcontracting Act and Fair Trade Act."

b. Unfair trade practices under the "Hanssem Ethics Code" are defined as follows:

- ① Unjustly refusing to transact
- ② Unfairly discriminating against or treating a transaction counterpart
- ③ Unfairly exploiting one's position in a transaction to deal with the other party

- ④ Engaging in transactions with conditions that unfairly restrict the business activities of the counterparty
- ⑤ Supporting a related party or another company by improperly providing advances, loans, personnel, real estate, securities, goods, services, or intangible property rights, or by transacting under significantly favorable terms
- ⑥ Supporting a related party or another company by conducting transactions through that related party or another company, even though direct transactions with another business would be significantly more advantageous, when the related party or other company plays no substantive role in the transaction

C. Disciplinary procedures shall follow the following items.

- ① Employees of the principal contractor shall report any violations of the "Hanssem Ethics Code" or the "Subcontracting Act, Fair Trade Act" to the Shared Growth Department or the Chairman. However, matters directly identified by the Shared Growth Department shall be reported to the Chairman immediately upon identification.
- ② The Chairperson shall convene the Deliberation Committee immediately upon receiving the report.
- ③ The Chairperson may, if necessary, summon the subject of disciplinary action to attend and make a statement.
- ④ The Deliberation Committee may propose disciplinary action to the Disciplinary Committee when it determines that there was intent or gross negligence in violating the Subcontracting Act.
- ⑤ The chairperson of the Deliberation Committee may attend the Disciplinary Committee meeting to state their opinion, and the Disciplinary Committee shall take personnel measures in accordance with the disciplinary standards table commensurate with the severity of the violation.
- ⑥ Other disciplinary procedures may follow the "Hanssem Reward and Punishment Regulations and Personnel Regulations."

5. Measures and Management

- a. The Chairperson may instruct the Shared Growth Department to take additional measures regarding the Deliberation Committee's decisions, and the Shared Growth Department shall report the results of such measures to the Chairperson in writing.
- b. The minutes documenting the deliberation results shall be approved by the Deliberation Committee Chairperson after the meeting concludes.
- c. The Deliberation Committee shall retain documents related to deliberation results and action items for at least three years from the date of deliberation completion.

3. Criteria for Determining Implementation and Operation of Action Items

The determination of whether the principal contractor has introduced and implemented the action items shall be deemed to have been introduced and implemented if all of the following conditions are continuously met for the preceding one year:

- a. Standards for establishing and operating an internal review committee have been established (e.g., company regulations, operational guidelines).
- b. The standards for establishing and operating the internal review committee have been disclosed (e.g., on the company website).
- c. An internal review committee has been established.
- d. There must be a record of deliberation by the internal review committee (e.g., deliberation on the content of the implementation items).

Supplementary Provisions (July 1, 2017)

This regulation shall take effect from July 1, 2017.

Supplementary Provisions (March 1, 2018)

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Supplementary Provisions (October 17, 2022)

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