USP

UNIVERSAL SERVICE PROVISION

ANNUAL REPORT 2018

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2018 witnessed a new chapter in history as political change inevitably paved the way for institutional reforms and new policies to augment governance, accelerate innovation, boost productivity and move industries up the value chain.

The focus to get more people connected and well-informed is a key priority, especially in rural areas. Towards this end, the initiatives planned and deployed under the Communications and Multimedia (Universal Service Provision) Regulations 2002 to promote the widespread availability and use of network services as well as applications services throughout Malaysia, bring many benefits to people in rural areas and to underserved communities, such as the urban poor.

These initiatives encompass the building of new communications towers to provide mobile cellular and broadband services, the upgrading of base stations at existing communications towers and exchanges for fixed broadband services as well as the deployment of fibre optic networks throughout 2018.

2018 saw the successful deployment of submarine cables to connect the islands of Tioman, Pangkor and Perhentian. This project which was completed in December 2018, realised the Government's commitment to expand high speed broadband services nationwide.

Chairman's Message

The Universal Service Provision Fund (USP Fund) which was established under the Communications and Multimedia Act 1998, is expended for payment of claims made by designated universal service providers for the implementation of the relevant initiatives. As at 31 December 2018, the available USP Fund stood at RM3.8 billion after taking into account the cost commitments in implementing new and ongoing initiatives. Moving forward, more USP funded initiatives will be planned and implemented to meet the targets set out under the National Fiberisation and Connectivity Plan (NFCP). The NFCP is a 5-year plan (2019-2023) which aims to put in place robust, pervasive, high quality and affordable digital connectivity for the well-being of the people and progress of the country.

Infrastructure development plays a very significant role in the economic growth of a nation, and I am confident that the Commission through stewardship of the Universal Service Provision fund is on the right track to drive Malaysia towards becoming a developed and inclusive nation.

AL-ISHSAL BIN ISHAK
Chairman
Malaysian Communications and Multimedia Commission

Overview

ACHIEVEMENT OF INITIATIVES UNDER THE USP PROGRAMME

INTERNET CENTRE

Year Started
2007
Total Completed
869 centres
Completed In 2018
21 centres

NEW COMMUNICATIONS TOWERS

Year Started
2009
Total Completed
1,833 towers
Completed In 2018
169 towers

UPGRADE OF BASE STATIONS AT EXISTING COMMUNICATIONS TOWERS

Year Started
2014
Total Completed
4,895 base stations
Completed In 2018
917 base stations

FIBRE OPTIC NETWORK EXPANSION

Year Started
2014
Total Completed
1,009 km
Completed In 2018
447 km

RURAL BROADBAND

Year Started
2015
Total Completed
102,692 ports
Completed In 2018
66,229 ports

SMART DEVICE WITH INTERNET PACKAGE

Year Started
2014
Total Activated
2,486,340 units
Activated In 2018
58,180 units

SUBMARINE CABLE SYSTEM TO THE ISLANDS

Year Started
2017
Total Completed
99 km
Completed In 2018
99 km

COMMUNITY WIFI

Year Started
2011
Total Completed
1,944 sites
Completed In 2018
192 sites

SUBURBAN BROADBAND

Year Started
2015
Total Completed
457,398 ports
Completed In 2018
91,104 ports

COMPLETED USP INITIATIVES

COMMUNITY BROADBAND LIBRARY

Implementation Period
2007 - 2016
Total Completed
44 sites

TELEPHONY

Implementation Period
2002 - 2018
Total Completed
1,252 units

MINI COMMUNITY BROADBAND CENTRE

Implementation Period
2010 - 2015
Total Completed
120 centres

NETBOOK

Implementation Period
2010 - 2015
Total Completed
1,668,772 units

SUBMARINE CABLE SYSTEM TO SABAH AND SARAWAK

Implementation Period
2015 - 2017
Total Completed
3,819 km

USP Initiatives in Sabah and Sarawak

USP INITIATIVES

NEW COMMUNICATIONS TOWERS
SABAH
367 towers
SARAWAK
458 towers

TELEPHONY
SABAH
68 units
SARAWAK
896 units

As the main objective of the USP initiatives is to bridge the digital divide between rural and urban areas nationwide, the Commission focused on providing new communications networks or upgrading existing communications networks to achieve parity between the rural and urban populace in Sabah and Sarawak.

These USP initiatives indirectly contributed to the increase in broadband penetration rate per 100 inhabitants to 76.4% in Sabah (2017: 64.5%) and 107% in Sarawak (2017: 106.5%).

UPGRADE OF BASE STATIONS AT EXISTING COMMUNICATIONS TOWERS

SABAH
1,133 base stations
SARAWAK
1,092 base stations

RURAL BROADBAND

SABAH
13,270 ports
SARAWAK
4,288 ports

SUBURBAN BROADBAND

SABAH
24,384 ports
SARAWAK
14,992 ports

SUBMARINE CABLE SYSTEM TO SABAH AND SARAWAK

SABAH
1,533 km
SARAWAK
1,219 km

INTERNET CENTRE

SABAH
114 centres
SARAWAK
127 centres

SMART DEVICE WITH INTERNET PACKAGE

SABAH
359,207 units
SARAWAK
307,985 units

COMMUNITY WIFI

SABAH
305 sites
SARAWAK
300 sites

Mid-Term Review – Eleventh Malaysia Plan

In the Mid-Term Review (MTR) of the Eleventh Malaysia Plan, some USP initiatives were selected to be a part of the targets under the third pillar of the Plan – Pursuing Balanced Regional Development through:

Priority Area B
Strengthening Regional Economic Development

Priority Area C
Accelerating Development in Sabah and Sarawak

Pursuant to the MTR, digital infrastructure programmes will be enhanced for coverage expansion and broadband quality improvement through the construction of 300 new communications towers and the upgrading of 1,000 base stations at existing communications towers nationwide.

Of these, 106 new communications towers will be built and 400 base stations at existing communications towers will be upgraded in Sabah and Sarawak.

MTR 11TH MALAYSIA PLAN – PILLAR III: PURSUING BALANCED REGIONAL DEVELOPMENT

SELECTED TARGETS (UNTIL 2020) INVOLVING USP INITIATIVES:

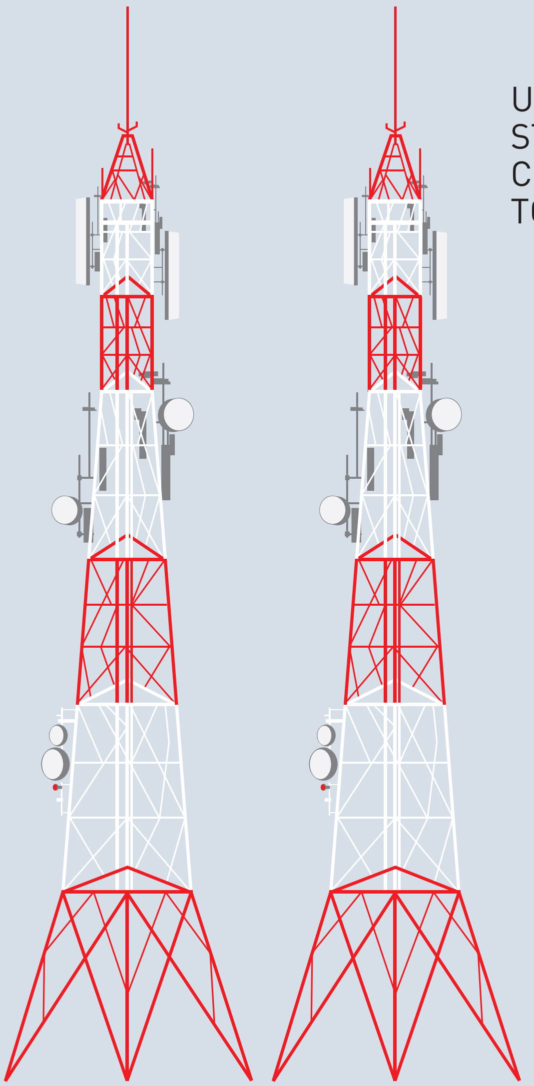
NEW COMMUNICATIONS TOWERS

Nationwide

300 towers

Sabah and Sarawak

106 towers



UPGRADE OF BASE STATIONS AT EXISTING COMMUNICATIONS TOWERS

Nationwide

1,000 base stations

Sabah and Sarawak

400 base stations

USP Initiatives


Push/Pull Tool

New Communications Towers

The implementation of this initiative has boosted the national broadband coverage rate in populated areas to 94.7% in 2018.

The building and deployment of towers in urban areas are commercially viable. In rural areas, funding via the USP Fund is necessary for the deployment of communications infrastructure.

To expand the mobile coverage in rural and remote areas, the Commission has constructed new communications towers through 2 major projects, namely the Time 3 and Time 3 Extension projects involving 1,000 towers each in stages throughout the country since 2009.

An additional 100 small-scale communications towers and 106 new communications towers were built to address coverage issues in areas where the population is dispersed and in areas where there are gaps in coverage.

New Communications Towers

Number of New Communications Towers by State

Sarawak	458 towers
Sabah	367 towers
Pahang	300 towers
Kelantan	145 towers
Terengganu	137 towers
Perak	117 towers

2017	2018	SINCE 2009
262 TOWERS	169 TOWERS	1,833 TOWERS

Johor	115 towers
Negeri Sembilan	89 towers
Kedah	77 towers
Selangor	26 towers
Perlis	1 tower
Pulau Pinang	1 tower

Upgrade of Base Stations at Existing Communications Towers

The increasing demand for bandwidth in rural areas has strengthened the need for base stations at existing communications towers to be upgraded to provide mobile broadband services at higher speeds.

As of 31 December 2018, a total of 4,895 base stations at existing communications towers have been upgraded to 3G/4G services nationwide since implementation began in 2014. Of these, 917 base stations at existing communications towers were upgraded in 2018.

Implementation of this initiative will encourage the use of smart devices as well as online applications that require high-speed and higher capacity bandwidth.

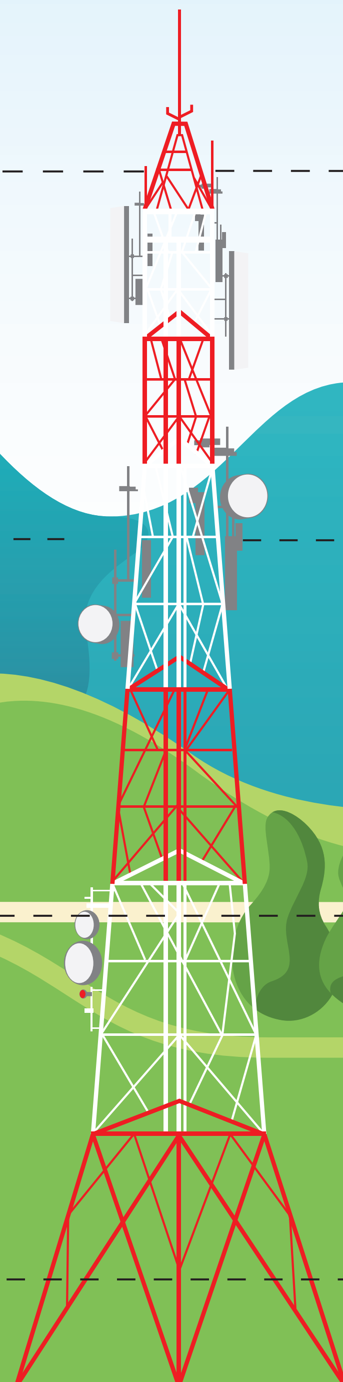
Upgrade of Base Stations at Existing Communications Towers

Number of Base Stations at Existing Communications Towers Upgraded by State and Federal Territory

2017
1,928
BASE STATIONS

2018
917
BASE STATIONS

SINCE 2014
4,895
BASE STATIONS



Pahang
654
base stations

Sarawak
1,092
base stations

Sabah
1,133
base stations

Perak
530
base stations

Johor
447
base stations

Kelantan
257
base stations

Negeri Sembilan
230
base stations

Perlis
29
base stations

Melaka
90
base stations

Kedah
193
base stations

Terengganu
211
base stations

Selangor
22
base stations

Pulau Pinang
6
base stations

W.P. Labuan
1
base station

Suburban Broadband and Rural Broadband

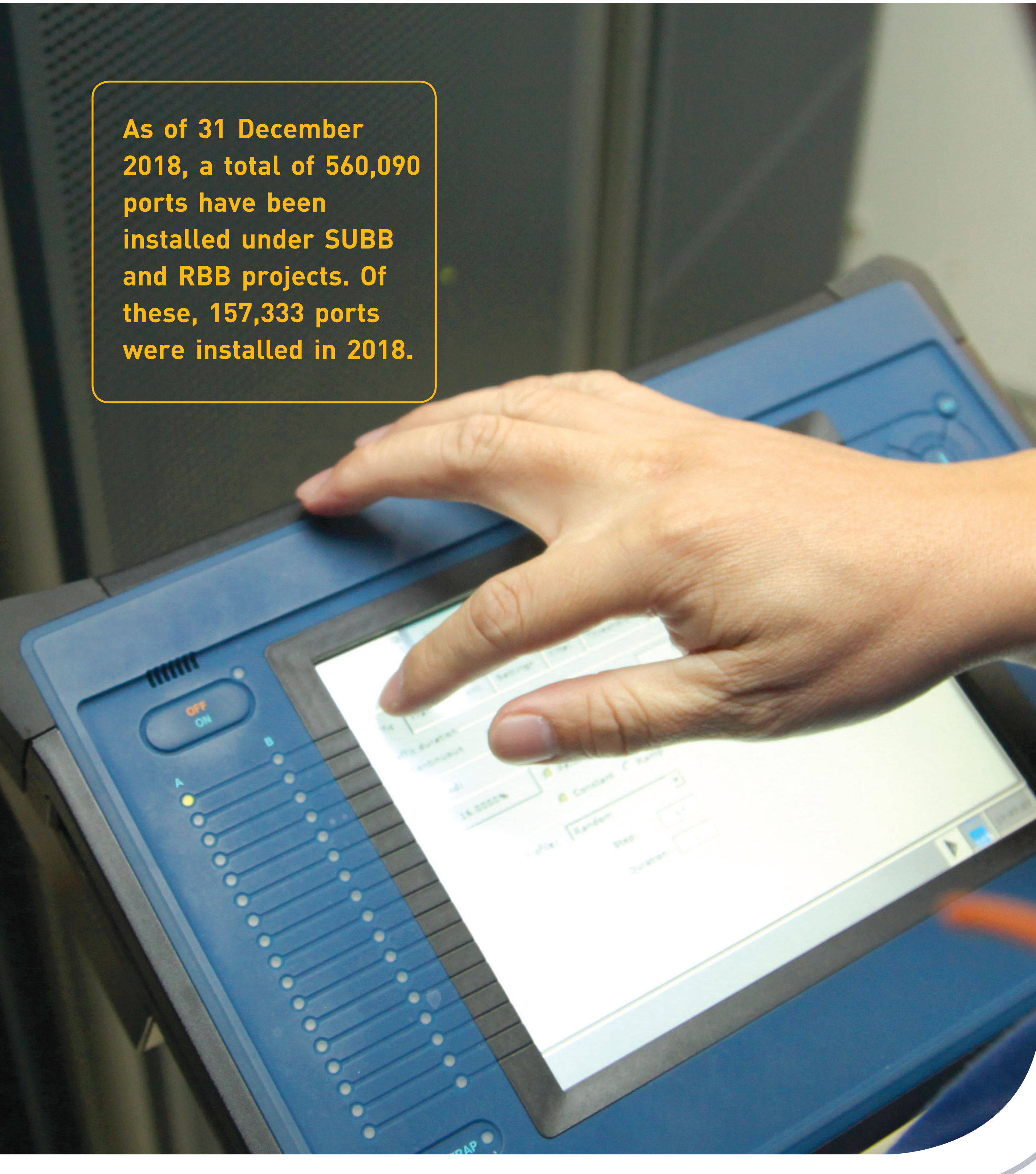
The Suburban Broadband (SUBB) and Rural Broadband (RBB) projects under USP were introduced to expand the provision of fixed broadband services.

The SUBB project was initiated in 2015 to provide broadband services with speeds of up to 20 Mbps in suburban areas, and involves the upgrading of 431 exchanges all over the country. The SUBB project is partly funded under the USP programme and implemented through a public-private partnership (PPP) between Telekom Malaysia Berhad (TM) and the Government. The project is expected to be completed in 2019.

The RBB project is fully funded under the USP programme, and was implemented to provide broadband services with speeds of up to 20 Mbps in rural areas including in low-cost housing areas nationwide.

The implementation of these two projects has contributed towards the increase in the national broadband penetration rate per 100 inhabitants from 100.4% in 2015 to 121.1% in 2018.

As of 31 December 2018, a total of 560,090 ports have been installed under SUBB and RBB projects. Of these, 157,333 ports were installed in 2018.



Suburban Broadband and Rural Broadband

Number of Ports by State and Federal Territory

Johor
123,446
ports

Perak
89,576
ports

Selangor
75,036
ports

Sabah
37,654
ports

Melaka
30,465
ports

Negeri Sembilan
29,524
ports

Kedah
28,992
ports

Kelantan
25,232
ports

Pulau Pinang
22,568
ports

Sarawak
19,280
ports

2017
180,440
PORTS

2018
157,333
PORTS

SINCE 2015
560,090
PORTS

Pahang
41,133
ports

Terengganu
25,638
ports

W.P. Labuan
4,410
ports

W.P. Kuala Lumpur
4,016
ports

Perlis
3,120
ports

Fibre Optic Network Expansion

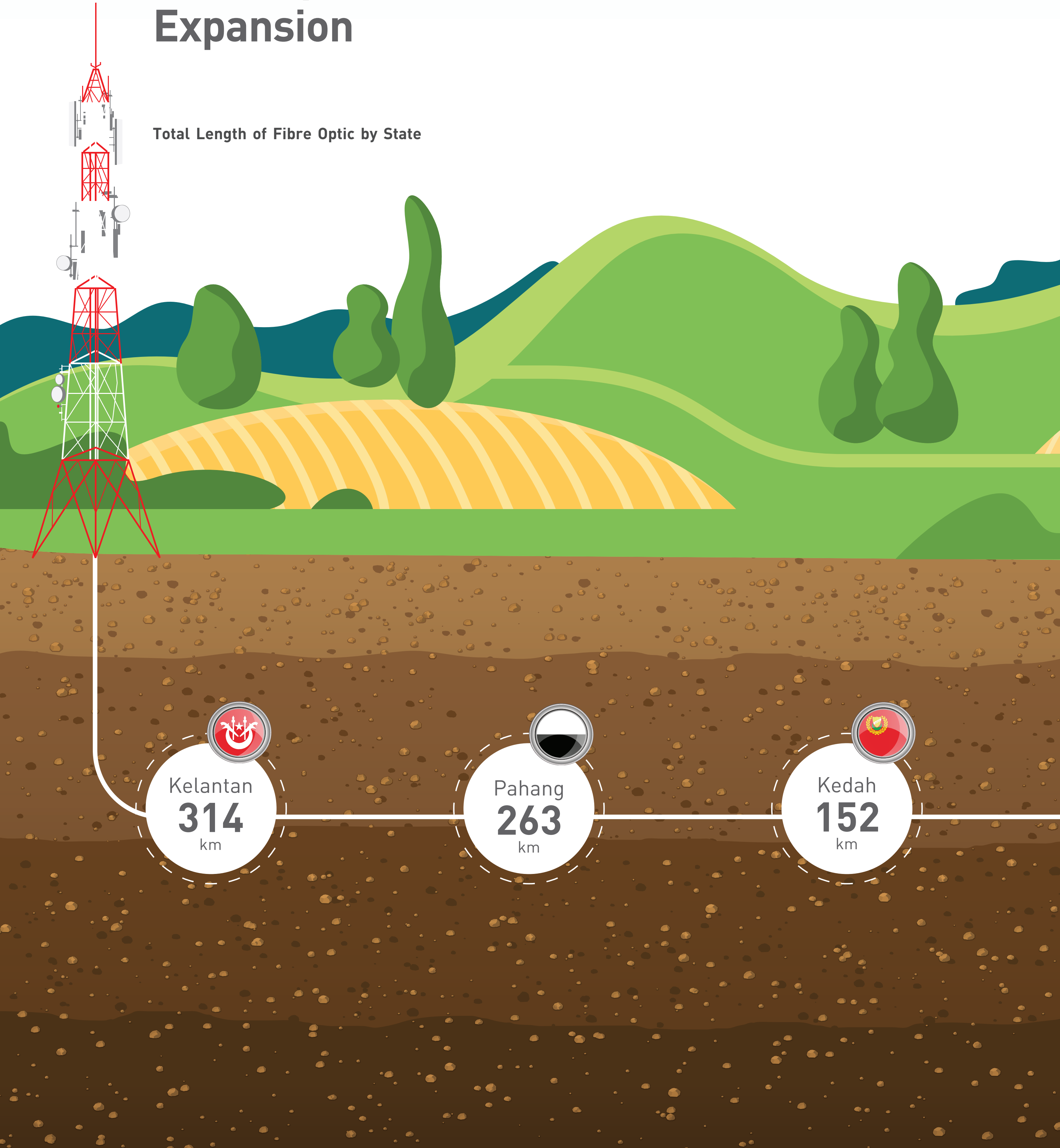
This initiative was introduced in 2014 for the purpose of fiberising communications towers to enable the delivery of higher broadband speeds and improve quality of service as well as increase broadband usage in rural and suburban areas.

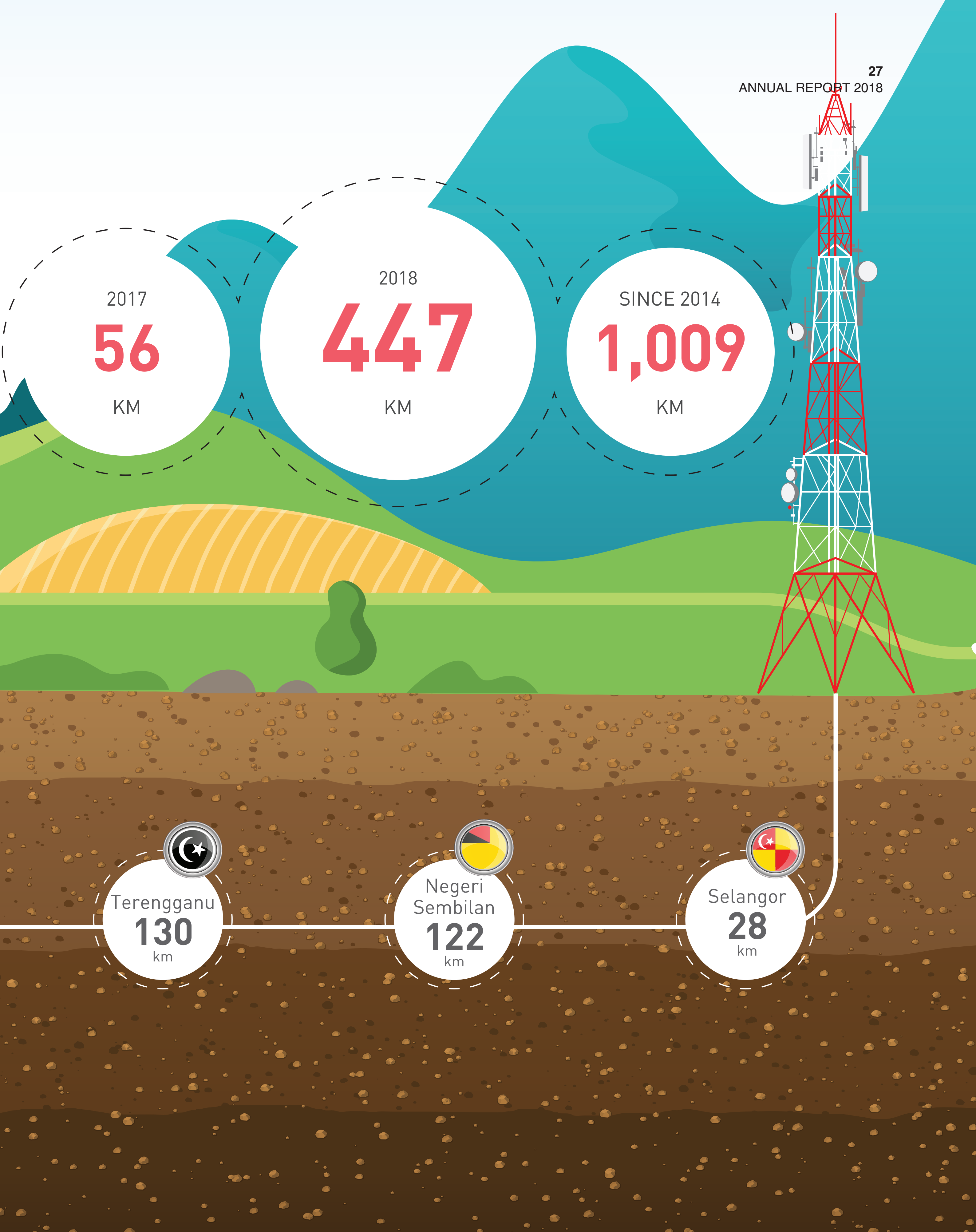
As of 31 December 2018, a total of 1,009 kilometres of fibre optic have been deployed throughout the country.

Deploying fibre optic in the core network to support the provision of high-speed broadband service to mobile broadband users.

Fibre Optic Network Expansion

Total Length of Fibre Optic by State




2017
56
KM
2018
447
KM
SINCE 2014
1,009
KM
Terengganu
130
km
Negeri Sembilan
122
km
Selangor
28
km

Submarine Cable System to the Islands

The Submarine Cable System to the Islands project began in 2017 and involves the installation of submarine cables from the mainland to Tioman Island, Pangkor Island and Perhentian Island with a total length of 99 kilometres and 100 Gbps capacity.

The project, which was fully completed in December 2018, provides high-speed broadband to all three islands, to meet the demands of the local communities for bandwidth capacity and broadband services, and to ultimately improve their socio-economic development.

The Commission had previously also implemented the Submarine Cable System project connecting Peninsular Malaysia to Sabah and Sarawak through a public-private partnership (PPP) with Telekom Malaysia Berhad (TM) in 2017 with a total length of 3,819 kilometres and 4Tbps capacity.

TOTAL DISTANCE

99

KM

Smart Device with Internet Package

The Smart Device with Internet Package initiative was introduced in 2014 and involves providing assistance to users in the B40 group to purchase selected smart devices. Through this initiative, eligible users will receive a RM250 subsidy including a one year free internet subscription with selected smart device purchase.

This subsidy was offered in rural areas and to low-income groups through the major service providers namely Celcom, Maxis, DiGi and U Mobile.

As of 31 December 2018, a total of 2,486,340 units of smart devices have been activated nationwide.

Smart Device with Internet Package

Number of Smart Devices Activated by State and Federal Territory

Sabah
359,207
units

Sarawak
307,985
units

Selangor
281,818
units

Johor
213,547
units

Perak
186,528
units

Pahang
173,297
units

Kedah
140,027
units

Terengganu
131,904
units

W.P. Kuala Lumpur
120,380
units

Pulau Pinang
119,546
units

Kelantan
114,883
units

Negeri Sembilan
114,069
units

Melaka
87,656
units

W.P. Labuan
76,904
units

Perlis
58,589
units

2017
748,667
UNITS

2018
58,180
UNITS

SINCE 2014
2,486,340
UNITS

Internet Centre

The Internet Centre is an initiative that offers collective internet access including entrepreneurship training. This initiative has also been implemented in urban areas for underserved groups such as communities living in low cost housing areas.

The Internet Centre not only offers internet access services, but also offers free ICT and entrepreneurship training to all registered members. A majority of users are students who rely on the facilities to obtain information and complete school assignments. Local entrepreneurs also use the facilities at the Internet Centre for business and online marketing purposes.

An internet centre is equipped with 20 units of computers, 10 of which are dedicated for the use of ICT and entrepreneurship training. The internet centre also provides indoor and outdoor WiFi to enable users to access the internet via personal devices.

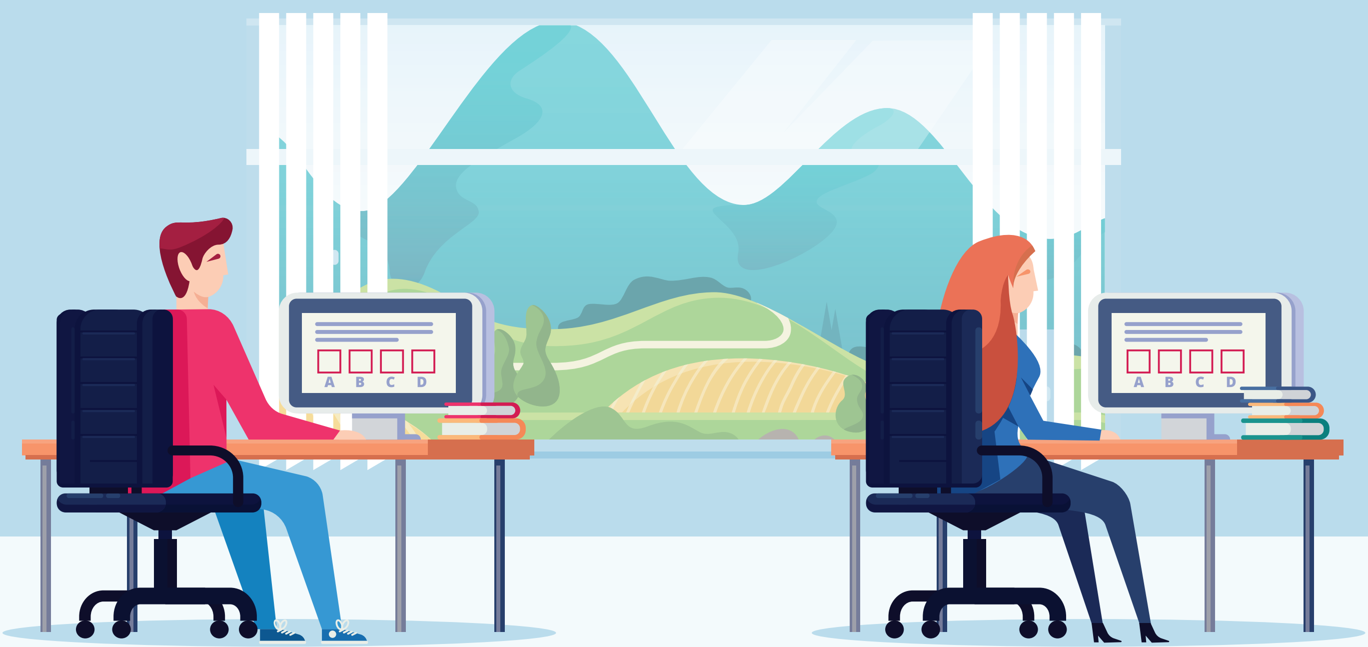
As of 31 December 2018, a total of 869 Internet Centres are in operation throughout the country. Of these, 21 Internet Centres were built in 2018.

This initiative has been successful in closing the digital divide between the urban and the rural areas. It has also provided a boost to the local economy by enabling more businesses to be conducted online.

Internet Centre

Number of Internet Centres by State and Federal Territory

Sarawak	127 centres
Sabah	114 centres
Pahang	108 centres
Johor	86 centres
Negeri Sembilan	50 centres
Selangor	42 centres
Melaka	29 centres
W.P. Kuala Lumpur	21 centres



2017
92
CENTRES

2018
21
CENTRES

SINCE 2007
869
CENTRES

Kedah
73
centres

Kelantan
70
centres

Perak
66
centres

Terengganu
64
centres

Perlis
13
centres

W.P. Putrajaya
4
centres

Pulau Pinang
1
centre

W.P. Labuan
1
centre

Community WiFi

Community WiFi is an initiative to provide free internet access through WiFi hotspots in selected underserved areas. The WiFi hotspots are located within a 3-kilometre radius from the Internet Centre, with a coverage of up to 250 metres each. The Community WiFi service is monitored by the Internet Centre Manager to ensure continued availability to the surrounding community.

This initiative is expected to create IT savvy communities within the underserved areas and boost the local economy by getting entrepreneurs to expand their traditional business using online platforms.

As of 31 December 2018, a total of 1,944 Community WiFi sites are in operation nationwide. Of these, 192 Community WiFi sites were completed in 2018.

2017
311
SITES

2018
192
SITES

SINCE 2011
1,944
SITES

Sabah	305 sites
Sarawak	300 sites
Pahang	222 sites
Kedah	159 sites
Terengganu	159 sites
Johor	158 sites
Kelantan	147 sites
Perak	103 sites
W.P. Kuala Lumpur	99 sites
Selangor	99 sites
Negeri Sembilan	90 sites
Melaka	70 sites
Perlis	18 sites
W.P. Putrajaya	12 sites
W.P. Labuan	3 sites

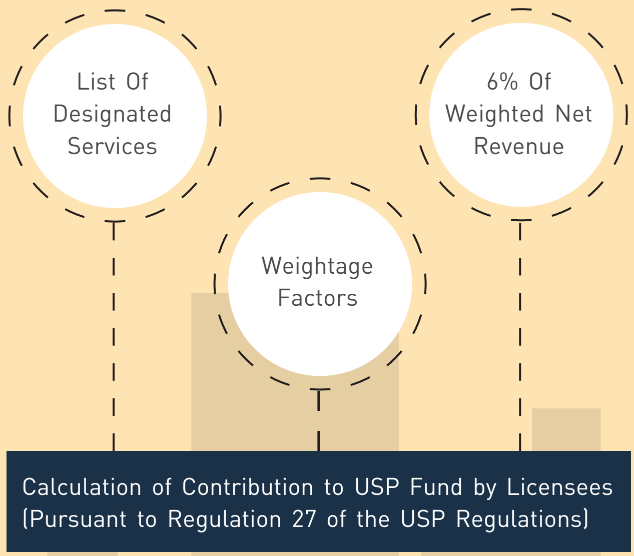
USP Fund

USP Fund

The Universal Service Provision Fund (USP Fund) was established under Section 204 of the Communications and Multimedia Act 1998.

The USP Fund is created for the implementation of network facilities, network services and applications services in underserved areas and communities. Project claims in the form of Capital Expenditure (CAPEX) and Operational Expenditure (OPEX) from the USP Fund are disbursed to the designated service providers upon approval from the Commission.

Contribution to the Fund by licensees is based on three factors as stipulated by the Communications and Multimedia (Universal Service Provision) Regulations 2002 (the USP Regulations).



Regulation 27 of the USP Regulations requires all licensees (except for Content Applications Services Provider (CASP) license holder), whose total net revenue for the previous calendar year derived from the designated services exceeds minimum revenue threshold of RM2 million to contribute 6% of its weighted net revenue to the USP Fund.

No.	Designated Services	Weightage Factor	
		Up to 31 Dec 2003	From 1 Jan 2004
	Regulated under the Communications and Multimedia (Rates) Rules 2002		
1	Local call	0	0
2	National call	1	0
3	Rental on exchange lines (residential and business)	0	0
4	Operator assisted call	1	0
5	Directory assistance service	0	0
6	Connection Service	0	0
7	Reconnection Service	0	0
8	Internet access communication charge	0	0
9	Internet access charge	0	0
10	Audiotext hosting service	1	0
	Not regulated under the Communications and Multimedia (Rates) Rules 2002		
11	International call	1	1
12	Call termination service provided to foreign network facilities provider, foreign network services provider or foreign applications services provider	1	1
13	Freephone service	1	1
14	ISDN	1	1
15	Cellular mobile service	0.5	1
16	International roaming service	0.5	1
17	IP telephony	1	1
18	Leased lines	1	1
19	Such other activities subject to an individual or class license	0	1

Table C of the USP Regulations

The contribution to the USP Fund is calculated based on the submitted return of the net revenue from designated services by all licensees. This is an annual obligation and licensees are required to submit the return and their audited financial statements of the previous calendar year by 30th June of each year. The format of the return is detailed in the USP Regulations. Upon computing the weighted net revenue, the amount of contribution is as follows:

The present contribution rate is 6% of total weighted net revenue

Contribution Formula

USP Fund Collection

A total of RM2.31 billion was recognised as income for the USP Fund for 2018. This is based on the Return of Net Revenue submitted by licensees as well as interest income.

Claims

Regulation 20 and 20A of the USP Regulations provide the mechanism for the designated universal service provider to submit their claims for the cost of USP projects. In addition, Regulation 12 of the USP Regulations allows for the disbursement of advance payment to the designated universal service provider towards the capital cost of implementation of USP projects.

A total amount of RM1.26 billion was recognised as expenses for claims by designated universal service providers in 2018 for implementation of USP projects.

In summary, the table below shows the contribution and claims from 2003 to 2018:

Year	Contribution	Disbursement
	(RM'000)	(RM'000)
2003	811,945	10,639
2004	512,114	23,592
2005	697,298	44,304
2006	800,845	22,788
2007	896,769	59,318
2008	1,011,645	153,843
2009	992,633	47,684
2010	1,210,377	263,882
2011	1,429,000	896,550
2012	1,445,017	1,421,298
2013	1,454,664	1,497,032
2014	1,486,357	729,905
2015	1,498,237	1,394,479
2016	1,043,679	1,287,256
2017	997,879	1,240,318
2018	1,985,849	1,264,736

The Contribution and Claims from 2003 to 2018

Statement of Accounts

Statement by the Members

of the Malaysian Communications and Multimedia Commission

We, Al-Ishsal Ishak and Chin Yoong Kheong, being two of the Members of the Malaysian Communications and Multimedia Commission, do hereby state that in the opinion of the Members of the Commission, the financial statements set out on pages 53 to 76 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Fund as of 31 December 2018 and of its income and expenditure and cash flows for the financial year then ended.

Signed in accordance with a resolution by the Members of the Malaysian Communications and Multimedia Commission:

Al-Ishsal Ishak

Chin Yoong Kheong

Cyberjaya, Selangor
3 July 2019

Statutory Declaration

I, Cho Shi Chong, the officer primarily responsible for the financial management of Universal Service Provision Fund, do solemnly and sincerely declare that the financial statements set out on pages 53 to 76 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named at Putrajaya, Wilayah Persekutuan on 25 July 2019.

Cho Shi Chong

Before me:

Independent Auditors' Report

to the members of Malaysian Communications and Multimedia Commission on the Universal Service Provision Fund

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Universal Service Provision Fund ("the Fund"), which comprise the statement of financial position as at 31 December 2018 of the Fund, and statement of income and expenditure and recognised gains and losses and statement of cash flows of the Fund for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 53 to 76.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis of opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Fund in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The Members of the Malaysian Communications and Multimedia Commission ("the Commission") is responsible for the other information. The other information comprises the annual report, but does not include the financial statements of the Fund and our auditors' report thereon. We expect the annual report to be made available to us after the date of the auditors' report.

Our opinion on the financial statements of the Fund does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Fund, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Fund or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Members of the Commission and take appropriate action.

REPORT ON THE FINANCIAL STATEMENTS (CONTD.)

Responsibilities of the Commission for the financial statements

The Commission is responsible for the preparation of financial statements of the Fund that give a true and fair view in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Commission is also responsible for such internal control as the Commission determine is necessary to enable the preparation of financial statements of the Fund that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Fund, the Commission is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Commission either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Fund as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Fund, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Commission.

Independent Auditors' Report

to the members of Malaysian Communications and Multimedia Commission on the Universal Service Provision Fund

REPORT ON THE FINANCIAL STATEMENTS (CONTD.)

Auditors' responsibilities for the audit of the financial statements (contd.)

- Conclude on the appropriateness of the Commission's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Fund or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Fund, including the disclosures, and whether the financial statements of the Fund represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Commission regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

In accordance with the requirements of the Communications and Multimedia (Universal Service Provision) Regulations 2002 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Regulations to be kept by the Fund have been properly kept in accordance with the provisions of the Communications and Multimedia (Universal Service Provision) Regulations 2002.

Other matters

This report is made solely to the Commission, as a body, in accordance with Regulation 36(2) of the Communications and Multimedia (Universal Service Provision) Regulations 2002 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

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No. 02857/07/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
3 July 2019

Statement of Financial Position

As at 31 December 2018

	Note	2018 RM'000	2017 RM'000
Assets			
Non-current asset			
Deferred tax asset	3	**7,420**	5,591
Current assets			
Other investments	4	**7,796,225**	7,750,000
Contributions and other receivables	5	**2,005,593**	1,249,787
Tax recoverable		**27,891**	321,338
Cash and cash equivalents	6	**121,749**	152,771
		9,951,458	9,473,896
Total assets		**9,958,878**	9,479,487
Current liability			
Other payables	7	**661,584**	924,499
		661,584	924,499
Represented by:			
Accumulated funds	8	**9,297,294**	8,554,988
Total liabilities and accumulated funds		**9,958,878**	9,479,487

The accompanying notes form an integral part of the financial statements.

Statement of Income and Expenditure and Recognised Gains and Losses

For the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Income			
Contributions	10	**1,985,849**	997,879
Interest income		**318,675**	314,802
Other income		**2,255**	1
Reversal of allowance for expected credit loss	5	**5,725**	6,398
		2,312,504	1,319,080
Expenditure			
Claims by USP service providers		**(1,264,736)**	(1,240,318)
Allowance for expected credit loss	5	**(8,136)**	(7,609)
Other expenses		**(548)**	(2)
		(1,273,420)	(1,247,929)
Surplus before tax		**1,039,084**	71,151
Tax expense	11	**(291,072)**	(19,575)
Surplus after tax, representing total recognised gains		**748,012**	51,576

The accompanying notes form an integral part of the financial statements.

Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Cash flows from operating activities			
Surplus before tax		**1,039,084**	71,151
Adjustments for:			
Reversal of allowance for expected credit loss		**(5,725)**	(6,398)
Allowance for expected credit loss		**8,136**	7,609
Interest income		**(318,675)**	(314,802)
Operating surplus/(deficit) before changes in working capital		**722,820**	(242,440)
Changes in working capital:			
Contributions and other receivables		**(904,173)**	(113,093)
Other payables		**(262,369)**	94,057
Cash used in operations		**(1,166,542)**	(19,036)
Tax paid		**–**	(99,415)
Net cash used in operating activities		**(443,722)**	(360,891)
Cash flows from investing activities			
Interest received		**312,700**	314,802
Withdrawal/(placement) in other investments		**100,000**	(200,000)
Net cash generated from investing activities		**412,700**	114,802
Net decrease in cash and cash equivalents		**(31,022)**	(246,089)
Cash and cash equivalents at 1 January		**152,771**	398,860
Cash and cash equivalents at 31 December	6	**121,749**	152,771

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements
For the year ended 31 December 2018

1. CORPORATE INFORMATION

The principal activities of the Universal Service Provision Fund ("the Fund") are to promote the widespread availability and usage of network services and/or application services throughout Malaysia by encouraging the installation of network facilities and the provision for network services and/or applications services in underserved areas or for underserved groups within the community.

The Fund was established under Section 204 of the Communications and Multimedia Act 1998 and is regulated by the Communications and Multimedia (Universal Service Provision) Regulations 2002 ("USP Regulations"). The Fund commenced its operations in September 2002. The Fund is managed by the key management personnel of the Malaysian Communications and Multimedia Commission ("the Commission") in accordance to the aforesaid regulations.

The address of the principal place of business is as follows:

Malaysian Communications and Multimedia Commission
MCMC Tower 1, Jalan Impact, Cyber 6
63000 Cyberjaya
Selangor Darul Ehsan

These financial statements were authorised for issue by the Commission's Members on 3 July 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Fund have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"). The financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below. The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand ("RM'000") except when otherwise indicated.

2.2 Changes in accounting policies

On 1 January 2018, the Fund adopted the following new MFRSs mandatory for annual financial periods beginning on or after 1 January 2018:

Description	Effective for annual periods beginning on or after
MFRS 9: Financial Instruments	1 January 2018
MFRS 15: Revenue from Contracts with Customers	1 January 2018
Annual Improvements to MFRS Standards 2014-2016 Cycle	1 January 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Changes in accounting policies (contd.)

The nature and effect of the changes as a result of adoption of the above MFRSs on the financial performance and position of the Fund are described below.

(a) MFRS 9: Financial Instruments

MFRS 9 Financial Instruments replaces MFRS 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

The Fund has adopted the modified retrospective approach, without restating comparatives.

The Fund has identified the change in the impairment loss model from the existing incurred loss model to the Expect Credit Loss model ("ECL"). Under the incurred loss model, the Fund assesses for impairment loss only when an indicator of impairment arises. With the ECL model, the Fund assesses the expected level of credit loss arising from its receivables at the point of recognition, by estimating the expected loss using a recovery rate.

The Fund applies the simplified approach in assessing the impairment of its receivables. The Fund adopted the approach on balances within its credit period as well.

The financial assets of the Fund were previously classified as loans and receivables under MFRS 139. Upon adoption of MFRS 9, the financial assets are classified as financial assets at amortised costs. There are no changes to the classification of financial liabilities arising from the adoption of MFRS 9.

As the Fund does not apply hedge accounting, the principles of hedge accounting under MFRS 9 will not be applicable to the Fund. Other than the above, there is no further impact to the financial assets and liabilities of the Fund upon adoption of MFRS 9.

The effect of adopting MFRS 9 is as follows:

	As previously stated RM'000	Adjustments RM'000	As restated RM'000
1 January 2018			
Statement of financial position			
Contributions receivables			
– Allowance for expected credit loss:			
(i) Contribution receivables	**(19,968)**	**(5,706)**	**(25,674)**
Accumulated funds	**(8,554,988)**	**5,706**	**(8,549,282)**

The adjustment relates to additional provision arising from change in impairment model from incurred loss to the expected credit loss model.

Notes to the Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Changes in accounting policies (contd.)

(b) MFRS 15: Revenue from Contracts with Customers

MFRS 15 supersedes MFRS 118 Revenue, MFRS 111 Construction Contracts, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. MFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

MFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Fund has adopted the modified retrospective approach, without restating comparatives.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

The Fund has undertaken analysis of how MFRS 15 should be implemented and has taken accounting policy decisions. The key outcome of the Fund's analysis of the impact of MFRS 15 on its revenue are as follows:

(i) Licensees who holds a licence granted by the Malaysian Communications and Multimedia Commission ("MCMC") are bound by the provisions of the Communications and Multimedia Act 1998 ("CMA 1998") and also the USP Regulations. Licensees are required to contribute to the Fund as stipulated in the USP Regulations, creating a contract between the Fund and the licensees;

(ii) The Fund has assessed that there is no performance obligation as there are no goods or services being promised to the licensees as their licenses were awarded by MCMC. However, as per the USP Regulations, all licensees shall contribute to the Fund except for those licensees whose total net revenue for the previous calendar year derived from the designated services is less than the minimum revenue threshold of RM2 million. Hence, the licensees have an obligation to contribute to the Fund;

(iii) The Fund has determined the transaction price of the contract as the amount of consideration to which it expects to be entitled to in exchange of verifying the Return of Net Revenue ("RONR"). This is calculated as 6% of the weighted net revenue of the licensee in the previous calendar year;

(iv) The Fund has concluded that there are no significant changes to the timing of revenue recognition of its obligatory contribution; and

(v) There are no significant changes needed to its current processes and information systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.3 Standards issued but not yet effective

The standards that are issued but not yet effective up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
MFRS 16 Leases	1 January 2019
Amendments to MFRS 3 Business Combinations	1 January 2020
Amendments to MFRS 9 Prepayment Features With Negative Compensation	1 January 2019
Amendments to MFRS 101 Presentation of Financial Statements	1 January 2020
Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
Amendments to MFRS 119 Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to MFRS 128 Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to MFRS Standards 2015 – 2017 Cycle	
– MFRS 112 Income Taxes	1 January 2019
– MFRS 123 Borrowing Costs	1 January 2019
IC Int 23 Uncertainty over Income Tax Treatments	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021

The Commission expects that the adoption of the above standards will have no material impact on the financial statements in the period of initial application.

2.4 Income taxes

(a) Current income tax

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, at the reporting date in the countries where the Fund operates and generates taxable income.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

Notes to the Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Income taxes (contd.)

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amounts of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Income taxes (contd.)

(b) Deferred tax (contd.)

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

2.5 Recognition of income

(a) Contributions from licensees

Contributions are recognised on the accrual basis on the licensees' annual Return of Net Revenue ("RONR") stated at 6% on weighted net revenue of the prior calendar year. Licensees whose net revenue is below RM2 million in the previous calendar year are not required to contribute.

Potential contributions from licensees who did not submit their annual RONR are recognised based on preceding year's RONR. If either of these is not available, revenue is not recognised due to the material uncertainty relating to the amount of contributions payable by the said licensees.

(b) Interest income

Interest income is recognised as it accrues using the effective interest method in the statement of income and expenditure.

2.6 Financial assets

Initial recognition

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("OCI") or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Fund's business model for managing them. With the exception of contributions receivables that do not contain a significant financing component or for which the Fund has applied the practical expedient, the Fund initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, directly attributable transaction costs. Contributions receivables that do not contain a significant financing component or for which the Fund has applied the practical expedient are measured at the transaction price determined under MFRS 15. Please refer to the accounting policies stated in Note 2.5(a).

Notes to the Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.6 Financial assets (contd.)

Initial recognition (contd.)

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest ("SPPI")' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at the instrument level.

The Fund's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

(i) Financial assets at amortised cost (debt instrument);
(ii) Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
(iii) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); or
(iv) Financial assets at fair value through profit or loss.

The Fund measures financial assets at amortised cost if both of the following conditions are met:

(i) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
(ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Fund's trade and other receivables are categorised as financial assets at amortised cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.6 Financial assets (contd.)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Fund's statement of financial position) when:

(i) The rights to receive cash flows from the asset have expired; or
(ii) The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

2.7 Financial liabilities

Initial recognition

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities are recognised in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the financial instrument. The Fund's financial liabilities are classified as subsequently measured at amortised cost. The Fund has not designated any financial liabilities as at fair value through profit or loss.

Subsequent measurement

Other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Derecognition

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Notes to the Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.8 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and are measured as financial assets at amortised cost in accordance with policy Note 2.6.

2.9 Impairment of financial assets

The Fund recognises an allowance for ECL for all debt instruments not held at fair value through profit or loss. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive.

ECL is recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL is provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For contributions receivables, the Fund applies a simplified approach in calculating ECL. Therefore, the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Fund has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.10 Fair value measurement

Fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.10 Fair value measurement (contd.)

When measuring the fair value of an asset or a liability, the Commission uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The Fund recognises transfers between levels of the fair value hierarchy as at the date of the event or change in circumstances that caused the transfers.

2.11 Current and non-current classification

The Fund presents assets and liabilities in statements of financial position based on current and non-current classification.

An asset is classified as current when it is:

- expected to be realised or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within 12 months after the reporting period; or
- cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

Notes to the Financial Statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.12 Foreign currencies

Functional and presentation currency

The individual statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates ("the functional currency"). The financial statements are presented in RM, which is also the Fund's functional currency.

2.13 Significant accounting judgements and estimates

The preparation of the Fund's financial statements requires the Commission to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

(a) Critical judgements made in applying accounting policies

There were no critical judgements made in applying the accounting policies of the Fund which may have significant effects on the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Income taxes

Significant estimation is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Fund recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.13 Significant accounting judgements and estimates (contd.)

(b) Key sources of estimation uncertainty (contd.)

(ii) Deferred taxation

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are disclosed in Note 3.

(iii) Provision for expected credit losses ("ECL") for contributions receivables

The Fund uses a provision matrix to calculate ECL for contributions receivables. The provision rates are based on days past due for groupings of various licensee segments that have similar loss patterns.

The provision matrix is initially based on the Fund's historical observed default rates. The Fund will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amounts of ECL are sensitive to changes in circumstances and of forecast economic conditions. The Fund's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

However, the Fund concluded that customers' ECL does not have high correlation with forecast economic factors.

The information about the ECL on the Fund's contributions receivables is disclosed in Note 5.

Notes to the Financial Statements

For the year ended 31 December 2018

3. DEFERRED TAX ASSET

	2018 RM'000	2017 RM'000
At beginning of year	**5,591**	5,349
Recognised in income statement (Note 11)	**1,829**	242
At end of year	**7,420**	5,591

Deferred tax assets arose solely from temporary differences from allowance for expected credit loss of contributions and other receivables.

4. OTHER INVESTMENTS

	2018 RM'000	2017 RM'000
These comprise term deposits with:		
– licensed banks	**7,796,225**	7,750,000

Short term deposits with licensed banks are made with maturities ranging from 3 to 12 months (2017: 3 to 12 months). The deposits bore weighted average interest rate of 4.17% (2017: 3.97%).

5. CONTRIBUTIONS AND OTHER RECEIVABLES

	2018 RM'000	2017 RM'000
Contributions receivables	**367,239**	1,129,505
Less: allowance for ECL (Note b)	**(26,500)**	(19,968)
	340,739	1,109,537
Unbilled receivables (Note a)	**1,664,854**	–
Interest income receivables	**–**	140,250
Total contribution and other receivables	**2,005,593**	1,249,787
Add: Cash and cash equivalents (Note 6)	**121,749**	152,771
Add: Other investments (Note 4)	**7,796,225**	7,750,000
Total financial assets at amortised cost	**9,923,567**	9,152,558

5. CONTRIBUTIONS AND OTHER RECEIVABLES (CONTD.)

(a) Unbillied receivables

Unbilled receivables primarily relate to rights to consideration for contributions to be made by licensees but have yet to be notified at the reporting date.

(b) Provision for ECL

	2018 RM'000	2017 RM'000
At 1 January, as previously reported	**19,968**	19,103
Effect arising from adoption of MFRS 9	**5,706**	–
At 1 January, restated	**25,674**	19,103
Provision for ECL	**8,136**	7,609
Reversal of provision for expected credit loss	**(5,725)**	(6,398)
Write off of provision for expected credit loss	**(1,585)**	(346)
At 31 December	**26,500**	19,968

An impairment analysis is performed at each reporting date using a provision matrix to measure ECL. The provision rates are based on days past due for groupings of various licensee segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, receivables are provided for if past due for more than one year and are not subject to enforcement activity.

Set out below is the information of the credit risk exposure on the Fund's receivables using a provision matrix:

31 December 2018	Average ECL rate %	Gross carrying amount RM'000	Provision for ECL RM'000
1 to 30 days	**6%**	**6,897**	**382**
31 to 60 days	**6%**	**5,381**	**299**
61 to 90 days	**0%**	**–**	**–**
91 to 120 days	**1%**	**93,569**	**979**
121 to 365 days	**3%**	**243,084**	**6,532**
More than 365 days	**100%**	**18,308**	**18,308**
		367,239	**26,500**

Notes to the Financial Statements

For the year ended 31 December 2018

6. CASH AND CASH EQUIVALENTS

	2018 RM'000	2017 RM'000
Cash at bank	**15,141**	4,355
Deposits with licensed banks	**106,608**	148,416
Total cash and cash equivalents	**121,749**	152,771

Deposits with licensed banks are made for maturity periods between one day and 3 months depending on the immediate cash requirements of the Fund with weighted average interest rate of 3.10% (2017: 3.03%).

Information on financial risks of cash and cash equivalents are disclosed in Note 13.

7. OTHER PAYABLES

	2018 RM'000	2017 RM'000
Sundry payables	**128,925**	248,641
Accrued USP claims	**532,659**	675,858
Total financial liabilities at amortised cost	**661,584**	924,499

8. ACCUMULATED FUND

	2018 RM'000	2017 RM'000
As at 1 January, as previously reported	**8,554,988**	8,503,412
Effect arising from adoption of MFRS 9	**(5,706)**	–
As at 1 January, as restated	**8,549,282**	–
Surplus after tax	**748,012**	51,576
As at 31 December	**9,297,294**	8,554,988

9. AUDIT FEE

Audit fee of RM60,000 (2017: RM65,000) is borne by the Malaysian Communications and Multimedia Commission.

10. CONTRIBUTIONS

Contributions represent funds received from licensees who are required to contribute to the Fund as stipulated in the licence granted by the Malaysian Communications and Multimedia Commission.

In prior years, contributions received were net of the estimated Goods and Services Tax rebate ("GST rebate") payable to the licensee in respect of Malaysian prepaid users. In the current year, upon clarification and approval of the Commission, such rebates is no longer applicable to the Fund resulting in a reversal of RM472.8 million to the statement of income and expenditure of the Fund.

There are no disaggregated information to be presented as the Fund only has one source of revenue. Contributions are recognised at a point in time.

Information relating to contributions receivables balances arising from contracts with licensees is disclosed in Note 5.

11. TAX EXPENSE

	2018 RM'000	2017 RM'000
Income tax expense		
– Current year	**290,498**	20,134
– Under/(over)provision in prior years	**2,403**	(317)
	292,901	19,817
Deferred tax expense (Note 3)		
– Origination and reversal of temporary differences	**(1,829)**	(242)
– Relating to changes in income tax rate	**–**	(573)
– Underprovision in prior years	**–**	573
	(1,829)	(242)
Total tax expense	**291,072**	19,575

The Fund's chargeable income is taxed at scaled rates that are applicable to individuals. The first RM1 million is taxed at scaled rates up to 26% (2017: 26%). Chargeable income beyond RM1 million is taxed at the statutory tax rate of 28% (2017: 28%).

Notes to the Financial Statements

For the year ended 31 December 2018

11. TAX EXPENSE (CONTD.)

A reconciliation of income tax expense applicable to surplus before tax at the statutory income tax rate to the income tax expense at the effective income tax rate of the Fund is as follows:

	2018 RM'000	2017 RM'000
Surplus before tax	**1,039,084**	71,151
Tax on first RM1,000,000	**239**	250
Remaining tax at statutory tax rate of 28%	**290,664**	19,642
Effect on deferred tax on changes in income tax rate	**–**	(573)
Income not subject to tax	**(2,234)**	–
Under/(over)provision of income tax in prior years	**2,403**	(317)
(Over)/underprovision of deferred tax in prior years	**–**	573
	291,072	19,575

12. COMMITMENT

	2018 RM'000	2017 RM'000
Costs for the implementation of the Universal Service Provision:		
Approved but not awarded	**492,075**	492,075
Awarded but not provided for	**5,005,776**	5,926,116
	5,497,851	6,418,191

13. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Fund is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include interest rate risk (both fair value and cash flow), liquidity risk and credit risk.

The Commission reviews and agrees policies and procedures for the management of these risks, which are executed by the Chairman. The audit committee provides independent oversight to the effectiveness of the risk management process.

13. FINANCIAL INSTRUMENTS (CONTD.)

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Fund's financial instruments will fluctuate because of changes in market interest rates.

The Fund's exposure to interest rate risk arises primarily from deposits with licensed banks and financial institutions.

Interest on financial instruments subject to floating interest rates is contractually repriced at intervals of less than 7 days (2017: less than 7 days). The other financial instruments of the Fund that are not subject to floating interest rates will not be subject to interest rate risks.

(c) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's exposure to liquidity risk arises principally from its other payables.

The Fund maintains sufficient levels of cash and cash equivalents to ensure, as far as possible, that it will be able to meet its liabilities when they fall due.

The Fund's liabilities are all payable within one year after the financial year end.

(d) Credit risk

Credit risk is the risk of a financial loss to the Fund if a service provider or counterparty to a financial instrument fails to meet its contractual obligations. The Fund's exposure to credit risk arises principally from its contributions and other receivables and deposits placed with licensed banks.

Contributions and other receivables

As at the reporting date, the maximum credit exposure on receivables is limited to the carrying amount of the receivables less provision for expected credit loss.

The Commission has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values.

Details of expected credit loss in relation to receivables are disclosed in Note 5.

The Fund's credit period with its licensees is generally for a period of 30 days (2017: 30 days), except for licensees who wish to contribute in two instalments, where the credit period for the second instalment is generally for a period of 180 days (2018: 180 days). The Fund seeks to maintain strict control over its outstanding contributions and has procedures in place to minimise credit risk. Overdue balances are reviewed regularly by senior management. Any outstanding contribution having significant balances past due more than 365 days, which are deemed to have a higher credit risk, will be monitored individually.

Notes to the Financial Statements
For the year ended 31 December 2018

13. FINANCIAL INSTRUMENTS (CONTD.)

(d) Credit risk (contd.)

Deposits placed with licensed banks

Risk management objectives, policies and processes for managing the risk

Deposits are allowed to be placed only with licensed financial institutions.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the Fund has only placed deposits with domestic licensed banks. The maximum exposure to credit risk arising from deposits placed with licensed banks is represented by the carrying amounts in the statement of financial position.

(e) Fair value of financial instruments

The carrying amounts of cash and cash equivalents, contributions and other receivables and other payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

14. RELATED PARTIES

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Fund if the Fund has the ability, directly or indirectly, to control or to jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Fund and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Fund either directly or indirectly. Key management personnel include all the Members of the Commission and senior management of the Commission.

The Government of Malaysia ("GOM") including those entities controlled, jointly controlled or under significant influence by the GOM are considered as related parties of the Commission. All the transactions processed by the Commission for the GOM-related entities are conducted in the ordinary course of business.

15. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

There are no transactions with key management personnel during the financial year. The remuneration of key management personnel are paid by the Commission.

16. RELATED PARTY TRANSACTIONS

There are no related party transactions during the current and prior financial year other than as disclosed elsewhere in the financial statements.

17. FUND MANAGEMENT POLICY

The primary objective of the Fund's fund management is to ensure that it is able to meet its liabilities as and when they fall due and to achieve its operational objectives.

The Fund manages its accumulated funds by budgeting its funding needs ahead and adjust its expenditures as required. The Fund continuously monitors its budget against actual results and identify efficiencies in its operations.

No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017.

18. LEGAL PROCEEDINGS

During the previous year, on 4 October 2016, Maju Nusa Sdn Bhd (In Liquidation) ("Maju Nusa") has filed a civil lawsuit ("Civil Suit") against the Commission following the revocation of Maju Nusa's designations as the Designated Universal Service Provider ("DUSP") for the Time 3 Phase 3 project and Time 3 Extension Phase 1 project ("T3 Projects").

In the Civil Suit, Maju Nusa is claiming monetary compensation amounting to approximately RM109.6 million of which RM45.2 million relates to costs incurred for the T3 Projects and the remaining balance of the claims is for additional losses incurred by Maju Nusa.

On 14 November 2016, Maju Nusa has filed an application for Summary Judgment at the High Court ("Summary Judgment Application") in respect of debts due by the Commission to Maju Nusa in the amount of RM36.0 million.

On 16 November 2016, the Commission made an application to strike out the Civil Suit ("Striking Out Application"), which was dismissed by the High Court on 4 April 2017 with costs to Maju Nusa.

Following the dismissal of the Striking Out Application, the Commission filed a notice of appeal to the Court of Appeal on 11 April 2017 against the decision of the High Court to dismiss the Striking Out Application ("Appeal").

Pursuant to the filing of the Appeal, the Commission has applied for stay of proceedings in respect of the Summary Judgment Application and the Civil Suit, which was duly granted by the Court of Appeal on 17 July 2017.

Notes to the Financial Statements
For the year ended 31 December 2018

18. LEGAL PROCEEDINGS (CONTD.)

On 29 November 2017, the Court of Appeal overturned the decision of the High Court and ruled in favour of the Commission. This in essence means that both the Civil Suit and the Summary Judgment Application of Maju Nusa were struck out.

On 8 January 2018, Maju Nusa has filed for judicial review application ("JR Application"). On 25 June 2018, the High Court has dismissed the JR Application with cost of RM8,000 to be paid to the Commission.

Maju Nusa has filed a Notice of Appeal dated 24 July 2018. The appeal is fixed for case management on 16 July 2019.

As at to date, Maju Nusa has yet to pay the Commission the costs awarded by the High Court in relation to the dismissal of the JR Application.

In addition, the Commission has issued a letter dated 17 January 2018 to Maju Nusa to demand certain sums owed to the Commission as a result of the revocation of Maju Nusa's designations as the DUSP for the T3 Projects. However, Maju Nusa has since been wound up by an order of the Court dated 11 January 2018. On 3 October 2018, the Commission filed a proof of debt with the Insolvency Department to recover the following from Maju Nusa:

(a) payment made by the Commission to Maju Nusa pursuant to the Notification of Designation as Universal Service Provider dated 8 November 2012 for the Time 3 Phase 3 project ("T3P3 Project");

(b) costs of designating new DUSPs for quality improvement on 2G services and to implement 3G services for T3P3 Project;

(c) costs incurred by the Commission for rental and power supply charges as a result of revocation of Maju Nusa's designation as DUSP for T3P3 Project;

(d) payment made by the Commission to ensure continued connection of 2G services at the sites for the T3P3 Project up until 7 January 2016 (i.e. the effective date of revocation of Maju Nusa's designation as DUSP in respect of the T3P3 Project; and

(e) costs incurred by the Commission for land rental as a result of revocation of Maju Nusa's designation as DUSP in respect of Time 3 Extension Phase 1 project.

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