ANNUAL REPORT

UNIVERSAL SERVICE PROVISION

MALAYSIAN COMMUNICATIONS
AND MULTIMEDIA COMMISSION

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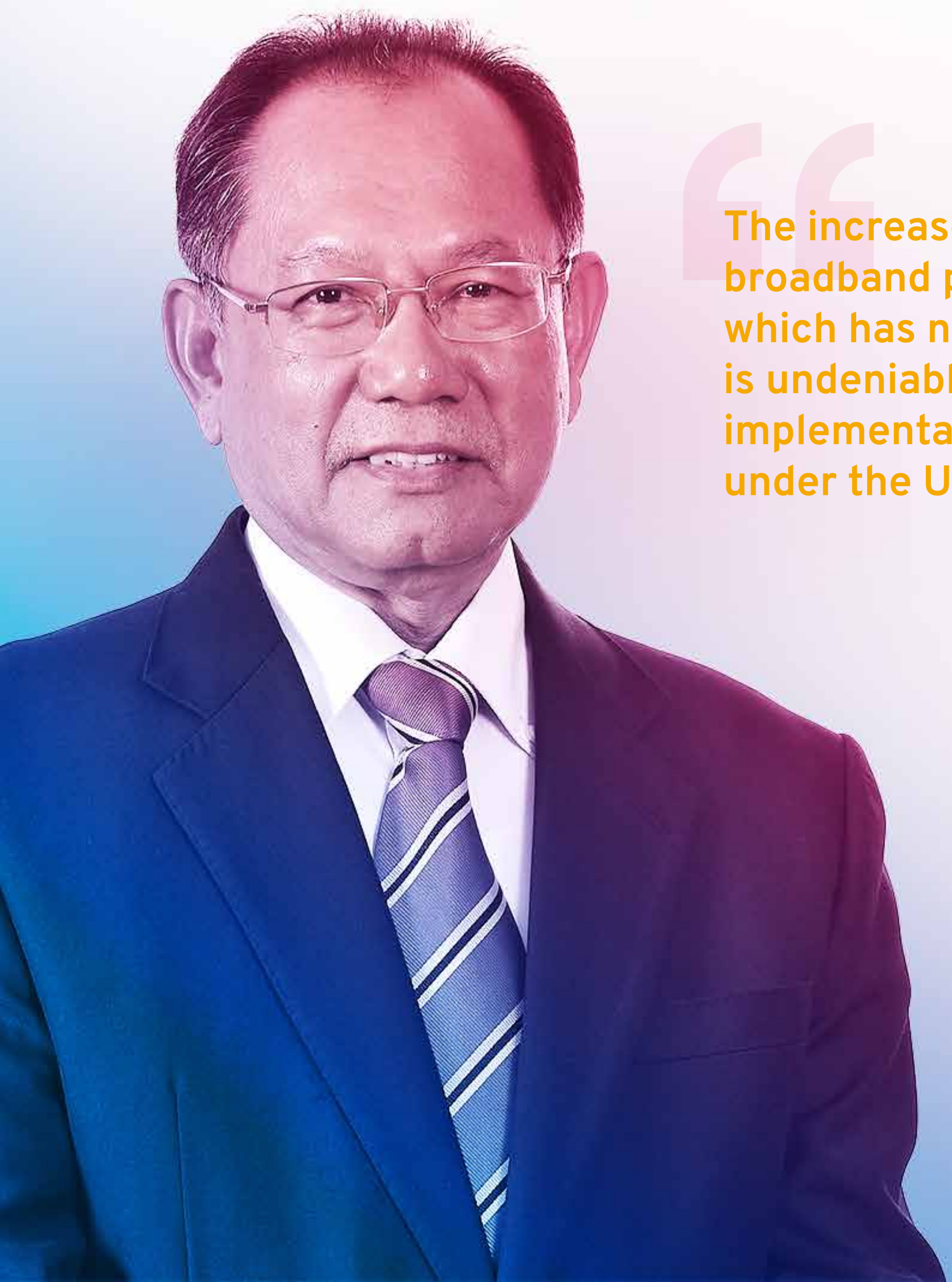
CHAIRMAN'S MESSAGE



"The increase of national broadband penetration rate which has now reached to 81.5% is undeniably supported by the implementation of initiatives under the USP programme."

Dato' Sri Dr. Halim Bin Shafie

Chairman
Malaysian Communications and Multimedia Commission

Assalamualaikum and Salam 1Malaysia.

2016 ended with some interesting things happened throughout the implementation of the Universal Service Provision (USP) programme. The one that stole the attention was the Commission's action to overcome communications coverage issues in Sarawak in a very short period of time.

In April 2016, a total of 150 communication towers under the USP programme had been successfully activated within 2 months of implementation. At the same time, a total of 438 sites of Community WiFi were also successfully activated. This exceptional performance was not possible without the cooperation and good communication between the Commission and the appointed service providers.

Provision of communication access in underserved areas continues to be the main agenda in the USP programme. Until end of 2016, the Commission had managed to build 1,402 new communication towers and upgraded 2,050 existing towers under the Mobile Broadband Coverage Expansion initiative.

Meanwhile, under the Fixed Broadband Expansion initiative, a total of 235,965 ports had been installed through the Suburban Broadband and Rural Broadband initiatives.

In addition, the Commission also managed to build 758 1Malaysia Internet Centres, 4,190 Community WiFi, installed 506 kilometres of fibre optic core network and recorded 1,679,493 activation of Smart Device with Internet Package nationwide.

The increase of national broadband penetration rate which has now reached to 81.5% is undeniably supported by the implementation of initiatives under the USP programme. The Commission hopes that all the efforts undertaken will make Malaysia a more advanced nation in providing a holistic communications infrastructure.

I am pleased to present the 2016 USP annual report.

Overall project status

1MALAYSIA INTERNET CENTRE
758*
sites built
2016 | **101**

MINI 1MALAYSIA INTERNET CENTRE
6
sites built
2016 | **5**

NEXT GENERATION 1MALAYSIA INTERNET CENTRE
2
sites built

COMMUNITY BROADBAND LIBRARY
44
sites built

TELEPHONY
1,252
units installed

COMMUNITY WIFI
4,190
sites built
2016 | **1,212**

NEW COMMUNICATION TOWER
1,402
towers built and activated
2016 | **396**

UPGRADING OF EXISTING TOWER
2,050
towers upgraded
2016 | **1,298**

RURAL BROADBAND
16,575
ports installed
2016 | **9,875**

SUBURBAN BROADBAND
219,390
ports installed
2016 | **129,218**

UPGRADING OF FIBRE OPTIC NETWORK
506
kilometres fibre optic cable installed
2016 | **170**

1MALAYSIA PEOPLE'S CABLE SYSTEM
2,810
kilometres fibre optic cable installed

SMART DEVICE WITH INTERNET PACKAGE
1,679,493
units activated
2016 | **435,604**

FIGURES ARE AS OF 31 DECEMBER 2016

**Including Mini 1Malaysia Internet Centre & Next Generation 1Malaysia Internet Centre*

OVERVIEW


PUSAT INTERNET

USP PROJECTS

COMMUNITY ACCESS


Teknik Menderaf Pola & Menggunting Baju Kurung Pesak Gantung / Riau /
Suggested by Inspirasi
#DapurDara: The Search. (Full Episode)
0:26 / 0:30
#DapurDara musim pertama bersama Shazz!
Inspirasi

1MALAYSIA INTERNET CENTRE

It is widely known about the success and effectiveness of the 1Malaysia Internet Centre (PI1M) in providing collective broadband access, including exposure of ICT and entrepreneurship knowledge especially to the rural communities.

The implementation of PI1M is not only limited to underserved areas such as in rural areas, but also focusing to the underserved groups in urban areas such as community living in low-cost housing areas.

Besides providing free ICT and entrepreneurship training, PI1M also provides special facilities for people with disabilities to browse the internet with special space and devices for the disabled to enjoy the ICT services.

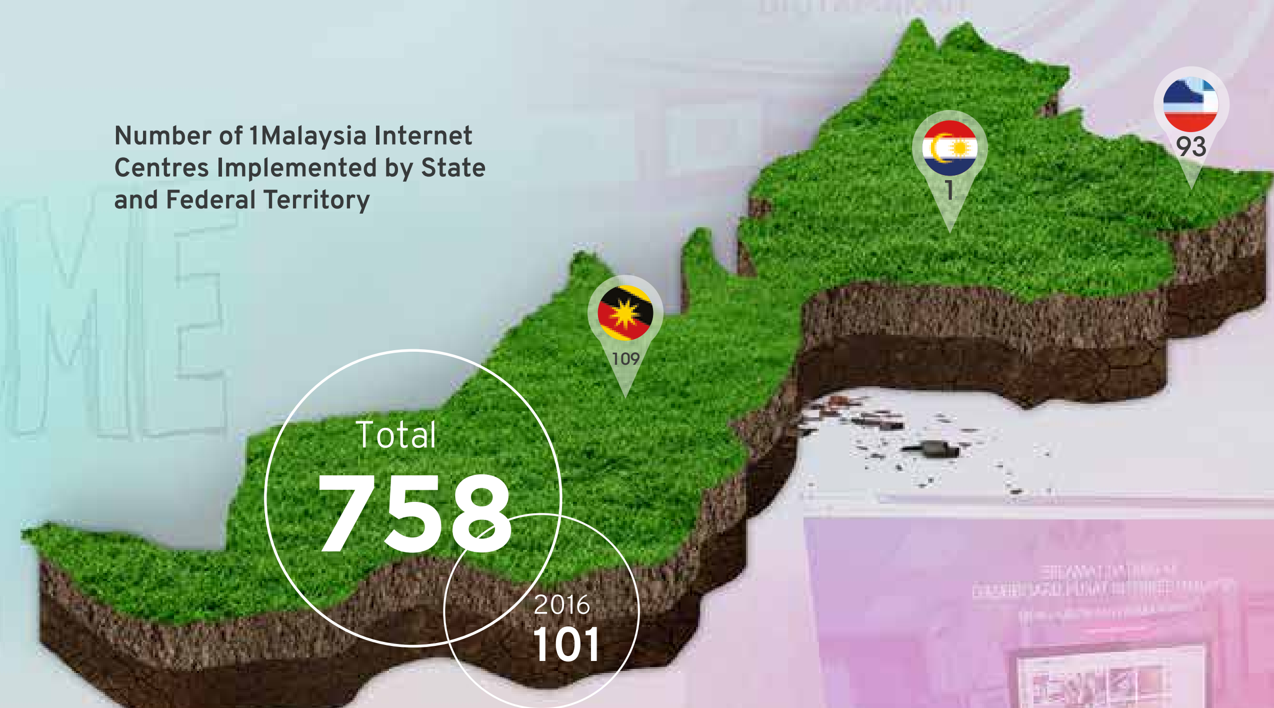
"The implementation of PI1M is not only limited to underserved areas such as in rural areas but also focusing to the underserved groups in urban areas such as community living in low-cost housing areas."

Since 2015, the Commission has started to introduce Mini PI1M for small communities in rural area and Next Generation PI1M (Nextgen PI1M) which is a more advanced PI1M with its own special function.

Unlike the regular PI1M which is equipped with 20 computers, Mini PI1M is a smaller scale PI1M equipped with 10 computers and managed by an Assistant Manager. Although the Mini PI1M's size is only about 300 to 500 square feet, it also offers the same services as any other PI1Ms. As of 31 December 2016, a total of 6 Mini PI1Ms has been completed and in operation throughout the country.

The Nextgen PI1M, on the other hand, was established to foster an innovation society by organising mobile apps workshops and competitions, and also acts as a natural disaster command centre. To date, 2 Nextgen PI1Ms have been completed and been in operation in Kemaman, Terengganu which are known as Kemaman Open Innovation Lab (KOIL) and Kemaman Command Centre (KCC). As of 31 December 2016, a total of 758 PI1Ms have been completed and fully operational throughout the country. Of these, 97 PI1Ms were built in urban areas.

Number of 1Malaysia Internet Centres Implemented by State and Federal Territory



Programmes Implemented at PI1M

2 Next Generation PI1M KOIL & KCC have been chosen as one of the flagship project for Kemaman Smart Community

App development & Lego workshop #BAL to empower rural communities with learning Science, Technology, Engineering and Mathematics (STEM)

Skrip ke Skrin A comprehensive programme to produce short videos that promote local products effectively and widely through social media like YouTube, e-commerce and many more

An **ICT volunteer programme (MIV)** that focuses on the utilization of ICT tools and ICT development at selected PI1Ms

Mykomuniti Kreatif (#Mykif) A platform to encourage community at PI1M to produce videos in the form of tutorials, guidelines, tips, advices, instructions, information, recipes or any relevant content

Computerized Radio Amateur Examination (E-RAE) conducted at selectd PI1Ms

Klik Dengan Bijak Awareness and education on internet safety and security programme PI1M

MyMaker (#myMaker) A technology-based programme to learn, share and build connected devices such as embedded boards, sensors, 3D, robotics and drones

Mobile e-waste An awareness campaign to promote on how to handle mobile e-waste


KENAPA JALUR LEBAR?
Latihan ICT
PERCUMA kepada
pengunjung

COMMUNITY WIFI

Community WiFi (WK) initiative provides wireless broadband access via hotspots, implemented within 3 kilometres from 1Malaysia Internet Centre (PI1M) by the using Hub & Spoke approach.

The Hub & Spoke approach, which was first introduced in 2014, is seen as a better solution to optimise the bandwidth usage and provides smooth broadband surfing and subsequently improves the WK service quality. Hence, standalone's WKs that ended its contract will not be continued to focus on the betterment of the Hub & Spoke implementation.

PI1M that serves as a Hub that locates the cache server also serves as a network monitoring centre for WK service. PI1M's manager has been tasked to monitor WK services from time to time and to report to the service provider for any service disruption.

The Commission hopes that the local community could practise the ICT knowledge they have learned at PI1M by utilising the available WK service.

Until the end of 2016, a total of 4,190 WKs have been completed throughout the country. Of these, 1,212 WKs were implemented in 2016.

Number of Community WiFi Implemented by State and Federal Territory

The Commission hopes that the local community could practise the ICT knowledge they have learned at PI1M by utilising the available WK service.

COMMUNITY BROADBAND LIBRARY

Community Broadband Library (CBL) was first introduced in 2007 to provide broadband access at selected state libraries nationwide.

Unlike the 1Malaysia Internet Centre, CBL is managed by a supervisor who is responsible for managing the operations of the CBL and conduct the ICT trainings to the local community.

Until the end of 2016, a total of 44 CBLs are still operating throughout the country.

Number of Community Broadband Libraries Implemented by State

Until the end of 2016, a total of 44 CBLs are still operating throughout the country.

> **The Commission will continue to maintain this initiative as long as there is demand for public payphones throughout the country.**

TELEPHONY

The telephony initiative, which involves the installation of public payphones began its implementation in 2002 and is still operating until now.

The implementation of this initiative has once reached more than two thousand units of public payphones, but has substantially reduced due to the evolution of technology, which is more focused on mobile phones as a medium of communication.

Even so, there are areas that are still relying on public payphones such as in the remote areas. The Commission will continue to maintain this initiative as long as there is demand for public payphones throughout the country.

Until the end of 2016, a total of 1,252 units of public payphones are still operating and being maintained throughout the country.

Number of Payphones Installed by State

MOBILE BROADBAND COVERAGE EXPANSION

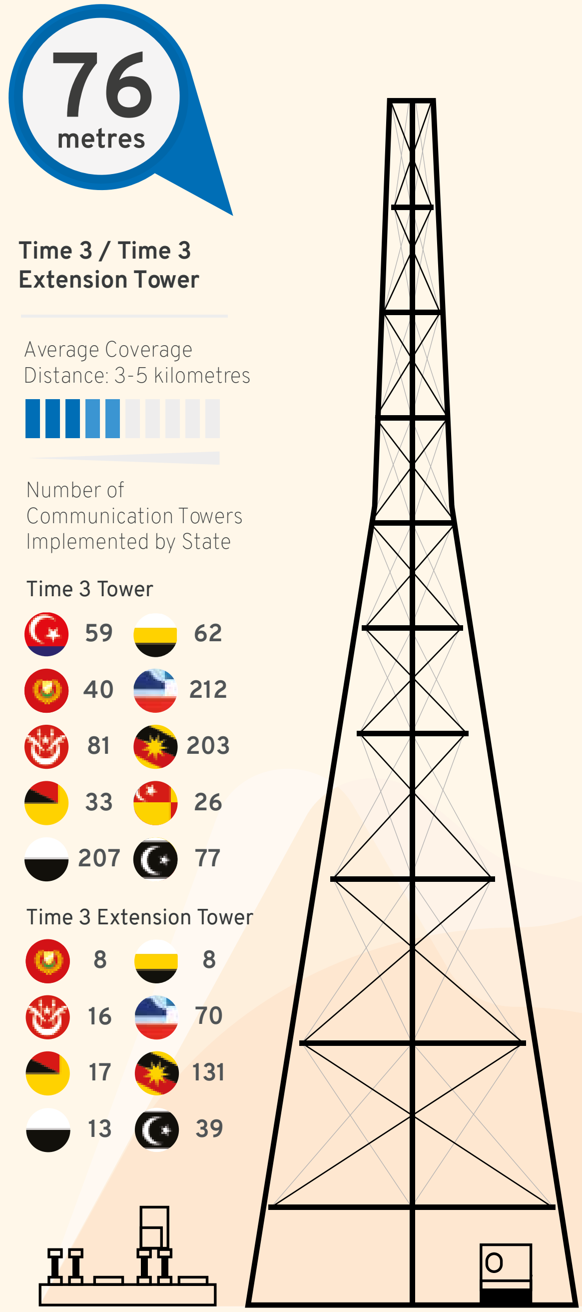
NEW COMMUNICATION TOWER

To expand the cellular and mobile broadband coverage, the Commission has built new communication towers in areas with no coverage and in areas with poor coverage across the country.

A total of 2,000 new communication towers have been allocated through two projects which are the Time 3 tower and Time 3 Extension tower. 1,000 communication towers under Time 3 have been fully completed in 2015, while a total of 302 communication towers under Time 3 Extension have been completed and activated until the end of 2016.

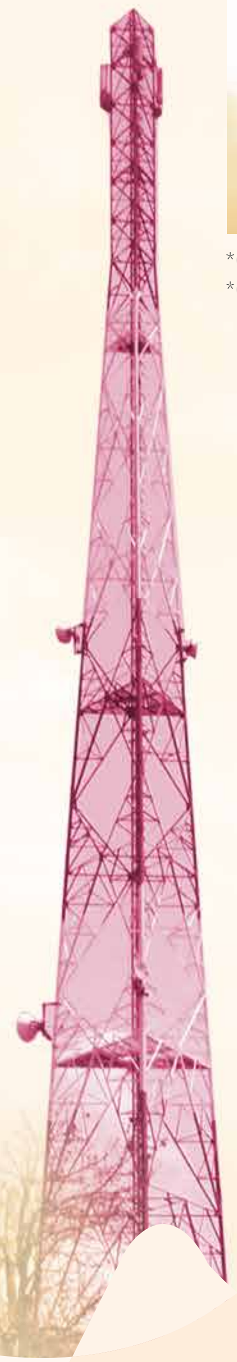
Apart from building Time 3 and Time 3 Extension communication towers, the Commission also built small scale communication towers to address the coverage issues in small population areas and in areas which were blocked from receiving coverage. For this purpose, a total of 100 small scale communication towers have been built and activated until the end of 2016.

Constructions of new communication towers have managed to increase the national mobile broadband population coverage to 91% as of quarter four 2016. These new towers which are mostly located in remote areas have helped the rural communities in their daily communication.

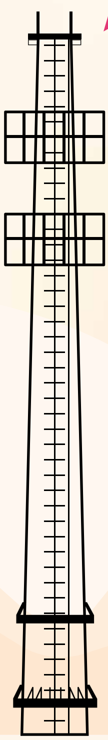


Constructions of new communication towers have managed to increase the national mobile broadband population coverage to 91% as of quarter four 2016.

*(Diagram) Small Scale Tower (Smallcell)
*(Left Diagram) Time 3 / Time 3 Extension Tower



Number of Communication Towers Implemented by State



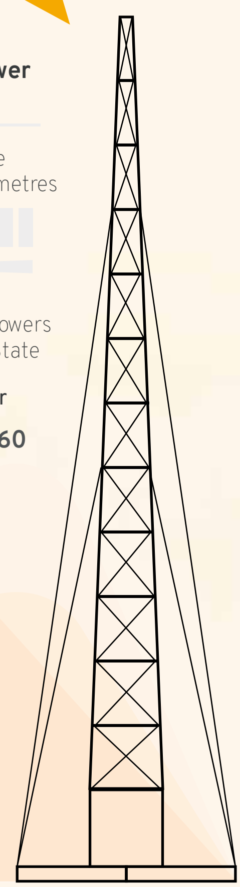
24 metres

Time 3 Extension Support Tower

Average Coverage Distance: 1-2 kilometres

Total **1,402** | 2016 **396**

30 metres



Small Scale Tower (Smallcell)

Average Coverage Distance: 1-3 kilometres

Number of Communication Towers Implemented by State

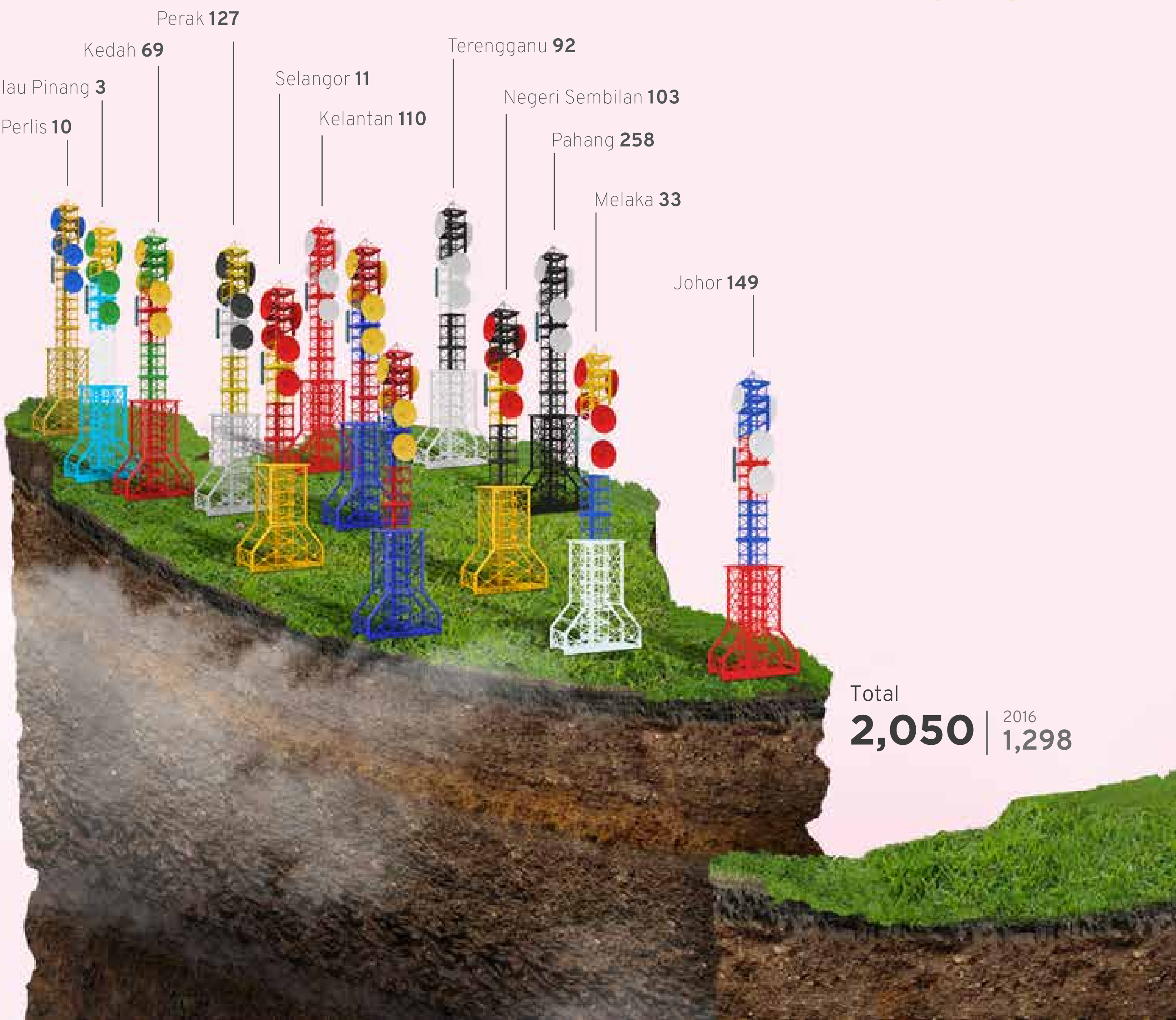
Small Scale Tower

40 | 60

UPGRADING OF EXISTING TOWER

The Commission hopes that this initiative will be able to meet the demand for mobile broadband across the country.

Number of Communication Towers Upgraded by State and Federal Territory

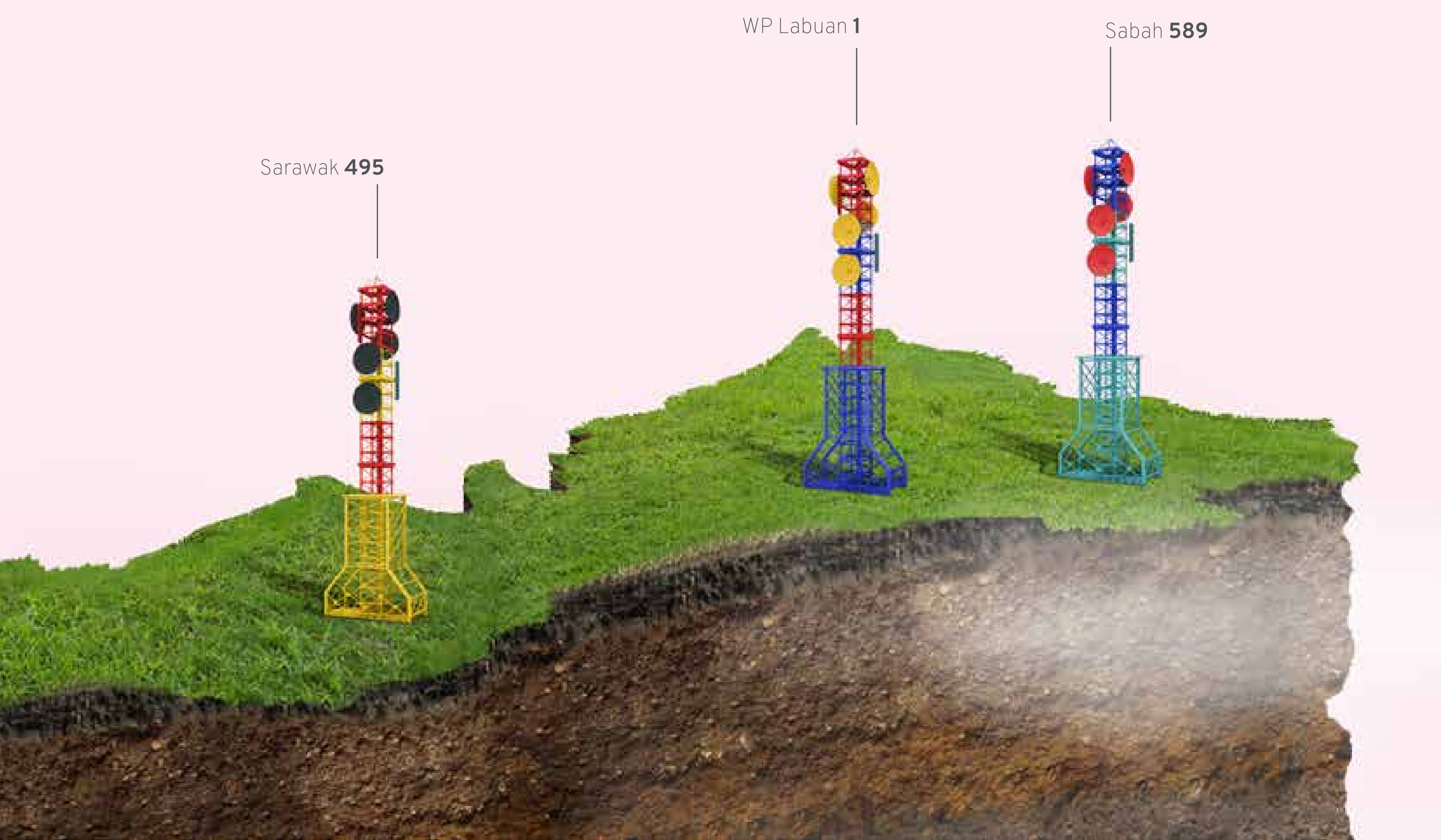


In addition to the implementation of new communication towers, the Commission had also upgraded the existing communication towers that only provide 2G service to 3G mobile broadband services nationwide.

This initiative was introduced to provide 3G mobile broadband coverage in underserved areas especially in areas without fixed broadband services.

The Commission hopes that this initiative will be able to meet the demand for mobile broadband across the country and encourage the use of smart devices among the rural and remote communities.

Until the end of 2016, a total of 2,050 existing towers have been upgraded to 3G service across the country. Of these, 1,298 existing towers were upgraded in 2016.



FIXED BROADBAND EXPANSION

SUBURBAN BROADBAND

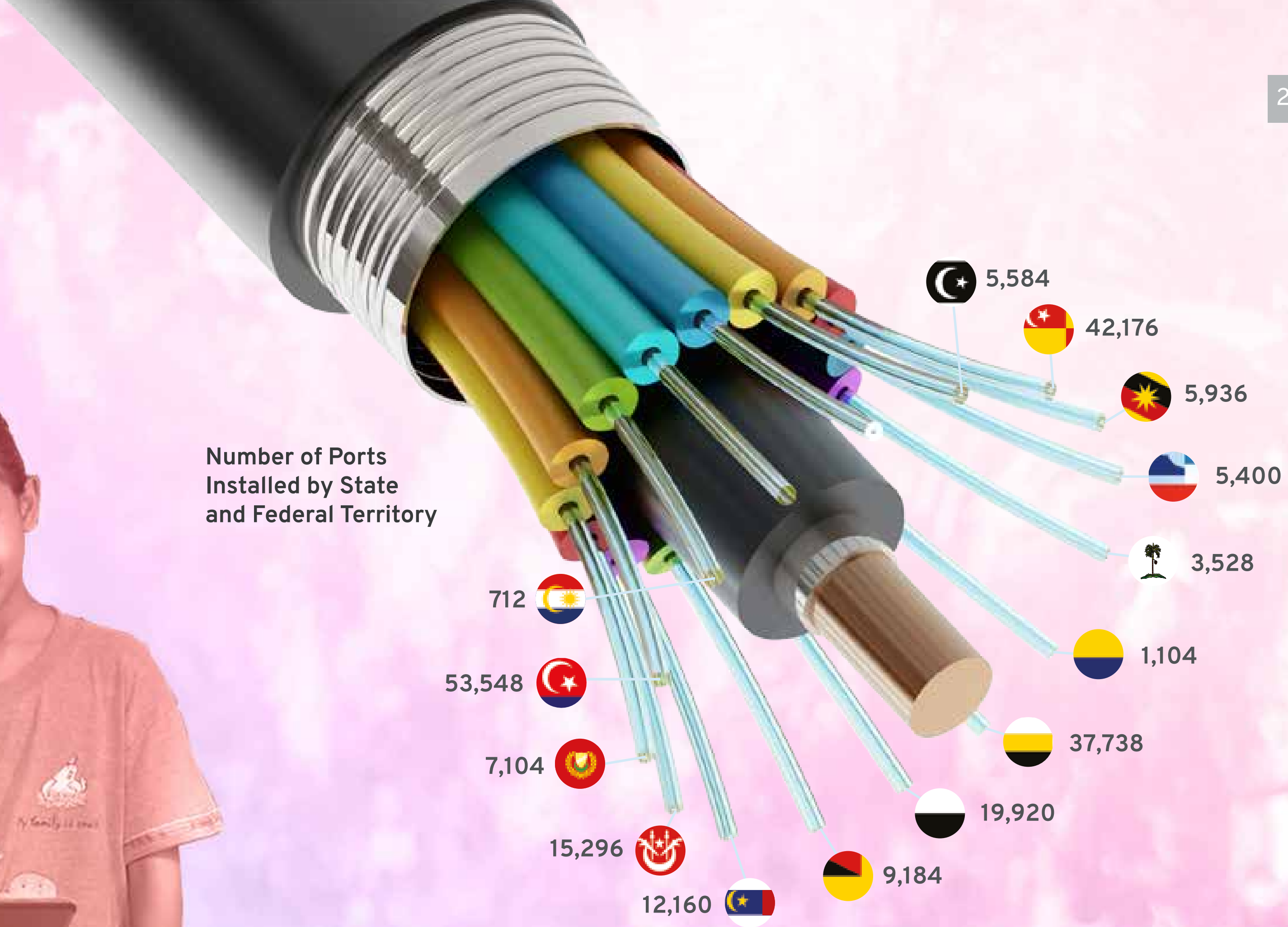
Suburban Broadband (SUBB) is one of the initiatives that have been announced in the 11th Malaysia Plan to achieve the target of providing fixed broadband throughout the country by 2020.

Through this initiative, a total of 420,000 ports involving 420 exchanges have been allocated for implementation within 5 years starting in 2015. SUBB initiative provides fixed broadband with speeds up to 20 megabits per second focusing in suburban and rural areas.

SUBB initiative is implemented through public-private partnership concept which is partially funded through the Universal Service Provision programme.

As of 31 December 2016, a total of 219,390 ports have been installed throughout the country. Of these, 129,218 ports were installed in 2016.

Number of Ports
Installed by State
and Federal Territory



Total
219,390 | 2016 129,218

> **SUBB initiative provides fixed broadband with speeds up to 20 megabits per second focusing in suburban and rural areas.**

RURAL BROADBAND

Unlike the Suburban Broadband initiative, the implementation of the Rural Broadband (RBB) is fully funded through the Universal Service Provision programme and focused on the expansion of fixed broadband coverage in rural areas.

The initiative also involves in upgrading the core network from the exchanges to the cabinets and to the residences or premises.

As of 31 December 2016, a total of 16,575 ports have been installed throughout the country. Of these, 9,875 ports were installed in 2016.

Number of Ports Available by State

RBB initiative provides broadband services with a speed starting from 4 megabits per second.


HITACHI

CORE NETWORK DEVELOPMENT

FIBRE OPTIC NETWORK EXPANSION

The Commission hopes that this initiative will be able to boost the provision of high speed mobile broadband services throughout the country and will indirectly increase the national mobile broadband population coverage.

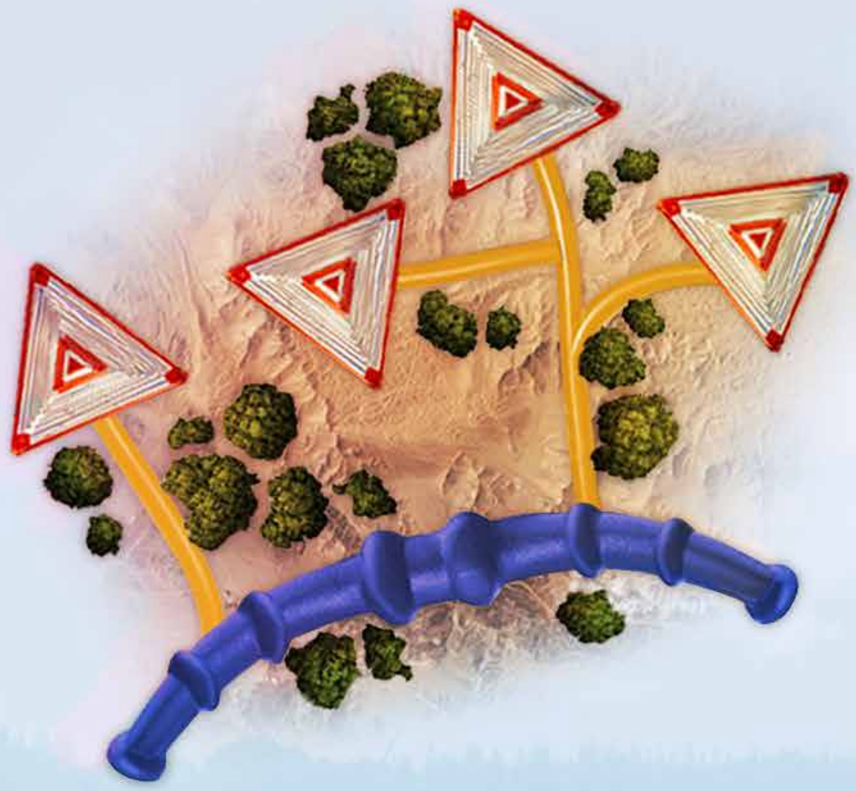
Fibre Optic Network Expansion initiative was introduced to upgrade the existing network that connects the communication towers to fibre optic. The fibre optic network upgrades will increase the network capacity; hence, better mobile broadband services can be provided in underserved areas.

The Commission hopes that this initiative will be able to boost the provision of high speed mobile broadband services throughout the country and will indirectly increase the national mobile broadband population coverage.

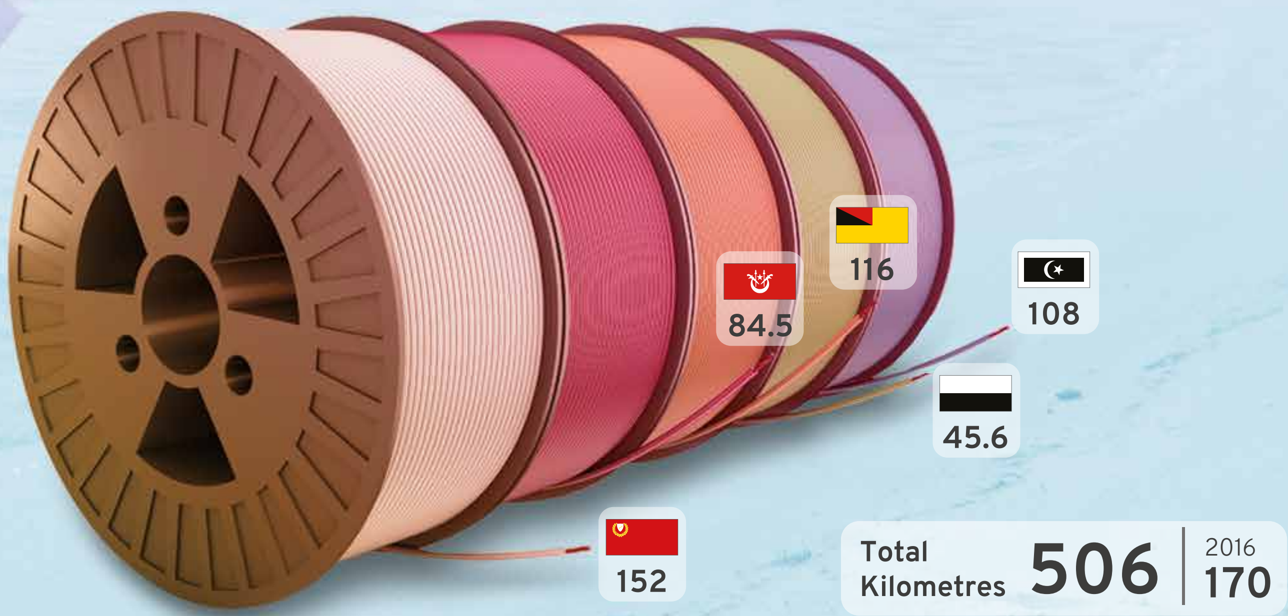
As of 31 December 2016, a total length of 506 kilometres of fibre optic network has been installed throughout the country. Of this, 170 kilometres of fibre optic network was installed in 2016.

Implementation Overview
Fibre Optic Network Expansion

- Communication Tower
- New Fibre Optic Network
- Existing Fibre Optic Network



Length of Fibre Optic
Installed by each State



1MALAYSIA PEOPLE'S CABLE SYSTEM

SKR1M's Submarine Cable Route

Total Distance	Total Capacity	Status of Implementation	Expected Completion
3,832 kilometres	4 terabits per second	76% / 2,810 kilometres	June 2017

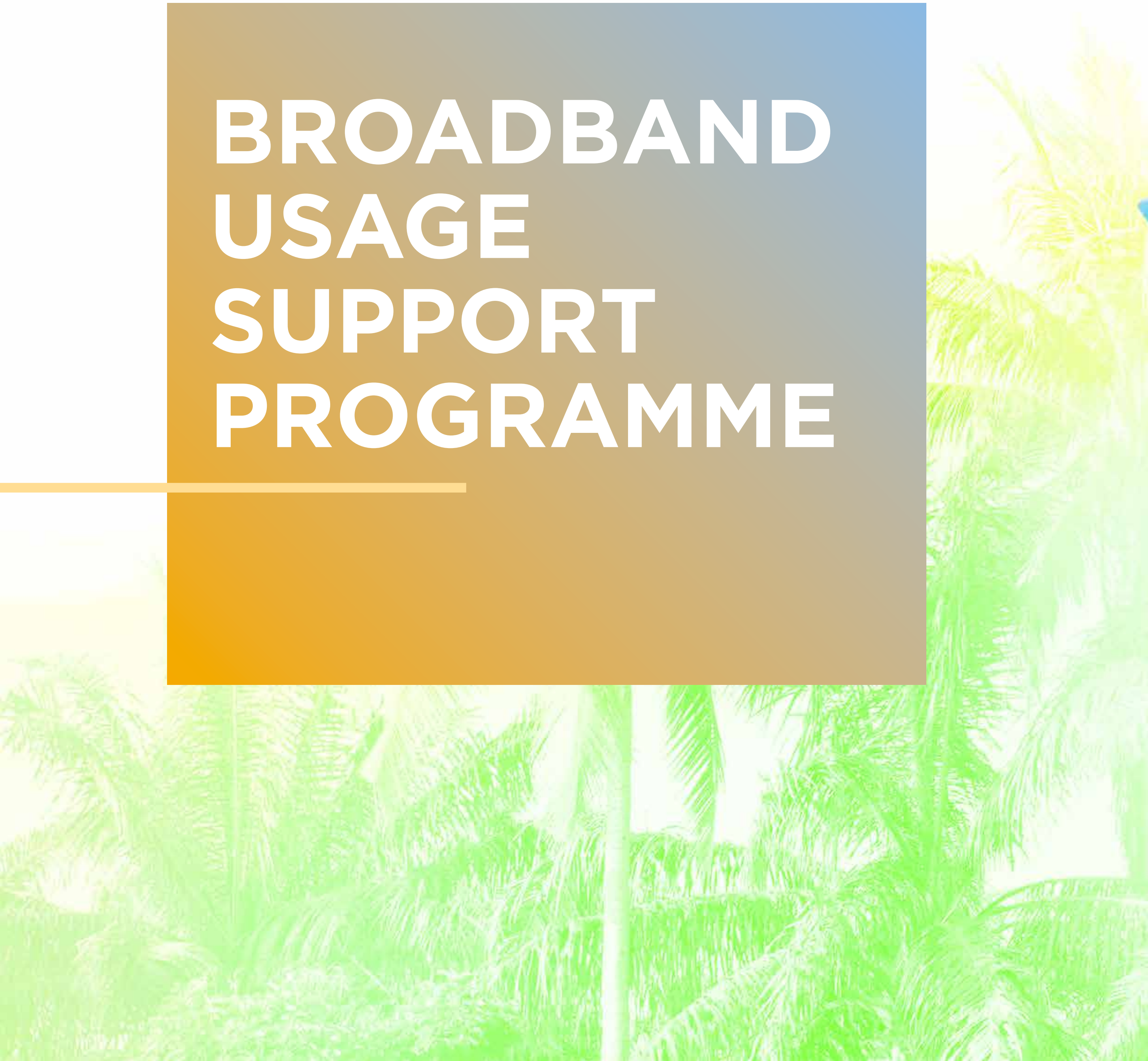
1Malaysia People's Cable System (SKR1M) was introduced to replace the existing domestic submarine cable which has been operating for more than 20 years. SKR1M's submarine fibre optic cable network with a total length of 3,832 kilometres and 4 terabits per second capacity involves 6 landing stations located in Mersing, Kuching, Bintulu, Miri, Kota Kinabalu and Cherating.

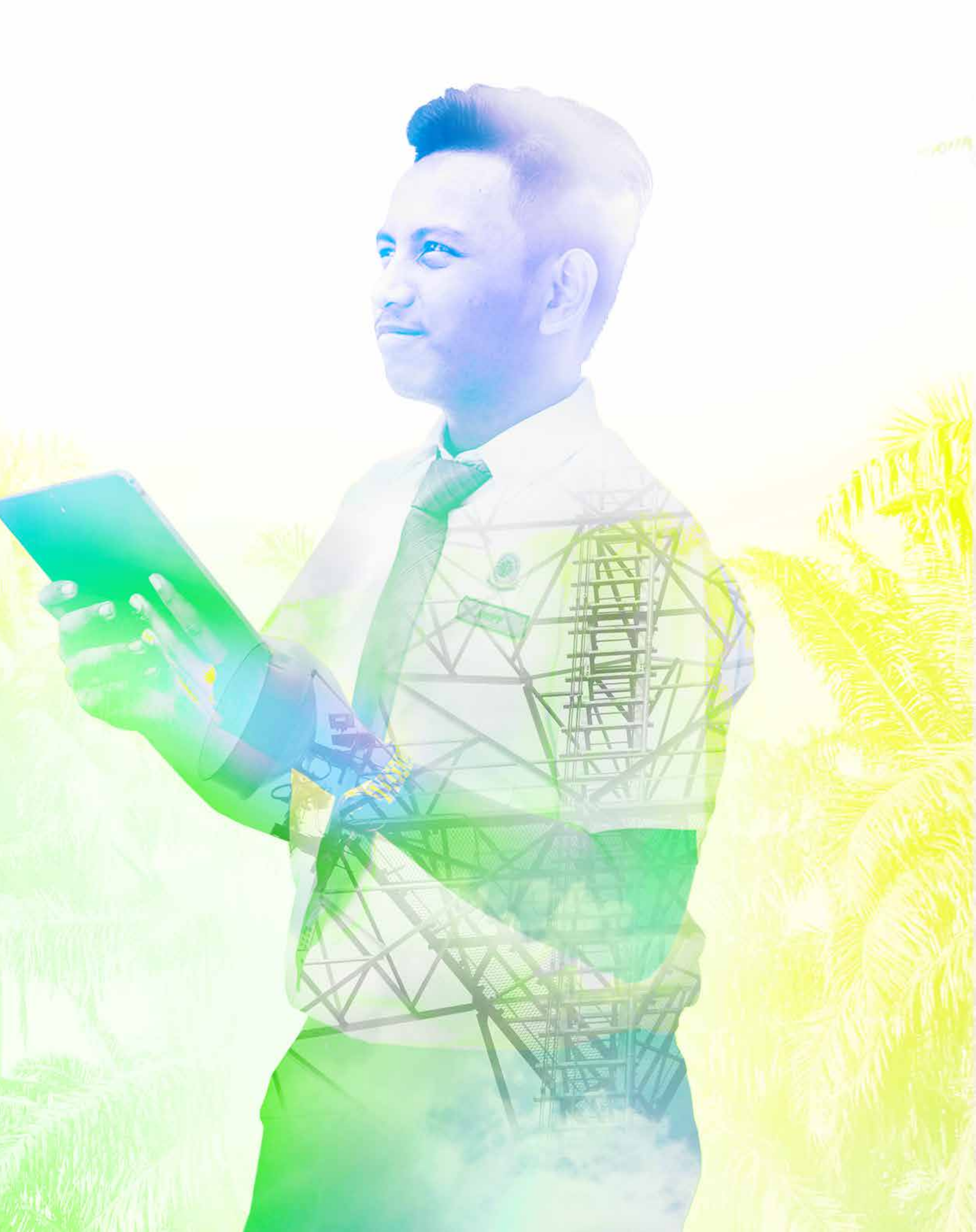
On 15 August 2016, YB Dato' Jailani Johari as Deputy Minister of Malaysian Communications and Multimedia officiated the submarine cable landing ceremony at Submarine Cable Landing Station Tanjung Aru, Kota Kinabalu, Sabah.

Another activity that took place in 2016 was the knowledge sharing and verification exercise between the Commission, service provider and the submarine cable manufacturer owned by NEC Tokyo, Japan. Besides, the Commission continued to monitor the implementation of the project by doing site visits, including visits to the submarine cable installer ship.

Overall, the implementation of SKR1M has reached 76% completion with a total length of 2,810 kilometres of submarine cables installed.

BROADBAND USAGE SUPPORT PROGRAMME



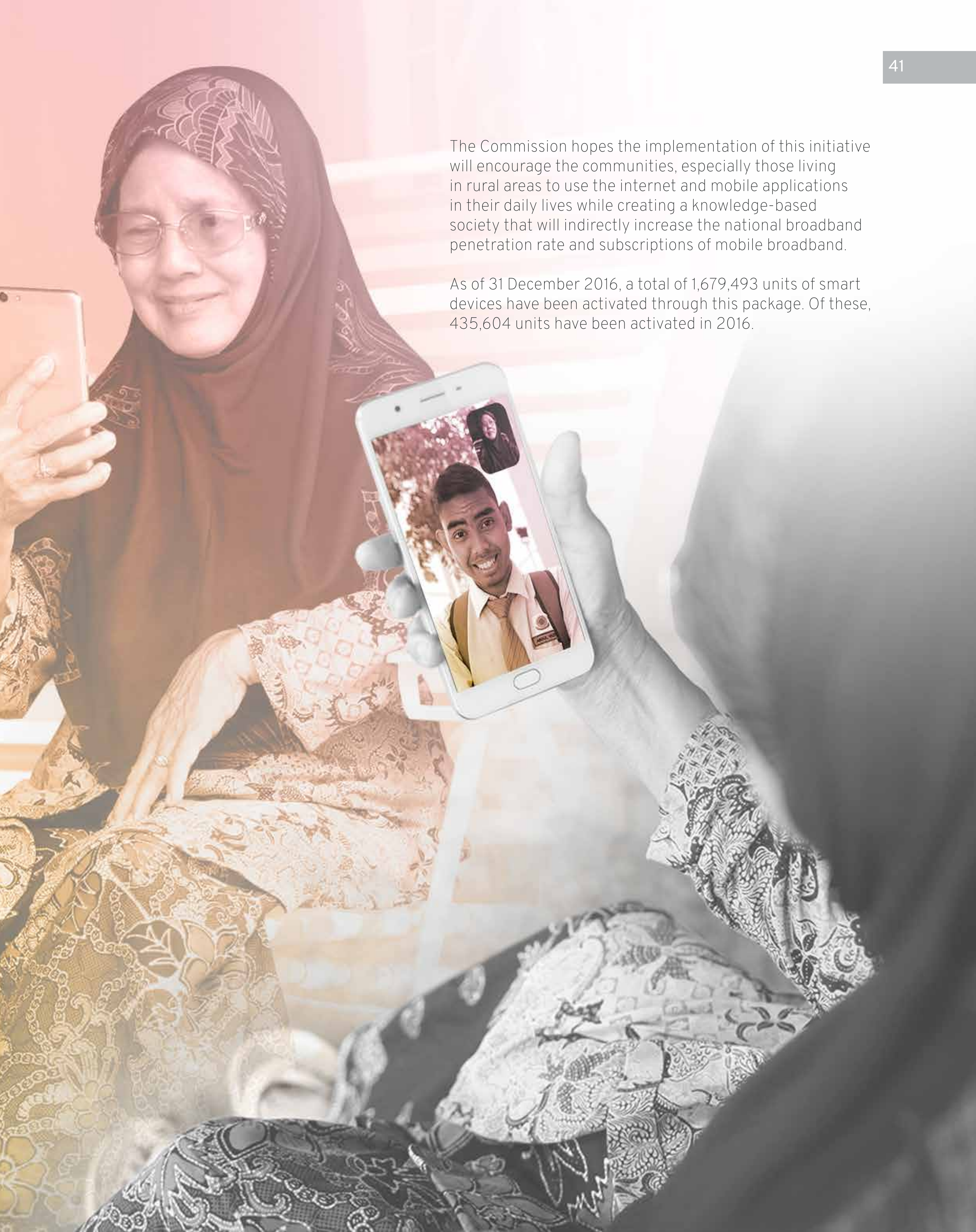


SMART DEVICE WITH INTERNET PACKAGE

Number of Smart Devices Activated by State and Federal Territories

Among the efforts made by the Commission to increase the use of mobile broadband especially in rural areas was to introduce the Smart Device with Internet Package.

Through this initiative, selected smart devices were offered to the users at a price much lower than the recommended retail price. In addition, users were also offered free internet subscription for one year.



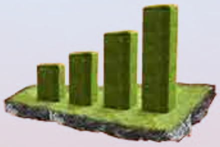
The Commission hopes the implementation of this initiative will encourage the communities, especially those living in rural areas to use the internet and mobile applications in their daily lives while creating a knowledge-based society that will indirectly increase the national broadband penetration rate and subscriptions of mobile broadband.

As of 31 December 2016, a total of 1,679,493 units of smart devices have been activated through this package. Of these, 435,604 units have been activated in 2016.

CHALLENGES

• Geographical Obstacles
Hilly terrain and dense trees with no access road complicated the transportation of construction materials and equipment to the project site

• Cost
Geographical and technological difficulties resulted in higher implementation cost to cover small population in wide areas.



• Economy
Most of the rural communities were at lower income levels. Thus, the take up rate is expected to be low and not economical.

• Weather
Uncertainty of weather conditions affected the project implementation.

• Technology Challenges
Low and dispersion of the population made it difficult to acquire suitable sites for wireless solutions. Most of the remote areas had no electricity or faced unstable electricity supply.

Albeit facing challenges during the implementation of the USP programme, the Commission has always been committed to ensuring the infrastructures and communication services can be provided as planned so that the targeted groups can communicate and are not left behind in the digital economic waves.


50

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 was 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 were disbursed to the designated service providers upon approval from the Commission.

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

Calculation of Contribution to USP Fund by Licensees (Pursuant to Regulation 27 of the USP Regulations)

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

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 and/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:

CONTRIBUTION AMOUNT =

WEIGHTED NET REVENUE X

CONTRIBUTION RATE

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

Contribution Formula

USP Fund Collection

A total of RM1.04 billion was recognised as income for the USP Fund for 2016. This is based on the Return of Net Revenue submitted by licensees for the revenue earned in this calendar year as well interest income and after taking into account impairment loss.

The major contributors to the USP Fund in 2016 are the following licensees:

Name of Licensees

1. Celcom Networks Sdn Bhd	2. DiGi Telecommunications Sdn Bhd	3. Edotco Malaysia Sdn Bhd
4. Maxis Broadband Sdn Bhd 5. Maxis Mobile Services Sdn Bhd	6. Telekom Malaysia Berhad	7. TT dotCom Sdn Bhd

Major Contributors to the USP Fund in 2016

Disbursement

Regulation 20 and 20A of the Regulations provides the mechanism for the designated 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 towards the capital cost of implementation of USP projects.

Total payment amounting to RM1.29 billion was paid to various designated service providers in 2016 for the implementation of USP projects such as Clawback Scheme, Cellular Coverage Expansion, 1Malaysia Internet Centre, Community WiFi and Community Broadband Libraries.

In summary, the table below shows the contribution (in accordance to the notifications issued) and disbursement (including accruals payable) from 2003 to 2016:

Year	Contribution (RM'000)	Disbursement (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

The Contribution and Disbursement from 2003 to 2016

STATEMENT OF ACCOUNTS

Statement by the Members of the Malaysian Communications and Multimedia Commission

We, Tan Sri Dr. Halim Shafie 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 59 to 80 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 2016 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 dated 13 November 2017

Tan Sri Dr. Halim Shafie

Chin Yoong Kheong

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 59 to 80 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 in at Putrajaya Wilayah Persekutuan on
13 November 2017

Cho Shi Chong

Before me:

PESURUHJAYA SUMPAH MALAYSIA
A-W 243
AZMAN BIN ASRI
PEJABAT
KETUA PENDAFTAR
MAHKAMAH PERSEKUTUAN
MALAYSIA
PUTRAJAYA

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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 ("Fund"), which comprise the statement of financial position as at 31 December 2016 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 59 to 80.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2016, and of their financial performance and their 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.

Building a better working world

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MALAYSIAN COMMUNICATIONS AND MULTIMEDIA COMMISSION ON THE UNIVERSAL SERVICE PROVISION FUND

Information other than the financial statements and auditors' report thereon

The Management of the Malaysian Communications and Multimedia Commission ("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 auditor's 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

Responsibilities of the Members 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.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MALAYSIAN COMMUNICATIONS AND MULTIMEDIA COMMISSION ON THE UNIVERSAL SERVICE PROVISION FUND

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 Members.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MALAYSIAN COMMUNICATIONS AND MULTIMEDIA COMMISSION ON THE UNIVERSAL SERVICE PROVISION FUND

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

- Conclude on the appropriateness of the Commission 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the activities within to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of audit. We remain solely responsible for our audit opinion.

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 Regulation 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.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MALAYSIAN COMMUNICATIONS AND MULTIMEDIA COMMISSION ON THE UNIVERSAL SERVICE PROVISION FUND

Other matters

This report is made solely to the Members of 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

Nik Rahmat Kamarulzaman bin Nik Ab. Rahman
No. 1759/02/18 (J)
Chartered Accountant

Kuala Lumpur, Malaysia
13 November 2017

Statement of financial position

As at 31 December 2016

	Note	2016 RM'000	2015 RM'000
Assets			
Non-current asset			
Deferred tax assets	3	5,349	1,945
Current assets			
Other investments	4	7,550,000	6,640,000
Contributions and other receivables	5	1,137,905	1,891,586
Tax recoverable		241,740	-
Cash and cash equivalents	6	398,860	1,128,766
		9,328,505	9,660,352
Total assets		9,333,854	9,662,297
Current liabilities			
Other payables	7	830,442	1,117,676
Tax payable		-	99,414
Total current liabilities		830,442	1,217,090
Represented by:			
Accumulated funds	8	8,503,412	8,445,207
Total liabilities & accumulated fund		9,333,854	9,662,297

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 2016

	Note	2016 RM'000	2015 RM'000
Income			
Contributions	10	1,043,679	1,498,237
Interest income		312,520	288,362
Reversal of allowance for impairment		13,027	10,854
		1,369,226	1,797,453
Expenditure			
Claims by USP service providers		(1,287,256)	(1,394,479)
Allowance for impairment	5	(6,636)	(3,385)
Bad debts expenses		(1,936)	(2,069)
Other expenses		(2)	(2)
		(1,295,830)	(1,399,935)
Surplus before tax		73,396	397,518
Tax expense	11	(15,191)	(99,440)
Surplus after tax, representing total recognised gains		58,205	298,078

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

Statement of cash flows

For the year ended 31 December 2016

	Note	2016 RM'000	2015 RM'000
Cash flows from operating activities			
Surplus before tax		73,396	397,518
Adjustments for:			
Reversal of allowance of doubtful debts		(11,766)	-
Allowance for doubtful debts		6,636	-
Interest income		(312,520)	(288,362)
Operating (deficit)/surplus before changes in working capital		(244,254)	109,156
Changes in working capital:			
Contributions and other contributions		802,155	(298,921)
Other payables		(287,234)	821,899
Cash generated from operations		514,921	522,978
Tax paid		(359,749)	(260,335)
Net cash (used in)/generated from operating activities		(89,082)	371,799
Cash flows from investing activities			
Interest received		269,176	296,054
Placement in other investments		(910,000)	(490,000)
Net cash used in investing activities		(640,824)	(193,946)
Net (decrease)/increase in cash and cash equivalents		(729,906)	177,853
Cash and cash equivalents at 1 January		1,128,766	950,913
Cash and cash equivalents at 31 December	6	398,860	1,128,766

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

Notes to the financial statements
For the year ended 31 December 2016

1. Corporate information

The principal activities of the Universal Service Provision Fund ("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 service 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. The Fund commenced its operations in September 2002. The Fund is managed by the key management personnel of the Malaysian Communications and Multimedia Commission ("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 Kuala Lumpur, Malaysia 13 November 2017

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. Summary of significant accounting policies (contd.)

2.2 Standards and Interpretations issued and adopted

On 1 January 2016, the Fund adopted the following new and amended MFRS mandatory for annual financial periods beginning on or after the dates stated below:

Description	Effective for annual periods beginning on or after
Amendments to MFRS 5 Non-current Asset Held for Sale and Discontinued Operations (Annual Improvements to MFRSs 2012-2014 Cycle)	1 January 2016
Amendments to MFRS 7 Financial Instruments: Disclosures (Annual Improvements to MFRSs 2012-2014 Cycle)	1 January 2016
Amendments to MFRS 10 Consolidated Financial Statements (Applying the Consolidation Exception)	1 January 2016
Amendments to MFRS 12 Disclosure of Interest in Other Entities (Applying the Consolidation Exception)	1 January 2016
Amendments to MFRS 101 Presentation of Financial Statements (Disclosure Initiative)	1 January 2016
Amendments to MFRS 119 Employee Benefits (Annual Improvements to MFRSs 2012-2014 Cycle)	1 January 2016
Amendments to MFRS 128 Investment in Associates and Joint Ventures (Applying the Consolidation Exception)	1 January 2016
Amendments to MFRS 134 Interim Financial Reporting (Annual Improvements to MFRS 2012-2014 Cycle)	1 January 2016
Amendments to MFRS 11 Accounting for Acquisitions of Interest in Joint Ventures	1 January 2016
Amendments to MFRS 116 and 138 Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 127 Equity Method in Separate Financial Statements	1 January 2016

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

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.

2. Summary of significant accounting policies (contd.)

2.3 Standards issued but not yet effective (contd.)

Description	Effective for annual periods beginning on or after
Amendments to MFRS 10 and MFRS 128 Investment in Associates and Joint Ventures (Sale or Contribution of Assets between an Investor and Associate or Joint Venture)	Deferred
Amendments to MFRS 12 Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014–2016 Cycle)	1 January 2017
Amendments to MFRS 107 Statement of Cash Flows (Disclosure Initiative)	1 January 2017
Amendments to MFRS 112 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 16 Leases	1 January 2019

The Members expect that the adoption of the above standards will have no material impact on the financial statements in the period of initial application except as stated below.

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step models that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

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.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Members anticipate that the application of MFRS 15 will have a material impact on the amounts reported and disclosures made in the Fund's financial statements. The Fund is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

2. Summary of significant accounting policies (contd.)

2.4 Income taxes

(a) Current income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount 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.

(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 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

2. Summary of significant accounting policies (contd.)

2.4 Income taxes (contd.)

((b) Deferred tax (contd.)

- 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 amount 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.

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 and expenditure

(a) Contribution from licensees

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

Potential contributions from licensees who did not submit their annual RONR Statement 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.

2. Summary of significant accounting policies (contd.)

2.5 Recognition of income and expenditure

(b) Claims by USP service providers

Claims made by the universal service providers ("USP") for the expenditure of the service providers in their projects to implement and provide services and access to basic telephony, public payphone services and internet access in the designated service target areas.

It is recognised as expenditure when the documents in support of the claims are submitted by the service providers.

(c) 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

(a) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Fund commits to purchase or sell the asset.

2. Summary of significant accounting policies (contd.)

2.7 Financial liabilities

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

Financial liabilities, within the scope of MFRS 139, are recognised in the statements of financial position when, and only when, the Fund become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. All financial liabilities of the Fund are classified as other financial liabilities.

2.8 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and are measured as loans and receivables in accordance with policy Note 2.6(a).

2.9 Impairment of financial asset

(a) Financial assets

All financial assets are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

An impairment loss in respect of loans and receivables is recognised in the statement of income and expenditure and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income and expenditure, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the statement of income and expenditure.

2. Summary of significant accounting policies (contd.)

2.9 Impairment of financial asset

(b) Other assets

The carrying amounts of other assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that largely are independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in the statement of income and expenditure. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the statement of income and expenditure in the financial year which the reversals are recognised.

2. Summary of significant accounting policies (contd.)

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.

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 of the date of the event or change in circumstances that caused the transfers.

2.11 Current and non-current classification

The Fund present 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.

2. Summary of significant accounting policies (contd.)

2.11 Current and non-current classification (contd.)

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.

2.12 Foreign currencies

(a) Functional and presentation currency

The individual statements of the Fund are measured using the currency of the primary economic environment in which the entity operates ("the functionalcurrency") . 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 management 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.

2. Summary of significant accounting policies (contd.)

2.13 Significant accounting judgements and estimates (contd.)

(b) Key sources of estimation uncertainty

(i) Income taxes

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:

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.

(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 contained in Note 3.

(iii) Impairment of loans and receivables

The Fund assesses at each reporting date whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, the Fund considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant reduction in collection rates.

When there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

3. Deferred tax assets

	2016 RM'000	2015 RM'000
At beginning of year	1,945	1,971
Recognised in income statement (Note 11)	3,404	(26)
At end of year	5,349	1,945

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

4. Other investments

	2016 RM'000	2015 RM'000
These comprise term deposits with:		
- licensed banks	7,550,000	6,640,000

Short term deposits with licensed banks are made with maturities ranging from 3 to 12 months. The deposits bore weighted average interest rate of 4.1% (2015:3.8%).

5. Contributions and other receivables

	2016 RM'000	2015 RM'000
Contributions receivables	1,021,424	1,825,288
less: allowance for impairment	(19,103)	(25,942)
	1,002,321	1,799,346
Interest income receivables	135,584	92,240
	1,137,905	1,891,586

<u>Ageing analysis:</u>

The ageing of contributions receivables as at the end of the reporting period was as follows:

	2016 RM'000	2015 RM'000
Neither past due nor impaired	1,002,321	1,799,346
Past due and impaired	19,103	25,942
	1,021,424	1,825,288

5. Contributions and other receivables (contd.)

Contributions receivables that are neither past due nor impaired

Contributions receivables that are neither past due nor impaired are creditworthy licensees with good payment records.

Contributions receivables that are impaired

Contributions receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	2016 RM'000	2015 RM'000
Individually impaired:		
Nominal amounts	19,103	25,942
Less: Allowance for impairment	(19,103)	(25,942)
	-	-

Movement in allowance accounts:

	2016 RM'000	2015 RM'000
At 1 January	25,942	38,891
Additions	6,636	3,385
Reversal	(11,766)	(10,854)
Written off	(1,709)	(5,480)
At 31 December	19,103	25,942

Contributions receivables that are determined to be individually impaired at the reporting date relates to licensees that have defaulted in payment. These are not secured by any collateral or credit enhancements. There are no further factors that warrants the consideration of additional impairment on a collective basis.

6. Cash and cash equivalents

	2016 RM'000	2015 RM'000
Cash at bank	7,748	12,424
Deposits with licensed banks	391,112	1,116,342
Total cash and cash equivalents	398,860	1,128,766
Contributions and other receivables	1,137,905	1,891,586
Total loans and receivables	1,536,765	3,020,352

6. Cash and cash equivalents (contd.)

Deposits with licensed banks are made for maturity periods between one day and 3 months (2015: one day and 3 months) depending on the immediate cash requirements of the Fund with average interest rate of 4.1% (2015: 3.8%).

7. Other payables

	2016 RM'000	2015 RM'000
Sundry payables	340,592	-
Accrued USP claims	489,850	1,117,676
Total financial liabilities at amortised cost	830,442	1,117,676

8. Accumulated fund

	2016 RM'000	2015 RM'000
As at 1 January	8,445,207	8,147,129
Surplus after tax	58,205	298,078
As at 31 December	8,503,412	8,445,207

9. Audit fee

Audit fee of RM55,000 (2015: RM50,000) is borne by the Malaysian Communications and Multimedia Commission.

10. Contributions

Contributions represents funds received from licensees who are required to contribute to the fund as stipulated in the license granted by the Malaysian Communications and Multimedia Commission.

11. Tax expense

	2016 RM'000	2015 RM'000
Income tax expense		
- Current year	18,595	99,414
Deferred tax expense		
- Origination and reversal of temporary differences	1,915	26
- Relating to changes in income tax rate	(778)	-
- Over provision in prior year	(4,541)	-
	(3,404)	26
Total tax expense	15,191	99,440

The Fund's chargeable income is taxed at scaled rates that are applicable to individuals. The domestic current income tax is calculated at the statutory tax rate of 25% (2015: 26%) for the first RM1,000,000 chargeable income and the balance is taxed at the statutory tax rate of 28% (2015: 25%).

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:

	2016 RM'000	2015 RM'000
Surplus before tax	73,396	397,518
First RM1,000,000	250	235
Remaining tax at statutory tax rate of 25%	-	99,130
Remaining tax at statutory tax rate of 28%	20,260	-
Effect on deferred tax on changes in income tax rate	(778)	-
Over provision of deferred tax in prior year	(4,541)	-
Non-taxable income	-	75
	15,191	99,440

12. Commitment

	2016 RM'000	2015 RM'000
Costs for the implementation of the Universal Service Provision:		
Approved but not awarded	5,270,000	4,073,000
Awarded but not provided for	4,835,044	3,533,705
	10,105,044	7,606,705

13. Financial instruments

(a) Financial risk management objectives and policies.

The Fund is exposed to financial risks arising from their 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 Members review 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.

(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.

(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 level 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.

13. Financial instruments (contd.)

(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 end of the reporting period, the maximum exposure to credit risk arising from contributions and other receivables is represented by the carrying amounts in the statement of financial position.

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

A portion of these receivables are major licensees that have been transacting with the Fund in the past. The Fund uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 360 days, which are deemed to have higher credit risk, will be monitored individually.

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 Comission 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. As disclosed in Note 12, remuneration of key management personnel are paid by Malaysian Communications and Multimedia 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 it falls due and to achieve its operational objectives.

The Fund manages its accummulated funds by budgetting its funding needs ahead and adjust its expenditures as required. The Fund continously monitor 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 2016 and 2015.

18. Legal proceedings

During the year, a Licensee has filed a civil lawsuit ("Civil Suit") against the Commission following the revocation of the Licensee's designations as the Designated Universal Service Provider for two projects.

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

On 14 November 2016, the Licensee has filed an application for Summary Judgment at the High Court ("Summary Judgement Application") in respect of debts due by the Commission to the Licensee 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 the Licensee. Following the dismissal of the Striking Out Application, the Commission has 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 had applied for a stay of proceedings in respect of the Summary Judgment Application and the Civil Suit, which was duly granted. The Appeal was heard by the Court of Appeal on 13 September 2017. As at the date of this report, the date for the decision of the Appeal has yet to be fixed by the Court of Appeal.

Subject to the outcome of the Appeal, the Commission will consider the next necessary legal action(s) to be taken against the Licensee, noting the existing amount that the Licensee owes the Commission, among others, for the recovery of the sites that was unable to be completed by the Licensee.

The Commission, based on the advice of its external legal counsel, assessed and concluded that they are likely to succeed in defending the Civil Suit and consequently, no provision will be made in respect of the amounts stipulated above.

19. Comparatives

The comparatives were audited by a firm of auditors other than Ernst & Young.