MCMC

2017

UNIVERSAL SERVICE PROVISION

ANNUAL REPORT

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**MALAYSIAN COMMUNICATIONS
AND MULTIMEDIA COMMISION**

MCMC Tower 1, Jalan Impact, Cyber 6,
63000 Cyberjaya, Selangor Darul Ehsan
T: +60 3 8688 8000
F: +60 3 8688 1000
W: www.mcmc.gov.my

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PREFACE

The ecosystem of Universal Service Provision (USP) programme comprises various aspects from the provision of communication infrastructures to the provision of broadband access including smart device package offerings to the consumers especially in rural areas.

The implementation of the USP programme is important to bridge the digital divide between urban and rural areas as well as between the fortunate and the less fortunate. Besides, it is also important to meet the growing demand for broadband services.

Among the commendable things throughout the year 2017 was the successful implementation of the Submarine Cable System initiative that being implemented through public-private partnership. The initiative was fully completed in May 2017, ahead of the set target of June 2017. The Submarine Cable System has proved the Government's continuous effort to improve and upgrade the provision of high-speed broadband networks nationwide including Sarawak and Sabah.

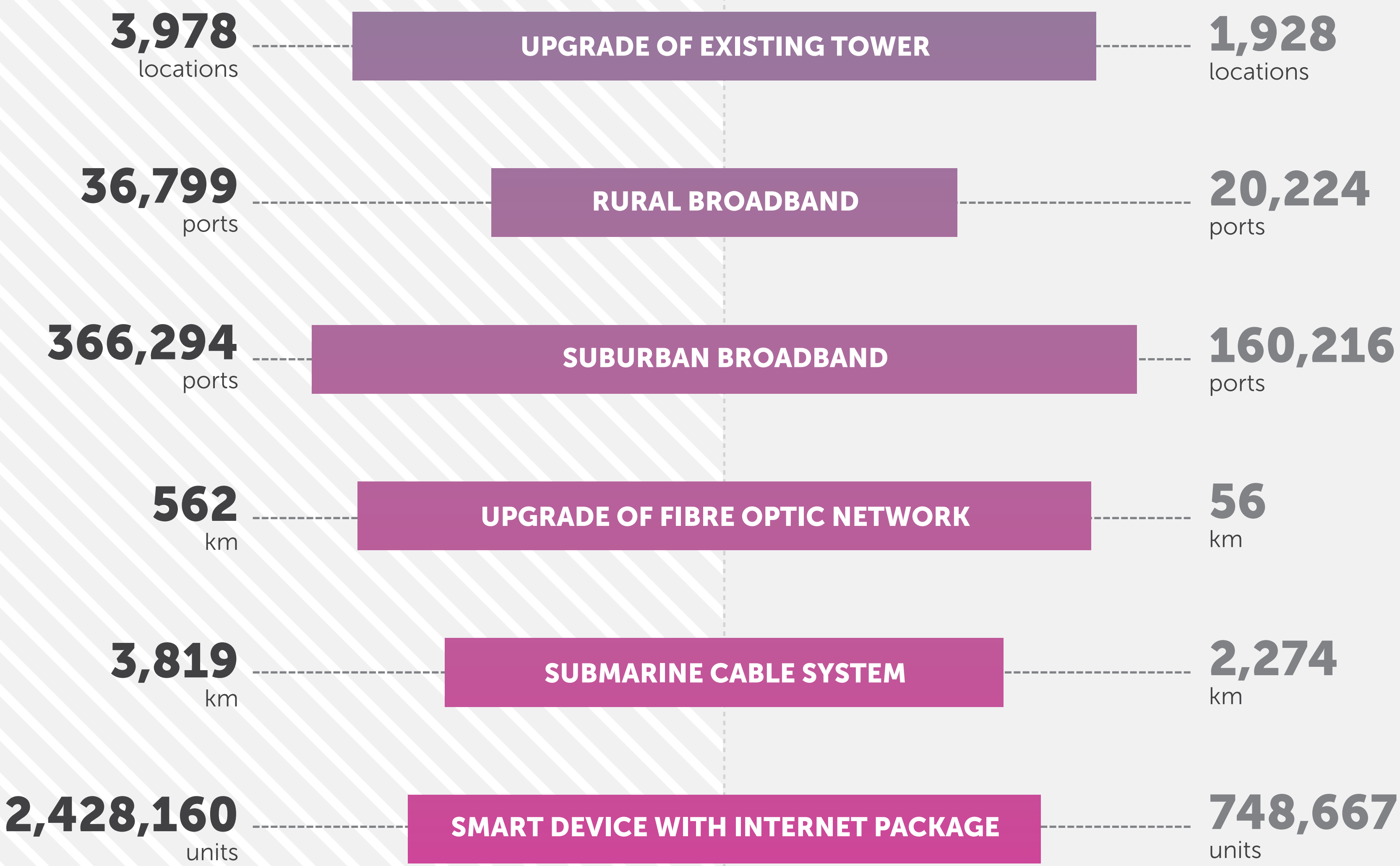
Initiatives under the USP programme are also involved in supporting the National Transformation Programme (NTP) such as the Fixed Line Broadband Expansion initiative through the Suburban Broadband initiative, the Mobile Broadband Coverage Expansion initiative which consist of the construction of new communications towers and the upgrading of existing communications towers; and community based programme such as the Internet Centre which are also part of the target under the Communications Content and Infrastructure's sector which is one of the National Key Economic Areas that NTP focuses.

The effective implementation of USP programme has consistently contributes to the increase of the national broadband penetration rate. In the third quarter of 2017, the broadband penetration rate per 100 households has risen to 84.5% compared to only 81.5% in 2016. This positive growth indicates that we are on a solid path to become a high-income nation by the year 2020.

The achievement of initiatives under the USP programme is not easy to achieve, but it is also not impossible to achieve. The Commission hopes that the provision of high-speed broadband access is improving and will indirectly stimulate the digital economy growth.

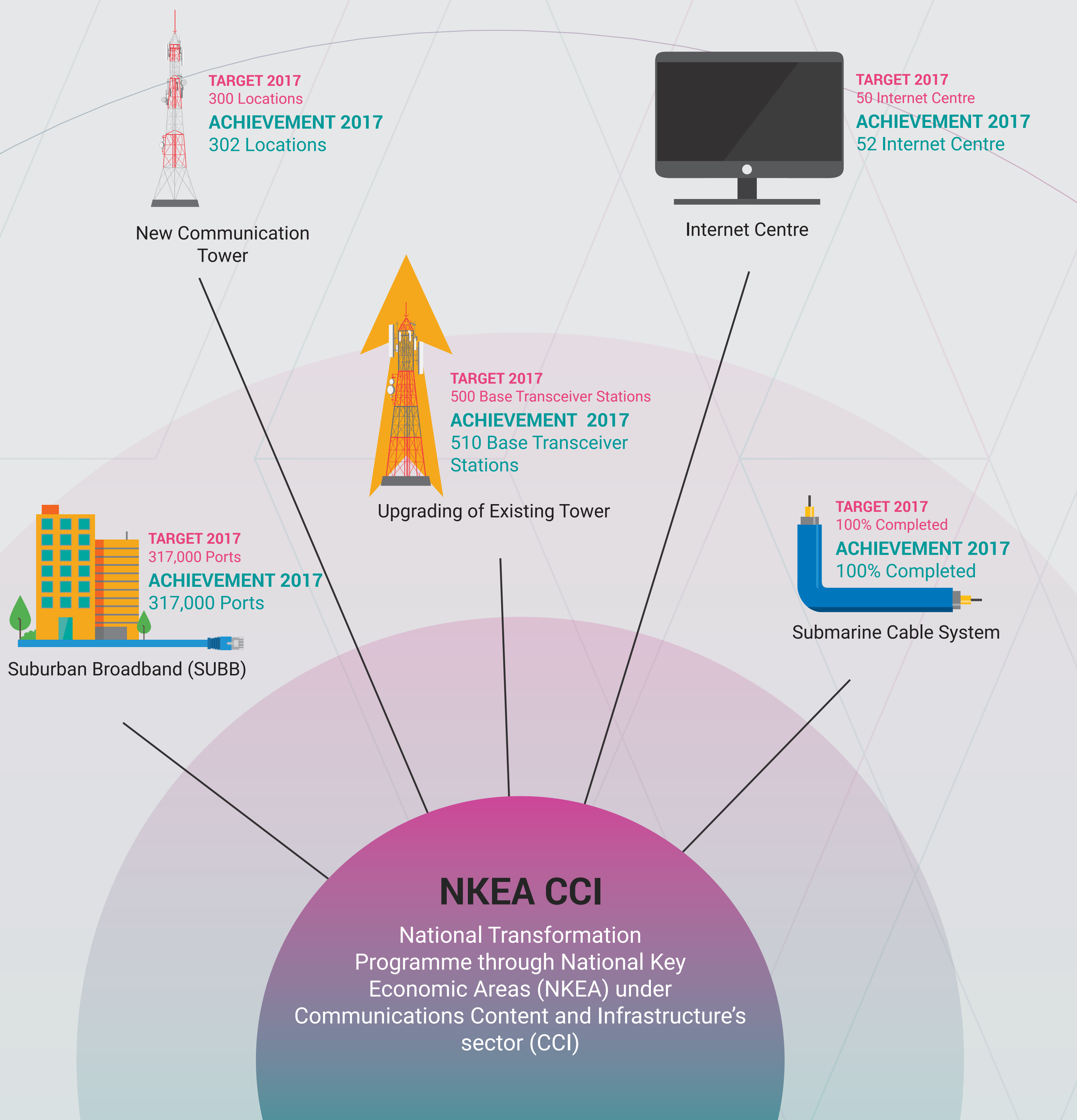
OVERVIEW

TOTAL Completed		Completed In 2017
850 locations	INTERNET CENTRE*	92 locations
10 locations	MINI INTERNET CENTRE	4 locations
2 locations	NEXT GENERATION INTERNET CENTRE	
2,502 locations	COMMUNITY WIFI	311 locations
1,252 units	TELEPHONY	
1,664 locations	NEW COMMUNICATION TOWER	262 locations



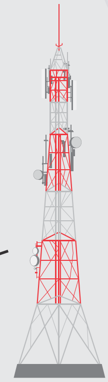
*Including Mini Internet Centre & Next Generation Internet Centre

Achievement of Initiatives Under USP Programme That Become Part of Government's Transformation Programme Targets:



NBOS CTU

Connecting the Unconnected (CTU) led by the Department of Information Malaysia is one of the programmes under the National Blue Ocean Strategy (NBOS)



TARGET 2017
25 Locations

ACHIEVEMENT 2017
100%

New Communication Tower

TARGET 2017
3 Mini Internet Centre

ACHIEVEMENT 2017
100%

Mini Internet Centre

PTKKMM

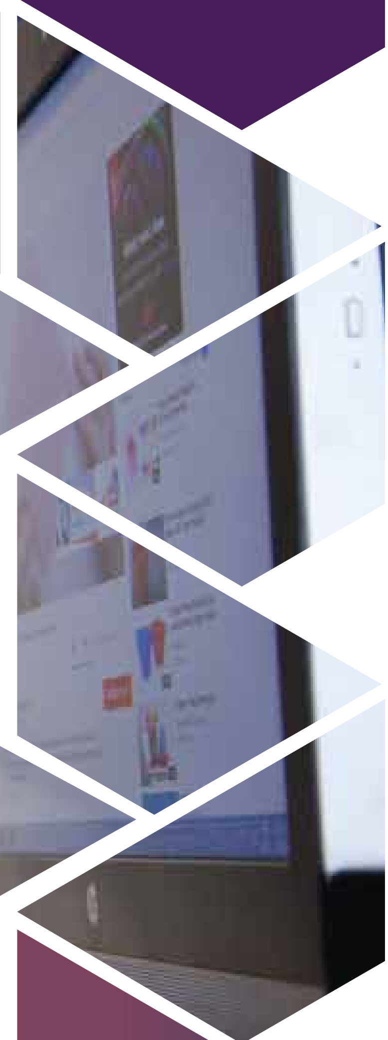
The Ministry of Communications and Multimedia Malaysia's Transformation Plan (PTKKMM) under the Core 4 - Merangkum & Sepunya

USP INITIATIVES

COMMUNITY ACCESS


YouTube

Internet Centre



The Internet Centre provides collective internet access facilities with a very minimal charges including ICT and entrepreneurship trainings offered for free to all Internet Centre members. The Internet Centre also provides additional services such as printing, photocopying, scanning and lamination.

The implementation of the Internet Centre focuses on underserved areas such as rural areas and to underserved groups such as communities living in low-cost housing areas throughout the country.

The Internet Centre provides many benefits especially to students who make up the majority of Internet Centre's users in enhancing the level of IT literacy as well as a hub to access information on education, employment, agriculture and health.

Various programmes are also being organised at the Internet Centre such as internet awareness and security programme through Klik Dengan Bijak campaign, a programme tailored for the maker community through MyMaker programme, a free health screening program through Kospen (Komuniti Sihat Pembina Negara) programme and various other community programmes.

As of 31 December 2017, a total of 850 Internet Centres have been completed and fully operational nationwide. Of these, 92 Internet Centres were implemented in 2017.
The Commission hopes the local communities can fully utilise the facilities and programmes offered at the Internet Centre to create a knowledge-based and IT-literate society.

INTERNET CENTRE

Focus on underserved areas

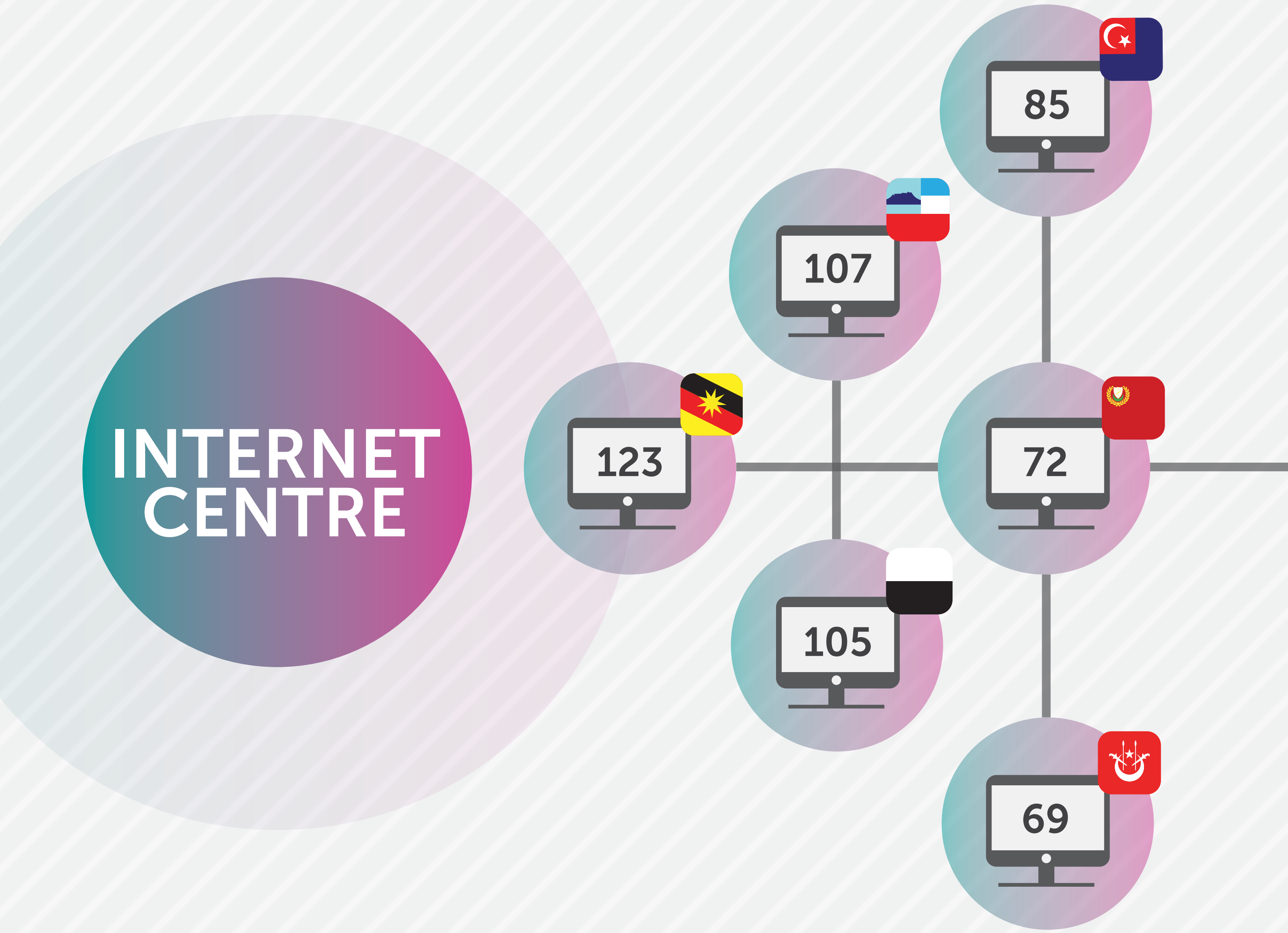
- URBAN INTERNET CENTRE
- MINI INTERNET CENTRE
- NEXT GENERATION INTERNET CENTRE

Focus on rural areas with low population density

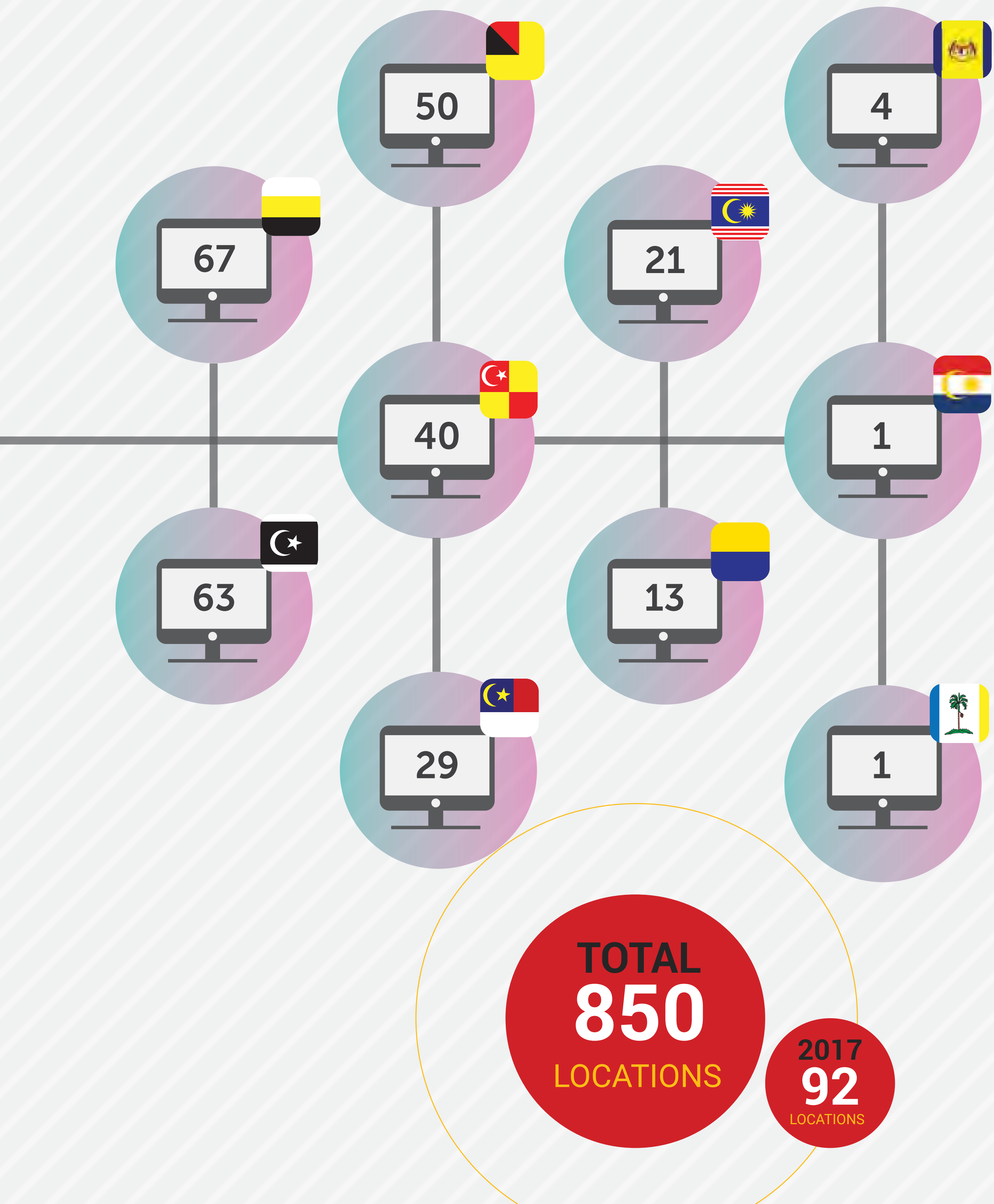
Focus on underserved groups in urban areas

Internet Centre with more advanced specifications with special functions

Internet Centre



As of 31 December 2017, a total of **850 Internet Centres** have been completed and fully operational nationwide. Of these, **92 Internet Centres** were implemented in 2017.


50
4
67
21
40
1
63
13
29
1
TOTAL
850
LOCATIONS
2017
92
LOCATIONS

"**Communities living nearby Internet Centre can benefit from this free wireless internet access for online businesses as well as practicing ICT knowledge from Internet Centre programmes.**

Community WiFi

Community WiFi (WK) provides hotspot internet access service in selected locations within 3 kilometres from the Internet Centre. WK services are constantly being monitored from time to time by Internet Centre Manager who are also responsible for monitoring WK's performance.

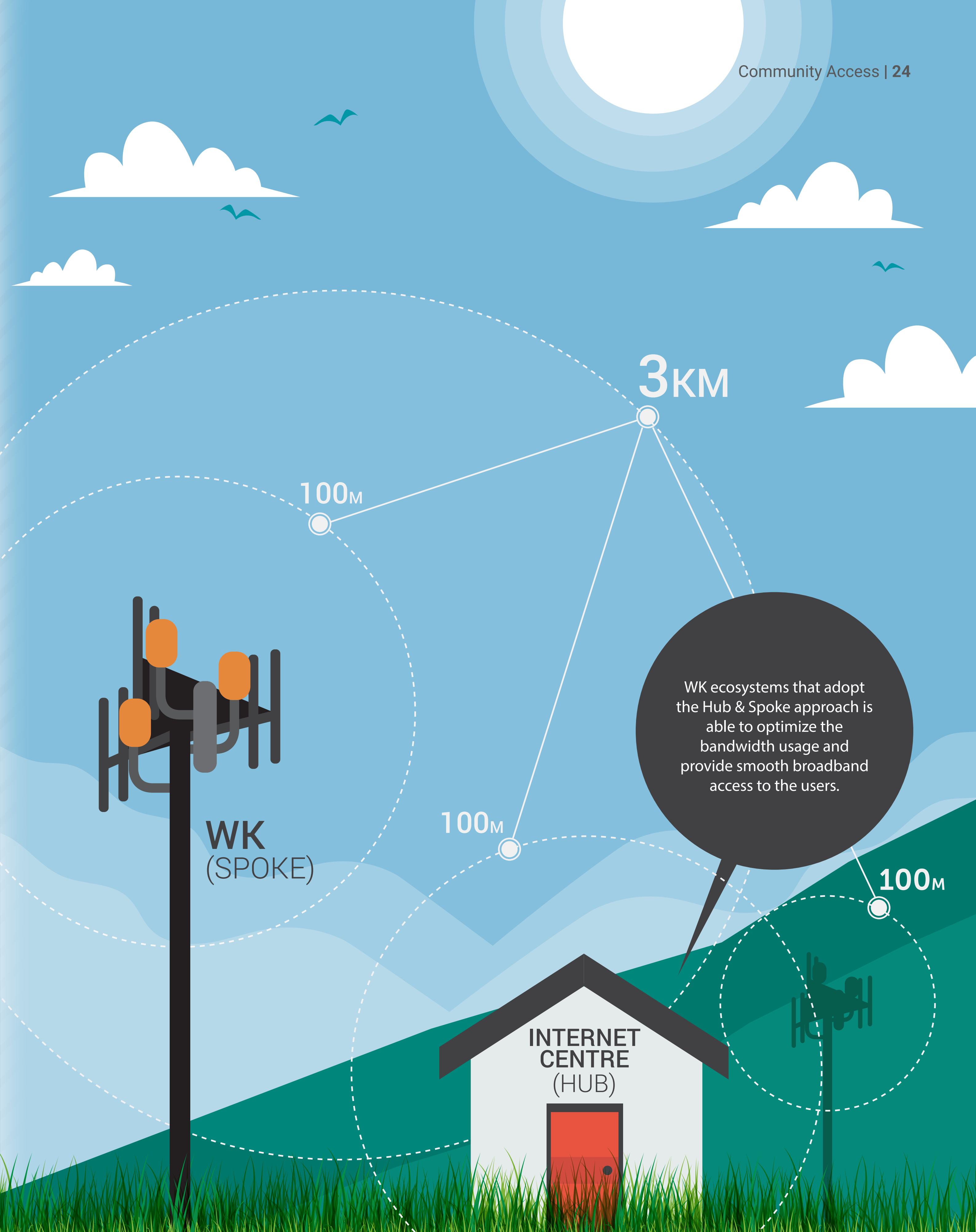
Communities living nearby the Internet Centre can benefit from this free wireless internet access for online businesses as well as practicing ICT knowledge from Internet Centre programmes.

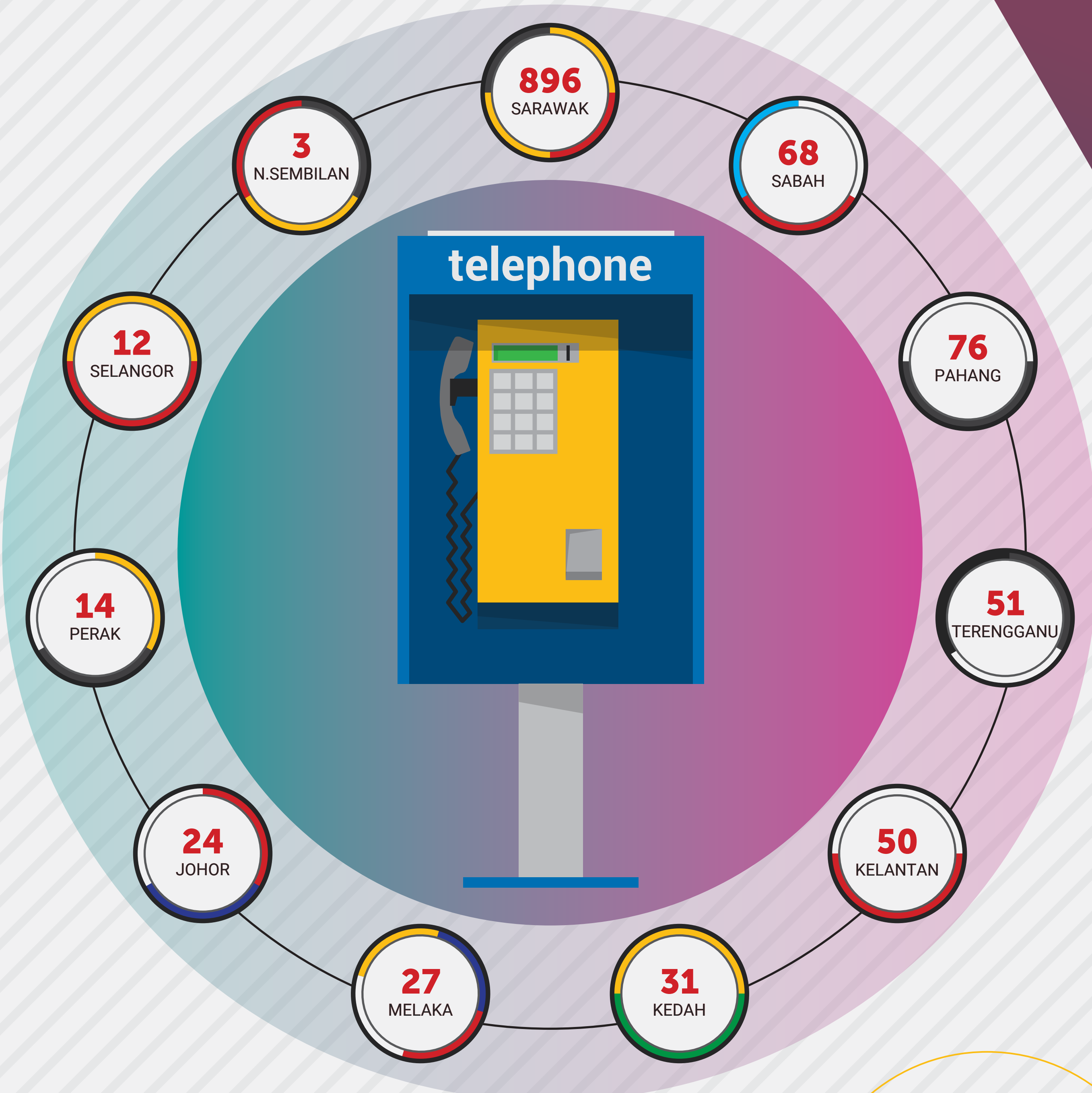
As at 31 December 2017, 2,502 WKs have been implemented nationwide. Of these, 311 WKs were implemented in 2017.

The Commission hopes that the WK initiative will be able to stimulate the local economy as well as to create a society that uses ICT in everyday life.

Community WiFi

Number of **Community WiFi** Implemented by State and Federal Territory


3KM
100M
100M
100M
WK
(SPOKE)
INTERNET
CENTRE
(HUB)
WK ecosystems that adopt the Hub & Spoke approach is able to optimize the bandwidth usage and provide smooth broadband access to the users.



Number of public payphones installed by state

TOTAL
1,252
UNITS

Telephony

The Telephony initiative, which began in 2002, is aimed at providing access to basic telephony facilities collectively in underserved areas throughout the country.

The implementation of this initiative involves the installation of public payphones focusing on areas where the basic telephony penetration rate is 20% below the national penetration rate.

Although the demand and usage of public payphones has declined due to the development of mobile phone technology, the Commission will continue to maintain it as long as there is still demand especially in rural areas.

As at 31 December 2017, 1,252 units of public payphones are still operating and maintained throughout the country.

MOBILE BROADBAND COVERAGE EXPANSION


SABAH

New Communication Tower

To expand the national mobile broadband coverage, the Commission has taken the approach of building new communication towers in areas where there is no service and in areas with poor service coverage.

The construction of these new communications towers, which began in 2009, were implemented through 2 major projects, namely the Time 3 communication tower project involving the construction of 1,000 new communication towers and Time 3 Extension communication tower project, which also involving additional 1,000 new communication towers.

The Time 3 communication tower project has been successfully completed in 2015, while under the Time 3 Extension communication tower project, 564 communication towers have been built and activated with 3G mobile broadband services throughout country.

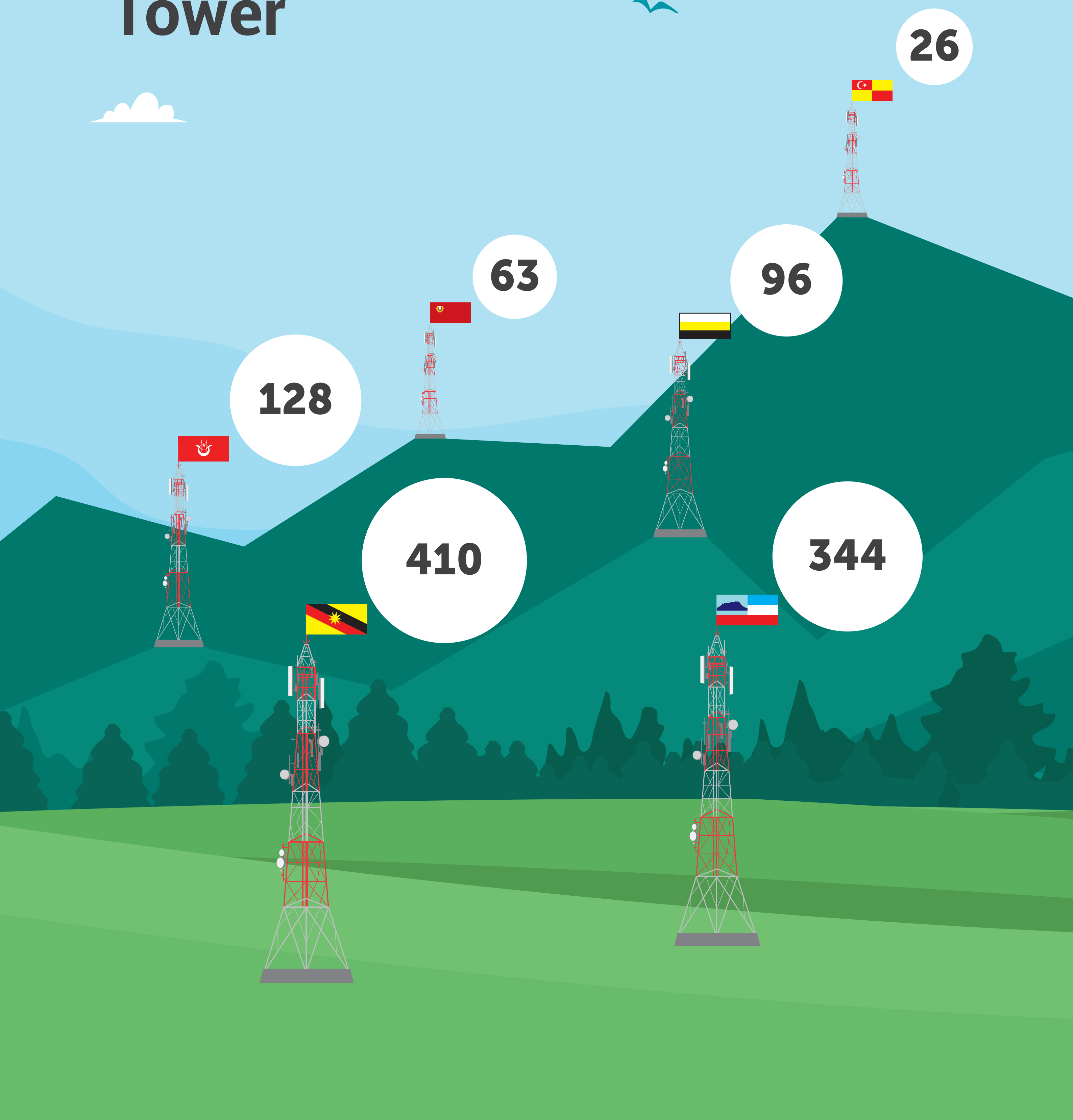
In addition, the Commission has also set up additional 100 small-scale communication towers providing 3G mobile broadband services aimed at addressing service coverage problem in dispersed population and blind-spot areas.

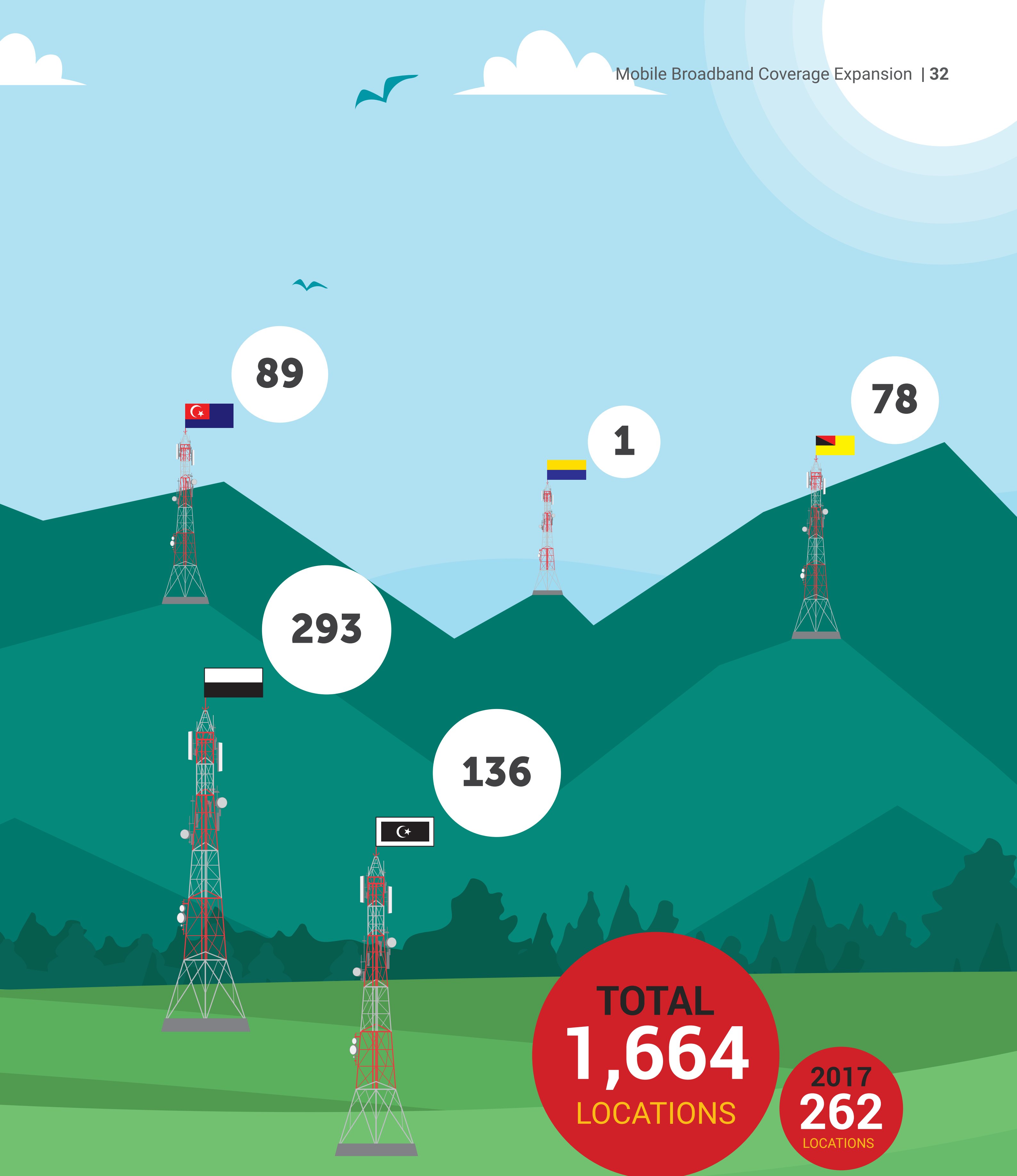
The implementation of these communication towers undoubtedly has increased the coverage of services in populated areas throughout the country and indirectly stimulates the use of smart devices in rural areas.

As at 31 December 2017, a total of 1,664 new communication towers have been successfully built and activated throughout the country. Of these, 262 new communications towers were built and activated in 2017.

"The implementation of these communication towers undoubtedly has increased the coverage of services in populated areas throughout the country and indirectly stimulates the use of smart devices in rural areas.

New Communication Tower





Number of Communication Towers built and activated by state

"The implementation of this initiative has bring a great impact on the high speed mobile broadband access while meeting the demand for 3G/4G mobile broadband throughout the country.

Upgrade of Existing Tower

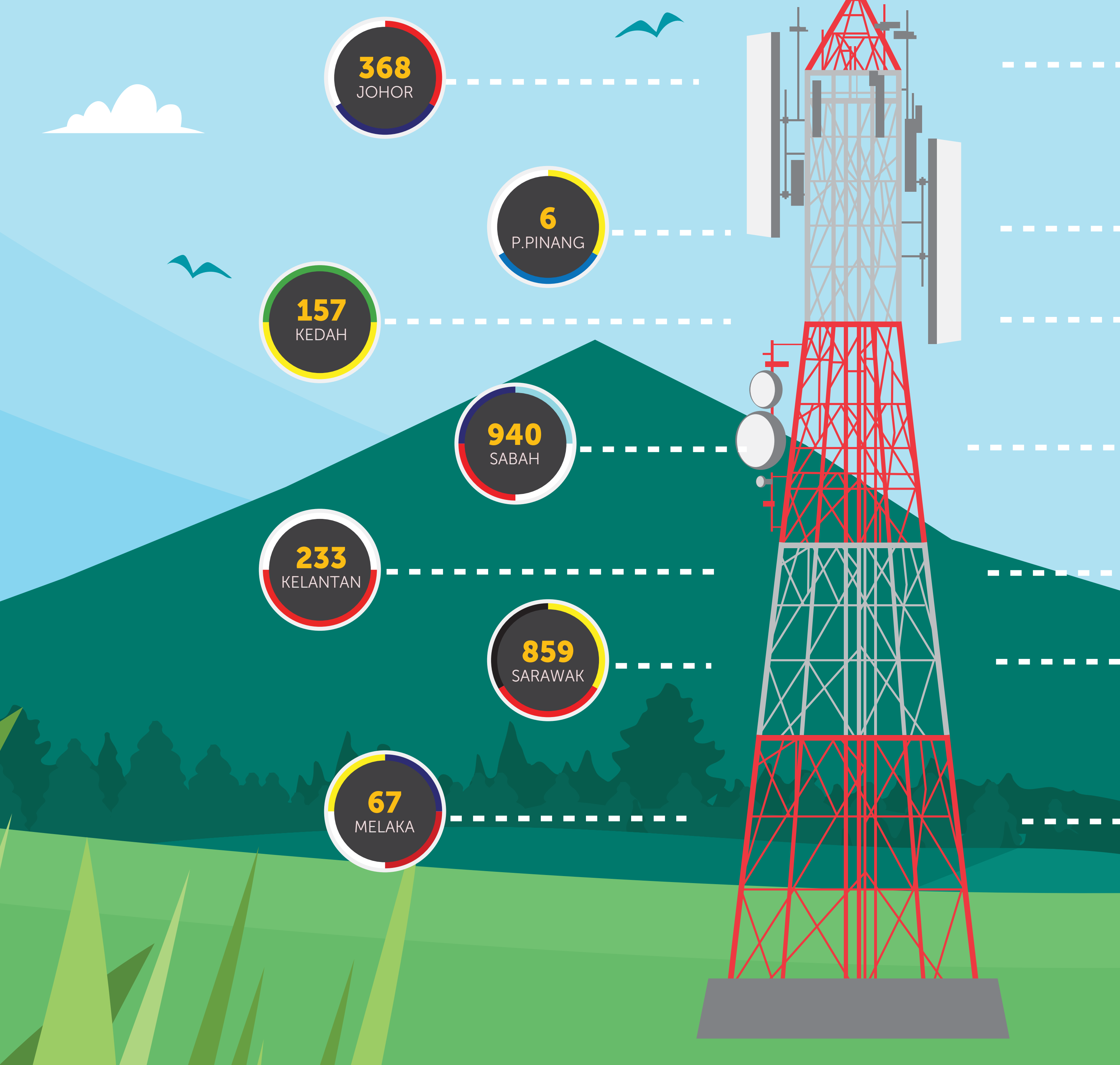
Apart from the implementation of new communication towers under the Time 3 and Time 3 Extension projects, the Commission has also upgraded existing communication towers to accommodate the increasing demand of mobile broadband.

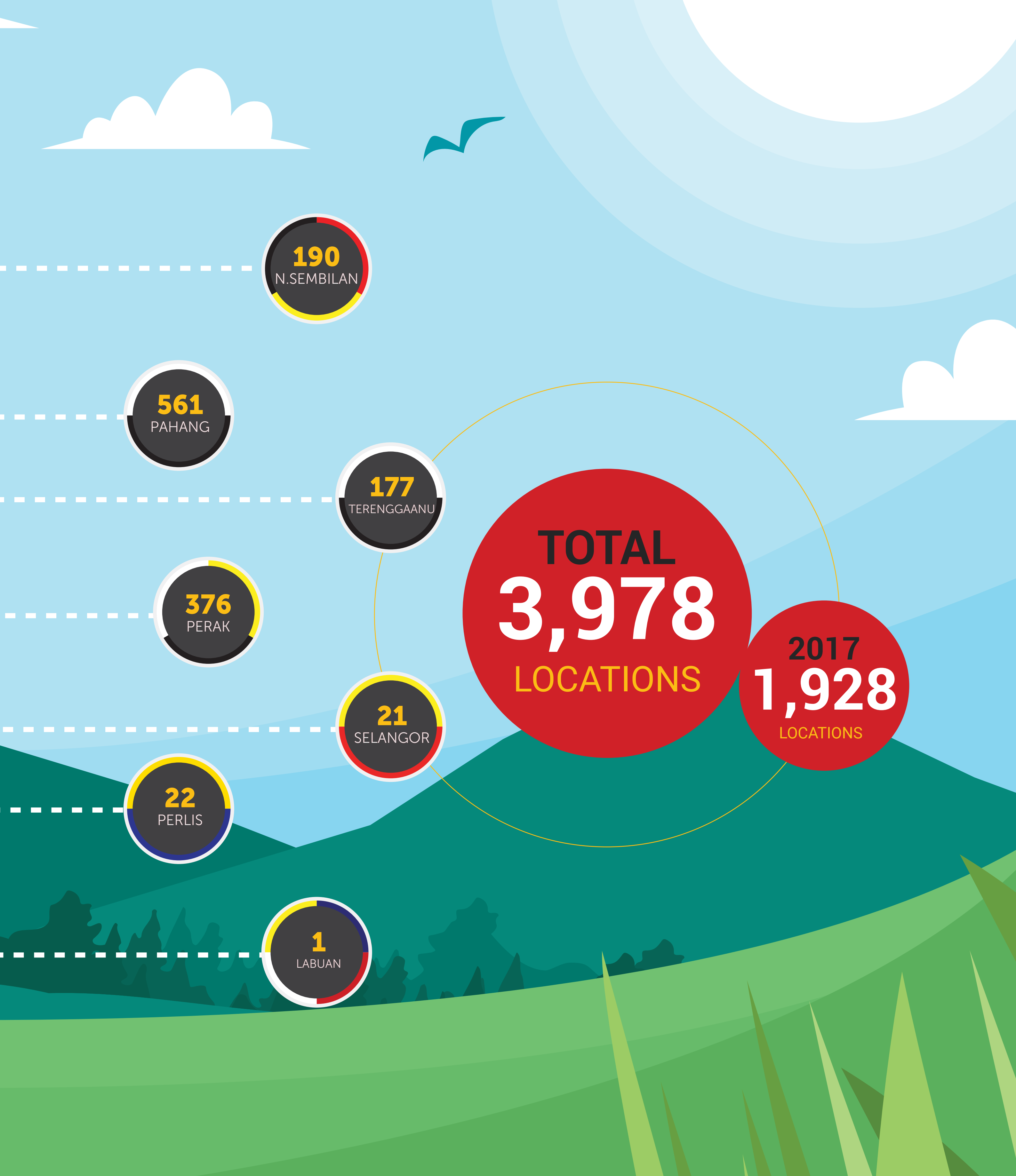
Through this initiative, existing communication towers that only providing 2G cellular services will be upgraded to 3G/4G mobile broadband services. The Commission also upgraded existing communication towers that provide 3G mobile broadband services to 4G high speed mobile broadband services.

The implementation of this initiative has bring a great impact on the high speed mobile broadband access while meeting the demand for 3G/4G mobile broadband throughout the country.

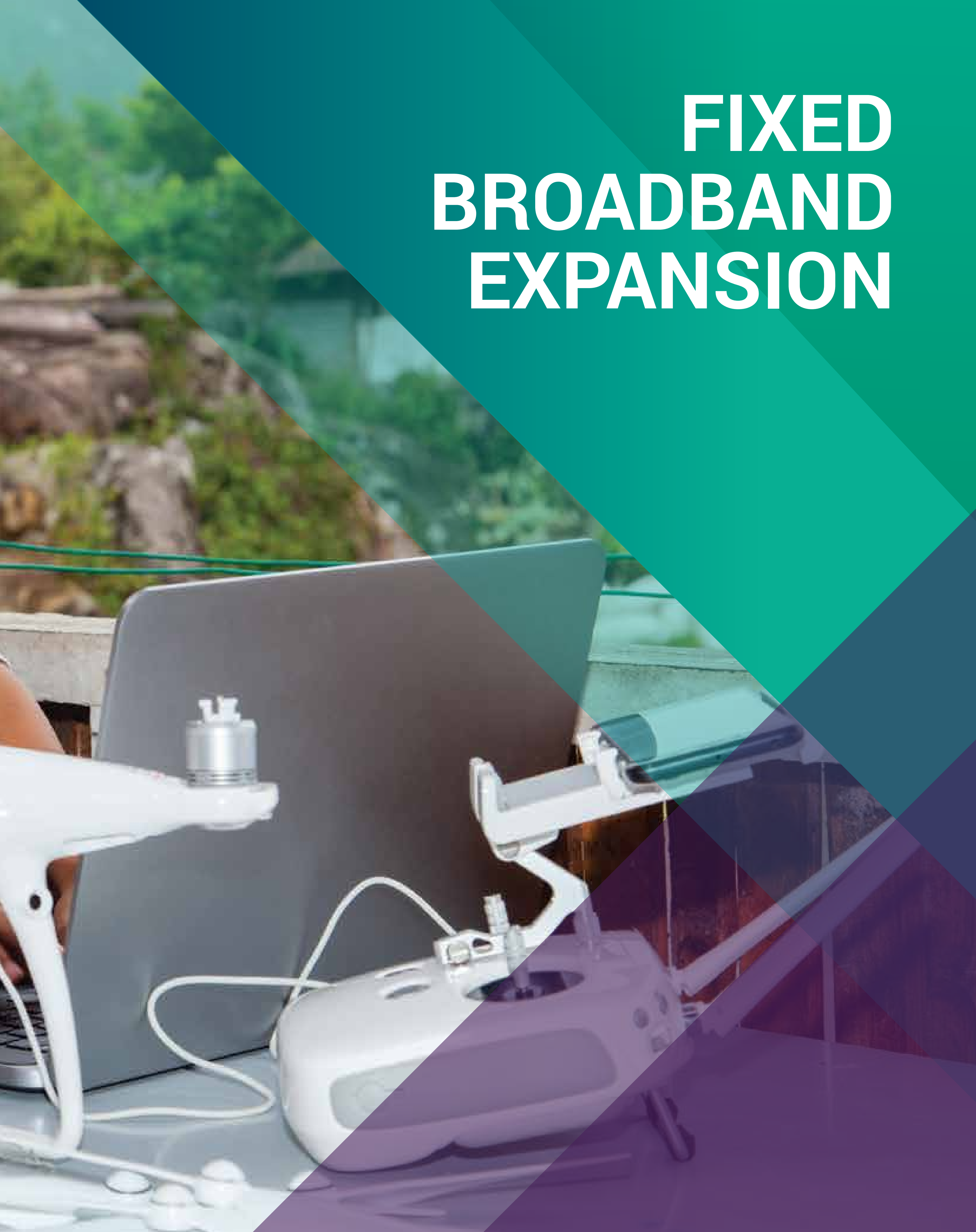
As at 31 December 2017, 3,978 existing communication tower's base transceiver stations have been upgraded nationwide. Of these, 1,928 base transceiver stations were upgraded in 2017.

Upgrade of Existing Tower




190
N.SEMBILAN
561
PAHANG
177
TERENGGAANU
376
PERAK
21
SELANGOR
22
PERLIS
1
LABUAN
TOTAL
3,978
LOCATIONS
2017
1,928
LOCATIONS

FIXED BROADBAND EXPANSION



"SUBB is implemented through public-private partnership between the Commission and service provider while RBB is fully funded under the Universal Service Provision programme.

Suburban Broadband and Rural Broadband

The Suburban Broadband (SUBB) and Rural Broadband (RBB) initiatives were introduced to expand the high speed broadband coverage in suburban and rural areas with speed of up to 20Mbps.

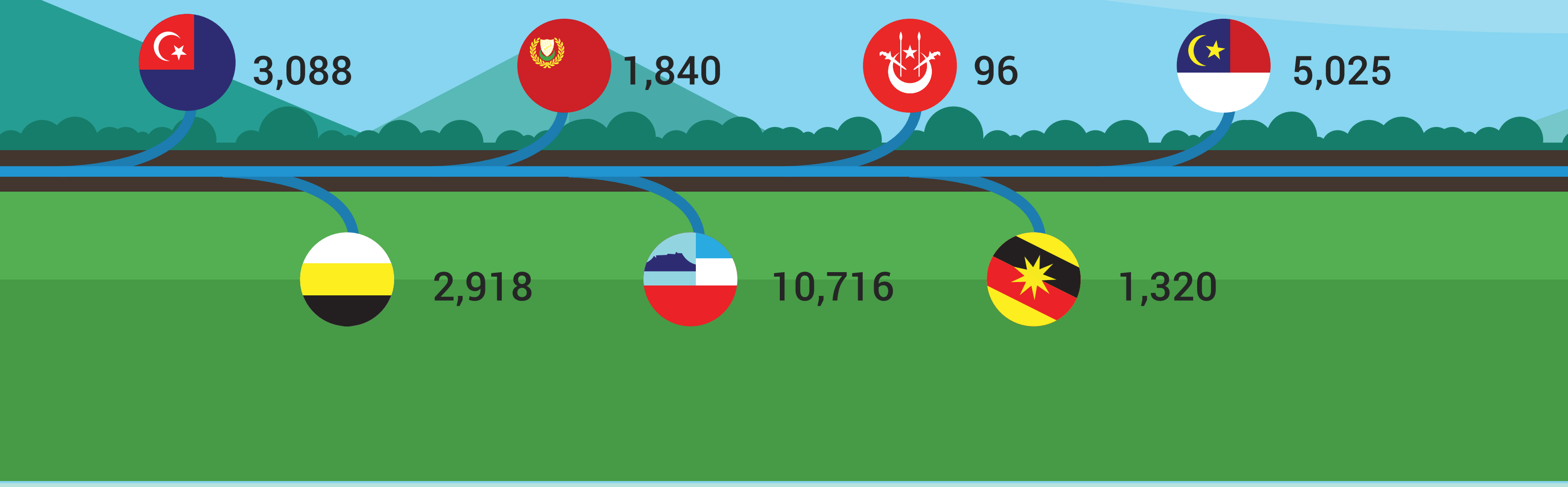
SUBB is implemented through public-private partnership between the Commission and service provider while RBB is fully funded under the Universal Service Provision programme.

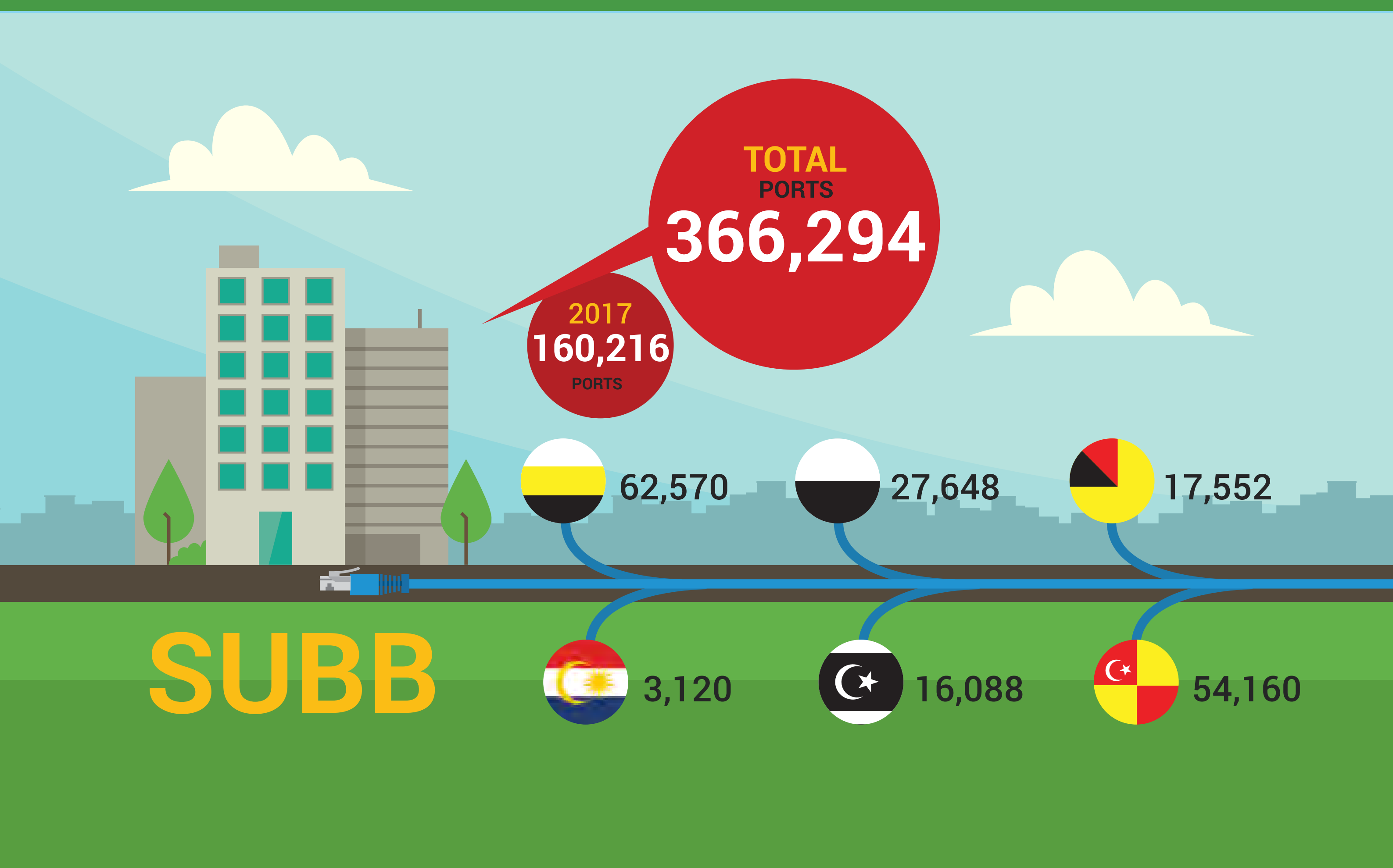
As at 31 December 2017, a total of 366,294 ports have been implemented throughout the country under the SUBB initiative. Of these, 160,216 ports were implemented in 2017.

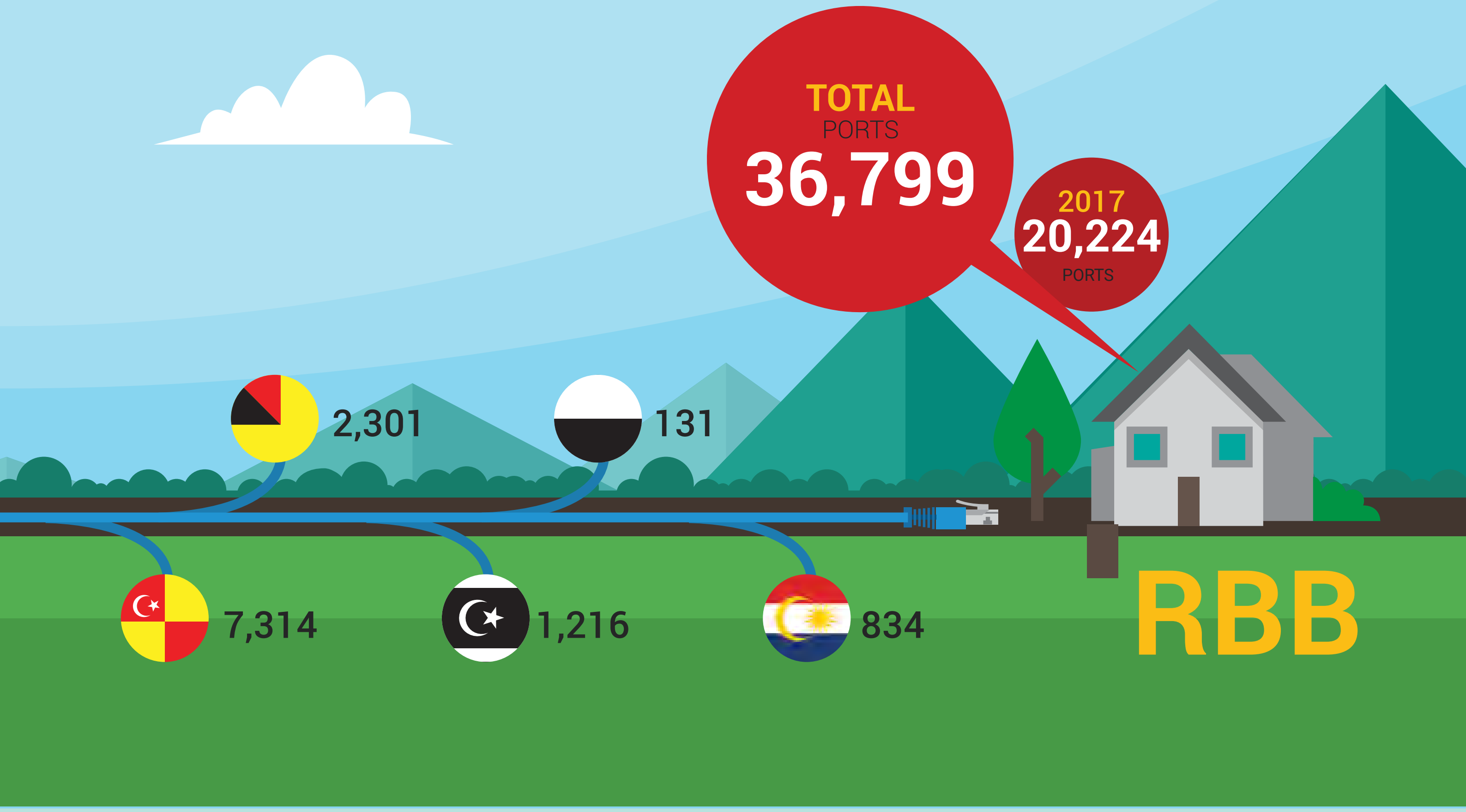
Meanwhile under the RBB initiative, a total of 36,799 ports have been implemented nationwide. Of these, 20,224 ports were implemented in 2017. The overall total of 403,093 ports that have been implemented nationwide have contributed to the increase in the national broadband penetration rate which has now reached at 84.5%.

Suburban Broadband & Rural Broadband

Number of ports allocated by state






TOTAL
PORTS
36,799
2017
20,224
PORTS
2,301
131
7,314
1,216
834
RBB


20,672
21,424
16,728
86,300
12,232
12,016
13,744
2,040

CORE NETWORK DEVELOPMENT

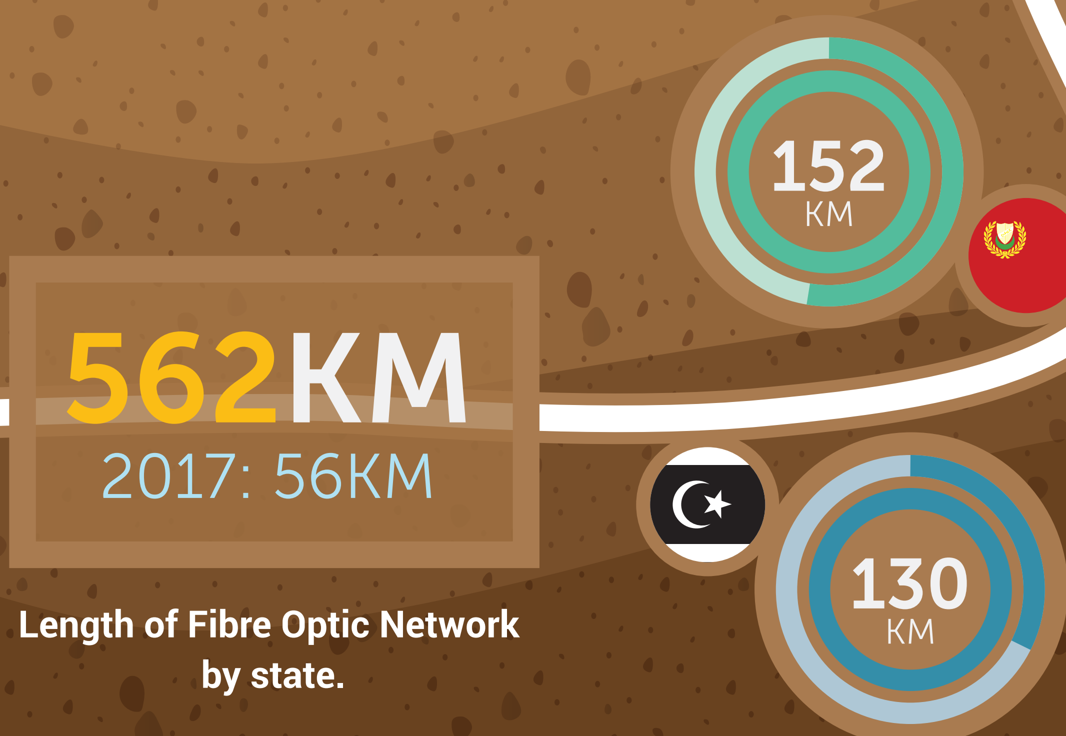

28
KM
122
KM
84
KM
46
KM

Fibre Optic Network Expansion

The Fibre Optic Network Expansion initiative is an initiative involving the installation of fibre optic cables for upgrading the existing network between the communication towers.

The implementation of this initiative focuses on underserved areas such as in rural areas to enable high speed mobile broadband services to be provided while meeting the demand for 3G/4G high speed mobile broadband services.

As of 31 December 2017, a total of 562 kilometres of fibre optic network have been installed throughout the country. Of these, a total of 56 kilometres of fibre optic network are installed in 2017.



Length of Fibre Optic Network by state.

Submarine Cable System

The Submarine Cable System which has been introduced in 2014 through public-private partnership between the Commission and Telekom Malaysia Berhad (TM) has been fully completed in May 2017, earlier than the target set in June 2017.

The Submarine Cable System which will replace the existing domestic submarine cable services that have been operating since 1995, will help in meeting the growing demand for bandwidth between Peninsular Malaysia, Sarawak and Sabah.

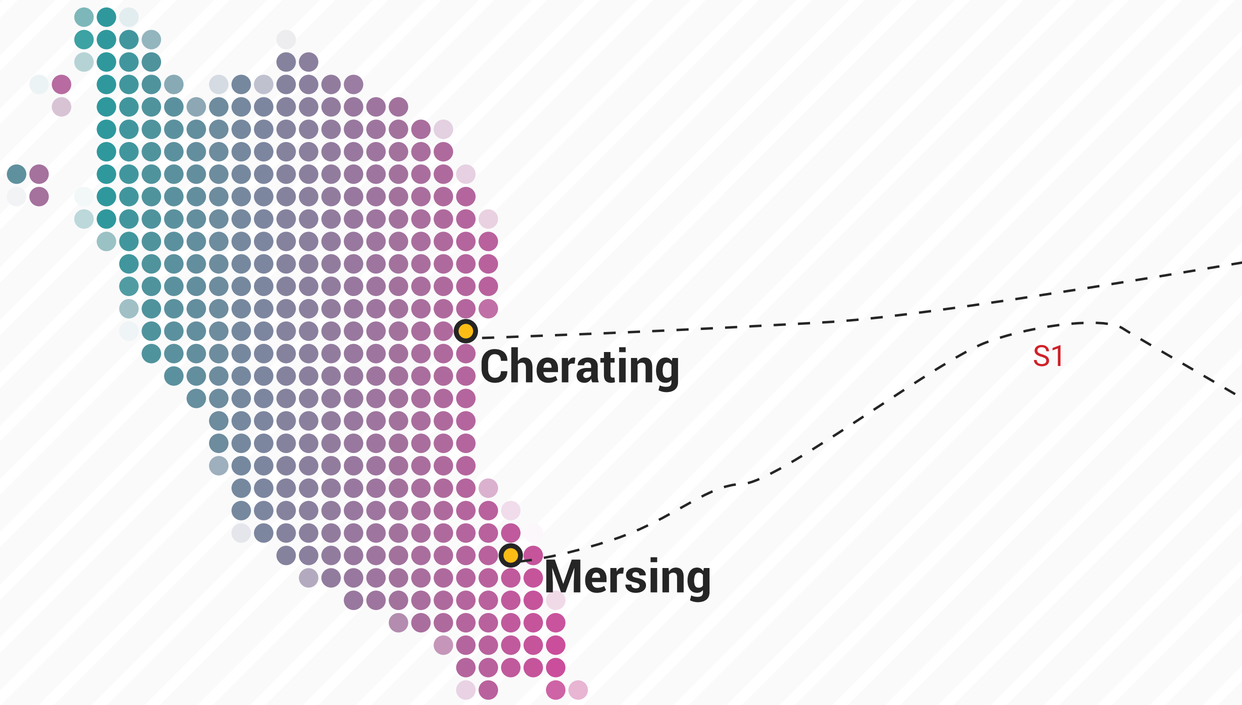
The total distance of the Submarine Cable System network that has been successfully implemented is 3,819 kilometres, comprising 6 submarine cable landing stations, connecting Peninsular Malaysia to Sarawak and Sabah.

The Launching Ceremony of the Submarine Cable System was officiated by YB Datuk Siringan Gubat, Sabah Resources and Information Technology Development Minister on 17 September 2017 at Tanjung Aru, Kota Kinabalu, Sabah.

With the implementation of the Submarine Cable System, the Commission hopes that high speed broadband services between Peninsular Malaysia, Sarawak and Sabah will be improved as well as stimulate the growth of internet-based services.

The Launching Ceremony of Submarine Cable System on September 17 in Kota Kinabalu, Sabah.

Submarine Cable System



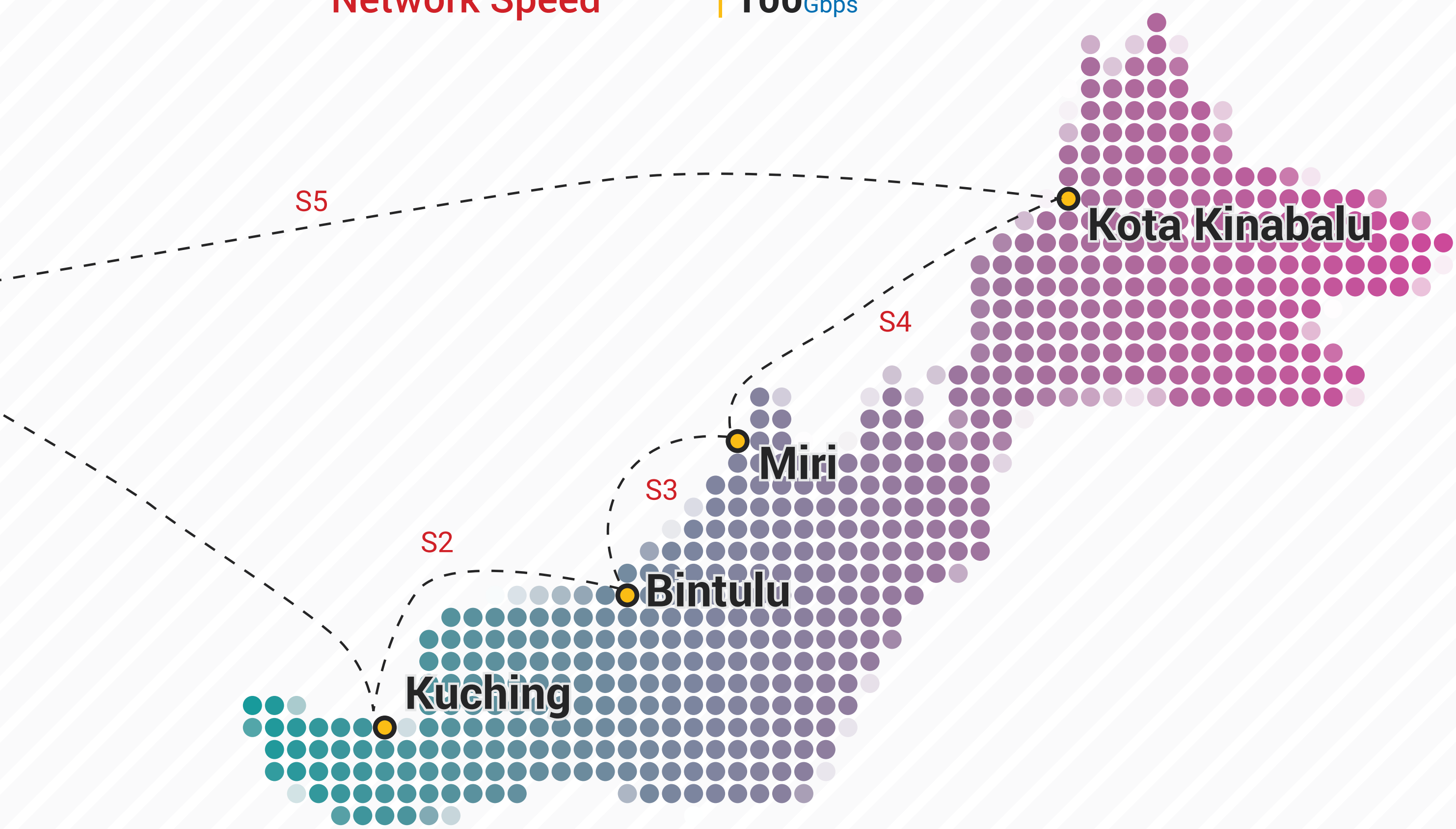
S1 | Mersing - Kuching | **1,068**KM

S2 | Kuching - Bintulu | **490**KM

Total Distance **3,819** KM

Total Capacity | **4**Tbps (up to 12.8Tbps)

Network Speed | **100**Gbps



S3	Bintulu - Miri	**211**KM
S4	Miri - Kota Kinabalu	**518**KM
S5	Kota Kinabalu - Cherating	**1,533**KM

Domestic Submarine Cable Network

Domestic Submarine Cable Network initiative involves installation of submarine fibre optic cable with a capacity of up to 12.8Tbps between main land to Tioman Island, Pangkor Island and Perhentian Island with a total distance of 99 kilometres.

The objective of this initiative is to upgrade the existing communication infrastructure to fibre optic in order to accommodate the increasing demand for bandwidth for the provision of high-speed broadband to the three islands.

Starting in 2017, the implementation of the Domestic Submarine Cable Network initiative is more focused on the network route design, permit and survey work.

The Domestic Submarine Cable Network is expected to be fully completed by 2018. Upon completion, the Commission hopes this initiative will be able to provide better broadband access to communities including tourists in the three islands as well as improving the socio-economic status of the locals.

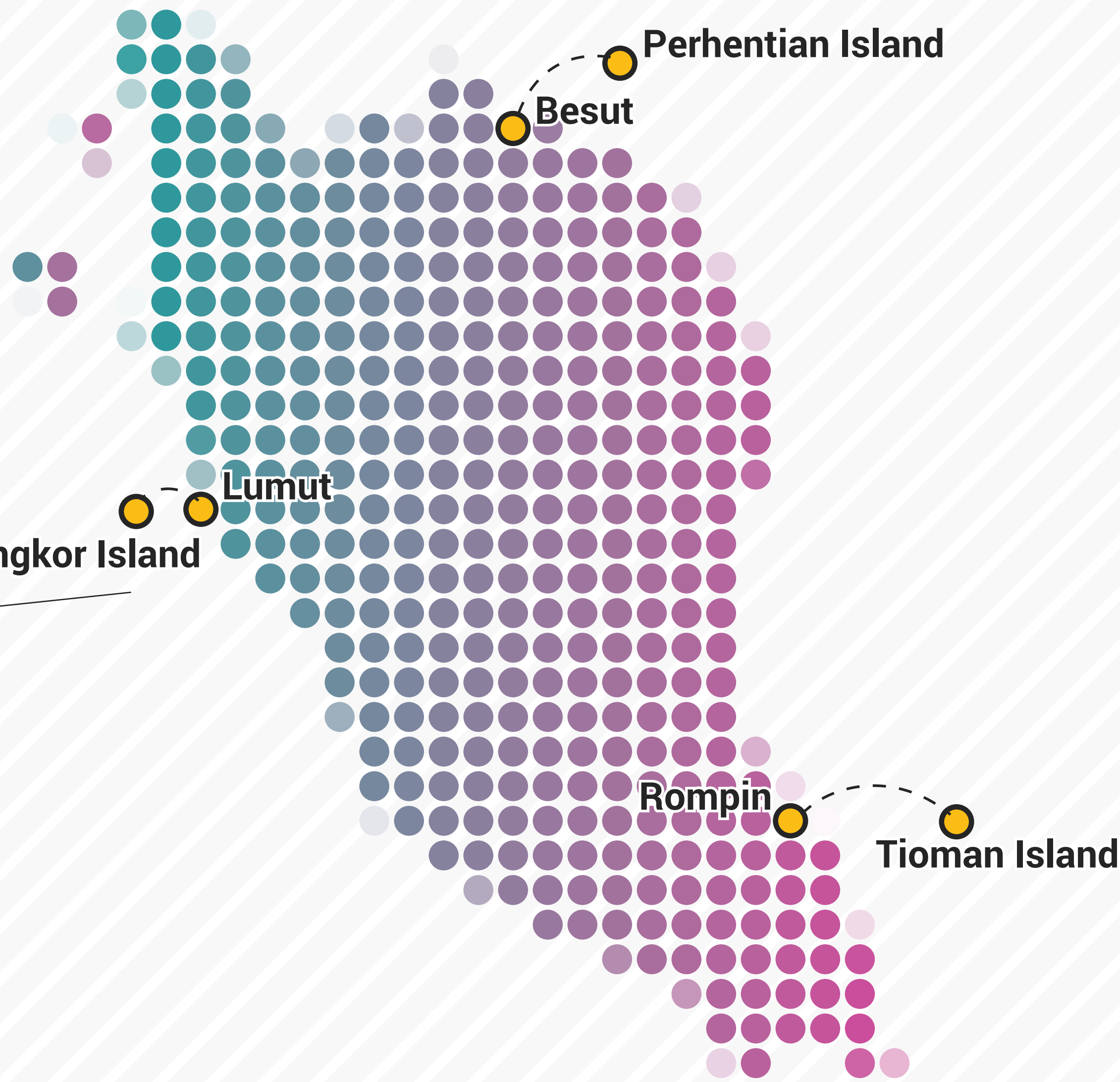
99 KM

Total Distance

Capacity up to

12.8 Tbps

Domestic Submarine Cable Network



Rompin	- Tioman Island (Pahang)	74KM
Lumut	- Pangkor Island (Perak)	4KM
Kuala Besut	- Perhentian Island (Terengganu)	21KM

BROADBAND USAGE SUPPORT PROGRAMME

"The initiative is targeted in rural areas and to low-income groups to encourage these target groups to use smart devices in everyday lives.

Smart Device with Internet Package

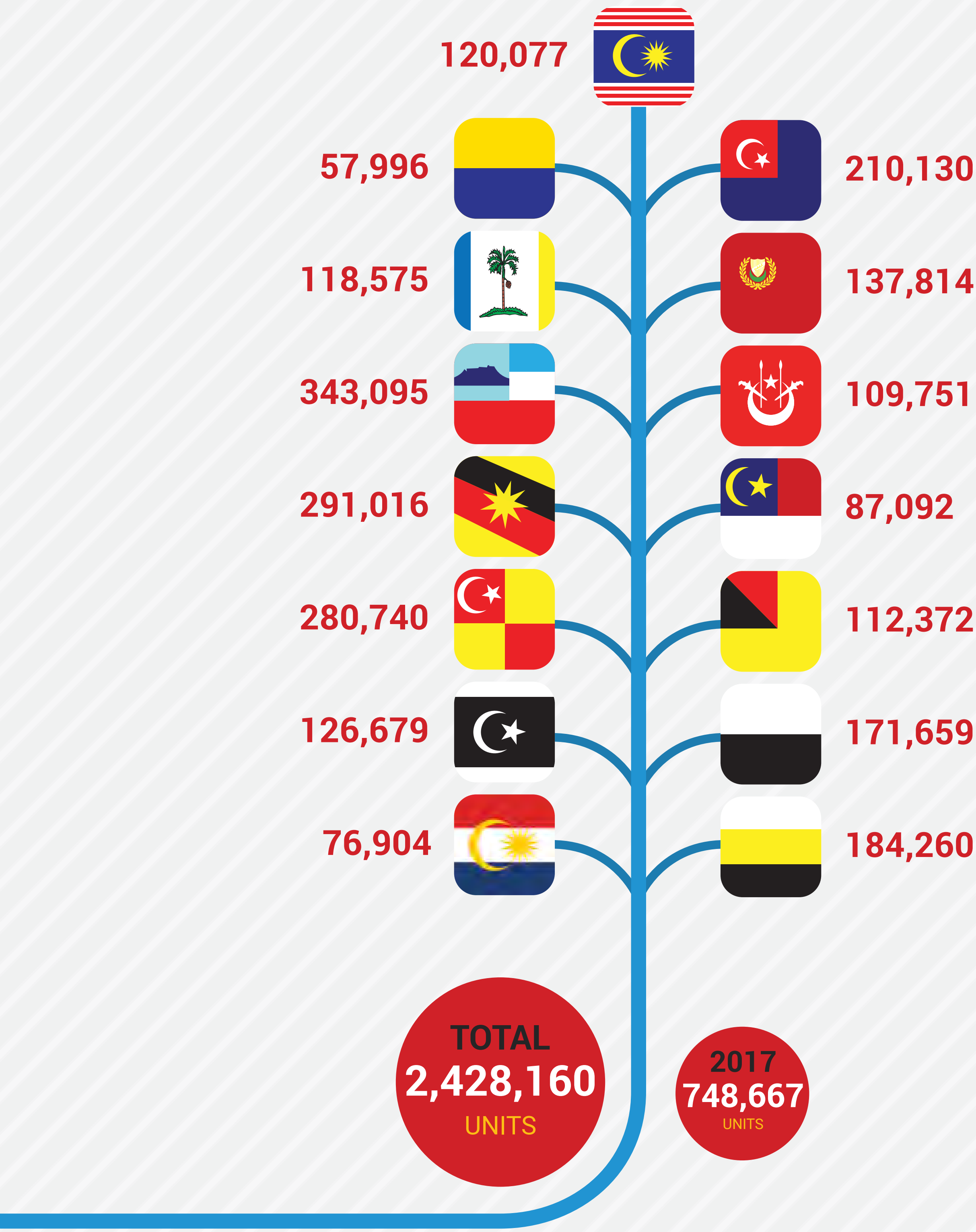
The Smart Device with Internet Package initiative was introduced in 2014 by offering selected smart devices to consumers at a lower price than the recommended retailed price. Users are also offered with a one-year free internet subscription with several selected preinstalled apps on the devices offered.

The initiative is targeted in rural areas and to low-income groups to encourage these target groups to use smart devices in everyday lives.

As at 31 December 2017, a total of 2,428,160 units of smart devices have been activated nationwide. Of these, 748,667 smart devices were activated in 2017.

Smart Device with Internet Package

Number of **smart devices** activated nationwide



USP FUND


PROGUARD
Supreme

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 universal service providers upon approval from the Commission.

Contribution to the Fund by licensees is made in accordance to the Communications and Multimedia (Universal Service Provision) Regulations 2002 (USP Regulations).

List of designated services

Weightage factors

6% of weighted net revenue

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 total net revenue for the previous calendar year derived from the designated services exceeds the minimum revenue threshold of RM2 million to contribute 6% of its weighted net revenue to the USP Fund.

	Designated Services	Weightage Factor: Up to 31 Dec 2003	Weightage Factor: 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:

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

Formula Sumbangan

USP Fund Collection

A total of RM1.31 billion was recognised as income for the USP Fund for 2017. This is based on the Return of Net Revenue submitted by licensees as well as interest income.

The major contributors to the USP Fund in 2017 are the following licensees:

Celcom Networks Sdn Bhd	DiGi Telecommunications Sdn Bhd	Edotco Malaysia Sdn Bhd
Maxis Broadband Sdn Bhd	Maxis Mobile Services Sdn Bhd	Telekom Malaysia Berhad
TT dotcom Sdn Bhd	Sacofa Sdn Bhd	YTL Comm Sdn Bhd

Major Contributors to the USP Fund in 2017

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 RM1.24 billion was recognised as expenses for claims by designated universal service providers in 2017 for the implementation of USP projects.

In summary, the table below shows the contribution and claims from 2003 to 2017:

Year	Contribution (RM'000)	Claims (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

The Contribution and Claims from 2003 to 2017

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 74 to 99 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 2017 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

Selangor,

31 OCT 2018

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 74 to 99 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 5 November 2018.

Cho Shi Chong

Before me:

PESURUHJAYA SUMPAH
A-W 326
RAFLIZA BINTI MAMAT
@AZIZ
PEJABAT
KETUA PENDAFTAR
MAHKAMAH PERSEKUTUAN
MALAYSIA
01.07.2018-30.06.2021
MALAYSIA

05 NOV 2018

Ernst & Young AF 0039
GST Reg No: 001556430848
Chartered Accountants
Level 23A Menara Milenium
Jalan Damanlela, Pusat Bandar Damansara
50490 Kuala Lumpur Malaysia

Tel: +603 7495 8000
Fax: +603 2095 5332 (General Line)
+603 2095 9076
+603 2095 9078
ey.com

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 2017 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 74 to 99.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2017, 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.

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.

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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 (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.
- 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 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.

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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. 01759/02/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
31 October 2018

Statement of financial position
As at 31 December 2017

Assets	Note	2017 RM'000	2016 RM'000
Non-current asset			
Deferred tax assets	3	5,591	5,349
Current assets			
Other investments	4	7,750,000	7,550,000
Contributions and other receivables	5	1,249,787	1,137,905
Tax recoverable		321,338	241,740
Cash and cash equivalents	6	152,771	398,860
		9,473,896	9,328,505
Total assets		9,479,487	9,333,854
Current liabilities			
Other payables	7	924,499	830,442
Represented by:			
Accumulated funds	8	8,554,988	8,503,412
Total liabilities & accumulated funds		9,479,487	9,333,854

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 2017

	Note	2017 RM'000	2016 RM'000
Income			
Contributions	10	997,879	1,043,679
Interest income		314,802	312,520
Other Income		1	-
Reversal of allowance for impairment		6,398	13,027
		1,319,080	1,369,226
Expenditure			
Claims by USP service providers		(1,240,318)	(1,287,256)
Allowance for impairment	5	(7,609)	(6,636)
Bad debts expenses		-	(1,936)
Other expenses		(2)	(2)
		(1,247,929)	(1,295,830)
Surplus before tax		71,151	73,396
Tax expense	11	(19,575)	(15,191)
Surplus after tax, representing total recognised gains		51,576	58,205

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

Statement of cash flows
For the year ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Cash flows from operating activities			
Surplus before tax		71,151	73,396
Adjustments for:			
Reversal of allowance of doubtful debts		(6,398)	(11,766)
Allowance for doubtful debts		7,609	6,636
Interest income		(314,802)	(312,520)
Operating deficit before changes in working capital		(242,440)	(244,254)
Changes in working capital:			
Contributions and other receivables		(113,093)	802,155
Other payables		94,057	(287,234)
Cash generated from operations		(19,036)	514,921
Tax paid		(99,415)	(359,749)
Net cash used in operating activities		(360,891)	(89,082)
Cash flows from investing activities			
Interest received		314,802	269,176
Placement in other investments		(200,000)	(910,000)
Net cash generated from/(used in) investing activities		114,802	(640,824)
Net decrease in cash and cash equivalents		(246,089)	(729,906)
Cash and cash equivalents at 1 January		398,860	1,128,766
Cash and cash equivalents at 31 December	6	152,771	398,860

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

Notes to the financial statements
For the year ended 31 December 2017

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 on 31 October 2018.

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 2017, 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 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

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.

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
MFRS 16 Leases	1 January 2019
Amendments to MFRS 2 Share-based Payment (Classification and Measurement of Share-based Payment Transaction)	1 January 2018
Amendments to MFRS 2 Share-based Payment	1 January 2020
Amendments to MFRS 3 Business Combinations	1 January 2020

2. Summary of significant accounting policies (contd.)

2.3 Standards and Interpretations issued and adopted (contd.)

Description	Effective for annual periods beginning on or after
Amendments to MFRS 9 Prepayment Features With Negative Compensation	1 January 2019
Amendments to MFRS 14 Regulatory Deferral Accounts	1 January 2020
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
Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets	1 January 2020
Amendments to MFRS 138 Intangible Assets	1 January 2020
Amendments to MFRS 140 Transfers of Investment Property	1 January 2018
Annual Improvements to MFRS Standards 2014 - 2016 Cycle	1 January 2018
Annual Improvements to MFRS Standards 2015 - 2017 Cycle	1 January 2019
Amendments to MFRS 10 and MFRS 128 Sale or Contribution of Assets between an Investor and Associate or Joint Venture	Deferred

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.

2. Summary of significant accounting policies (contd.)

2.3 Standards and Interpretations issued and adopted (contd.)

MFRS 9 Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and on hedge accounting. MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The new standard contains three principle classifications categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL), and eliminates the existing MFRS 139 categories of held to maturity, loans and receivables and available for sale.

The Fund holds financial assets in order to collect contractual cash flows and is assessing the underlying types of cash flows to classify the financial assets correctly. Apart from classification changes to financial assets, MFRS 9 replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss (ECL) model. This will have a significant impact to the Fund's processes and estimates used in assessing the impairment loss of receivables, which includes estimating future economic indicators and past credit trend of receivables to be factored into the ECL model. The Fund expects its impact assessment of the ECL model to be completed in time for the next financial reporting period as at 31 December 2018.

MFRS 15 Revenue from Contracts with Customers

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under MFRS (including MFRS 111 Construction Contracts, MFRS 118 Revenue, IC Interpretation 13 Customer Loyalty Programmes, IC Interpretation 15 Agreements for the Construction of Real Estate, IC Interpretation 18 Transfers of Assets from Customers and IC Interpretation 131 Revenue – Barter Transactions Involving Advertising Services). Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Fund will adopt the standard on its effective date.

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under MFRS 15, revenue is 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. The principles in MFRS 15 provide a more structured approach, a five-step model to measure and recognise revenue. The five-step model that applies to revenue recognition under MFRS 15 is as follows:

1) Identify the contract(s) with a customer;
2) Identify the performance obligations in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to the performance obligations in the contract; and
5) Recognise revenue when (or as) the entity satisfies a performance obligation.

2. Summary of significant accounting policies (contd.)

2.3 Standards issued but not yet effective (contd.)

MFRS 15 Revenue from Contracts with Customers (contd.)

The standard 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 how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. New disclosure requirements under MFRS 15 which include disaggregated information about revenue and information about the performance obligations remaining at the reporting date.

The Fund has only one revenue stream and is in the process of developing additional quantitative and qualitative disclosures that will be required to be reported upon the adoption of the new revenue recognition standard.

As at the date of this report, the Fund is finalizing its assessment and processes in adopting MFRS 15 and will be completed before the next financial year. The full impact of the adoption will be disclosed in the next financial statements.

2. Summary of significant accounting policies (contd.)

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.

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.)

a) 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 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.

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) Contributions from licensees

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

2. Summary of significant accounting policies (contd.)

2.5 Recognition of income and exp enditure (contd.)

a) Contributions from licensees (contd.)

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.

b) Claims by USP service providers

Claims made by the universal service providers ("USP") are 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.

2. Summary of significant accounting policies (contd.)

2.6 Financial assets (contd.)

a) Loans and receivables (contd.)

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.

2.7 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 becomes 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 (contd.)

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 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.

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 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 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

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.

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*

	2017 RM'000	2016 RM'000
At beginning of year	5,349	1,945
Recognised in income statement (Note 11)	242	3,404
At end of year	5,591	5,349

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

4. *Other investments*

	2017 RM'000	2016 RM'000
These comprise term deposits with:		
● licensed banks	7,750,000	7,550,000

Short term deposits with licensed banks are made with maturities ranging from 3 to 12 months. The deposits bore weighted average interest rate of 3.97% (2016: 4.00%).

5. *Contributions and other receivables*

	2017 RM'000	2016 RM'000
Contributions receivables	1,129,505	1,021,424
Less: allowance for impairment	(19,968)	(19,103)
	1,109,537	1,002,321
Interest income receivables	140,250	135,584
	1,249,787	1,137,905

5. Contributions and other receivables (contd.)

Ageing analysis:

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

	2017 RM'000	2016 RM'000
Neither past due nor impaired	1,109,537	1,002,321
Past due and impaired	19,968	19,103
	1,129,505	1,021,424

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:

	2017 RM'000	2016 RM'000
Individually impaired:		
Nominal amounts	19,968	19,103
Less: Allowance for impairment	(19,968)	(19,103)
	-	-

5. *Contributions and other receivables (contd.)*

Movement in allowance accounts:

	2017 RM'000	2016 RM'000
At 1 January	19,103	25,942
Additions	7,609	6,636
Reversal	(6,398)	(11,766)
Written off	(346)	(1,709)
At 31 December	19,968	19,103

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

6. *Cash and cash equivalents*

	2017 RM'000	2016 RM'000
Cash at bank	4,355	7,748
Deposits with licensed banks	148,416	391,112
Total cash and cash equivalents	152,771	398,860
Contributions and other receivables	1,249,787	1,137,905
Total loans and receivables	1,402,558	1,536,765

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 3.03% (2016: 3.00%).

7. Other payables

	2017 RM'000	2016 RM'000
Sundry payables	248,641	340,592
Accrued USP claims	675,858	489,850
Total financial liabilities at amortised cost	924,499	830,442

8. Accumulated fund

	2017 RM'000	2016 RM'000
As at 1 January	8,503,412	8,445,207
Surplus after tax	51,576	58,205
As at 31 December	8,554,988	8,503,412

9. Audit fee

Audit fee of RM65,000 (2016: RM55,000) 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.

11. *Tax expense*

	2017 RM'000	2016 RM'000
Income tax expense		
● Current year	20,134	18,595
● Under/(over) provision in prior year	(317)	-
	19,817	18,595
Deferred tax expense		
● Origination and reversal of temporary differences	(242)	1,915
● Relating to changes in income tax rate	(573)	(778)
● Under/(over) provision in prior year	573	(4,541)
	(242)	(3,404)
Total tax expense	19,575	15,191

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% (2016: 25%) for the first RM1,000,000 chargeable income and the balance is taxed at the statutory tax rate of 28% (2016: 28%).

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:

	2017 RM'000	2016 RM'000
Surplus before tax	71,151	73,396
First RM1,000,000 taxed at 25%	250	250
Remaining tax at statutory tax rate of 28%	19,642	20,260
Effect on deferred tax on changes in income tax rate	(573)	(778)
Under/(over) provision of income tax in prior years	(317)	-
Under/(over) provision of deferred tax in prior years	573	(4,541)
	19,575	15,191

12. Commitment

	2017 RM'000	2016 RM'000
Costs for the implementation of the Universal Service Provision:		
Approved but not awarded	492,075	1,129,000
Awarded but not provided for	5,926,116	4,835,044
	6,418,191	5,964,044

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 agree 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 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.

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 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 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 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 2017 and 2016.

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 RM109,557,028.67 of which RM45,195,758.09 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 RM36,031,173.90.

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.

On 29 November 2017, the Court of Appeal overturned the decision of the High Court and ruled in favour of the Commission.

18. Legal proceedings (contd.)

On 8 January 2018, Maju Nusa has filed for judicial review application ("JR Application") in relation to the T3 Projects. 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 28 November 2018.

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, i.e. Maxis Broadband Sdn Bhd and Celcom Axiata Berhad to pull up the 2G services to the quality 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 Measat Broadband (International) Ltd to ensure continuation of 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.