MCMC

UNIVERSAL SERVICE PROVISION ANNUAL REPORT 2021

STATUTORY REQUIREMENTS

In accordance with Regulation 36 of the Communications and Multimedia (Universal Service Provision) Regulations 2002 ("USP Regulations"), the Malaysian Communications and Multimedia Commission hereby publishes and has conveyed to the Minister of Communications and Multimedia a copy of this report with financial statements for the year ended 31 December 2021.

COVER RATIONALE

MCMC, leading the digital infrastructure development industry in Malaysia and plays an important role in nurturing the new generation and encouraging them to play their part and to have an active role in a digitalised future.

Knowledge and education are borderless, and should not be restricted only to the classroom. The cover shows teacher holding a digital device in her hand, engaging with her students in the outdoors – representing the flexibility of performing a myriad of learning activities made possible through digitalisation. Clearly, by embracing new technologies, learning and information becomes possible anywhere, everywhere and at any time.

MCMC aims to bring Malaysia to the forefront of a remarkable digital and technological experience. Visible in the background are some icons representing the types of connectivity, and the various technologies available at one's fingertips such as WiFi and the Internet, among others.

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Chapter 01

CHAIRMAN'S MESSAGE

DATO' DR. FADHLULLAH SUHAIMI ABDUL MALEK
Chairman
Malaysian Communications and Multimedia Commission

It is with great honour for me to highlight the progress and achievements in the implementation of infrastructure and network services initiatives under the Universal Service Provision (USP) for the year 2021.

The USP report 2021, together with the accompanying financial statements, is an annual publication pursuant to Regulation 36 of the Communications and Multimedia (Universal Service Provision (USP)) Regulations 2002.

2021 marks the second year of realising the Government's aspirations through the implementation of Jalinan Digital Negara (JENDELA) programme. The JENDELA action plan was formulated in H2 2020 to provide wider coverage and better quality of broadband experience through various initiatives, especially in the rural, remote as well as urban poor areas.

The JENDELA programme aims to realise the national target of 96.9% 4G mobile coverage (in populated areas), with an average speed of 35 Mbps and 7.5 million premises passed with access to fibre broadband services nationwide by the end 2022.

Since the first quarter of 2021, several USP initiatives were planned and commenced to support the JENDELA programme. This includes the deployment of 362 new communications towers, the upgrading of 5,394 transmitters, the fiberisation of 426 existing communications towers, the installation of fibre optic access to 180,014 premises, and the installation of two submarine cable systems from the Peninsular land to two local islands; while gradually retiring the 3G network at existing communications towers nationwide by end of the year (as part of 4G quality improvement initiatives). This is in addition to completing the implementation of other initiatives which have already been identified earlier under USP, commenced in 2020.

As the new normal gives rise to higher digital demand, the Commission acknowledges the circumstances and challenges in improving broadband access and quality of experience. The Commission is committed to deliver the JENDELA programme and will continue to address connection issues experienced by the community throughout the nation, including those in very remote areas.

In Quarter 3 2021, the Commission has accelerated the deployment of WiFi services via satellite technology in far and remote areas, which had initially been planned for execution in 2023. A total of 839 WiFi locations have been identified in the remote areas in eight (8) different states, namely Johor, Kelantan, Negeri Sembilan, Pahang, Perak, Sabah, Sarawak and Selangor.

By the end of the year, I am pleased to report that the said WiFi services have been successfully made available in a total of 437 locations, whilst the balance will be completed in 2022. With the availability of broadband access in these communities, we hope that the Rakyat will benefit from improving socio-economic well-being, as well as experiencing better home-based teaching and learning activities.

Implementing initiatives in these areas is by no means easy and takes a considerable effort by all parties involved, especially the communities themselves who are in need of better services. The Commission nevertheless, will continue to strive and stay committed to improve internet connectivity in the country, thus ensuring that everyone could enjoy better communications and broadband services nationwide.

We believe that the provision of ubiquitous digital infrastructure in our country would bring enormous impact to the Rakyat, both socially and economically. Internet service is key for the future. This is in line and will certainly support the Government's aspiration to transform Malaysia into a high-tech and high-income nation with a better quality of life for the Rakyat.

CHAIRMAN'S MESSAGE

Chapter 02

OVERVIEW OF ONGOING AND COMPLETED INITIATIVES

OVERVIEW OF ONGOING AND COMPLETED INITIATIVES

Broadband Wireless Access (BWA) via Satellite Connectivity

437 locations Total Completed

2021 Year Started

437 locations Completed in 2021

New Communications Towers

2,588 towers Total Completed

2009 Year Started

199 towers Completed in 2021

Fixed Broadband (Suburban and Urban)

12,064 ports Total Completed

2018 Year Started

8,444 ports Completed in 2021

Pusat Ekonomi Digital Keluarga Malaysia (PEDi)

883 PEDi Total Completed

2007 Year Started

10 PEDi Completed in 2021

Migration of Existing Copper Broadband Access Network to Fibre Optic Broadband Access Network

192,008 subscribers Total Completed

2020 Year Started

169,610 subscribers Completed in 2021

Fiberisation of Premises

9,970 premises
Total Completed

2021
Year Started

9,970 premises
Completed in 2021

Upgrading of Base Stations/ Transmitters

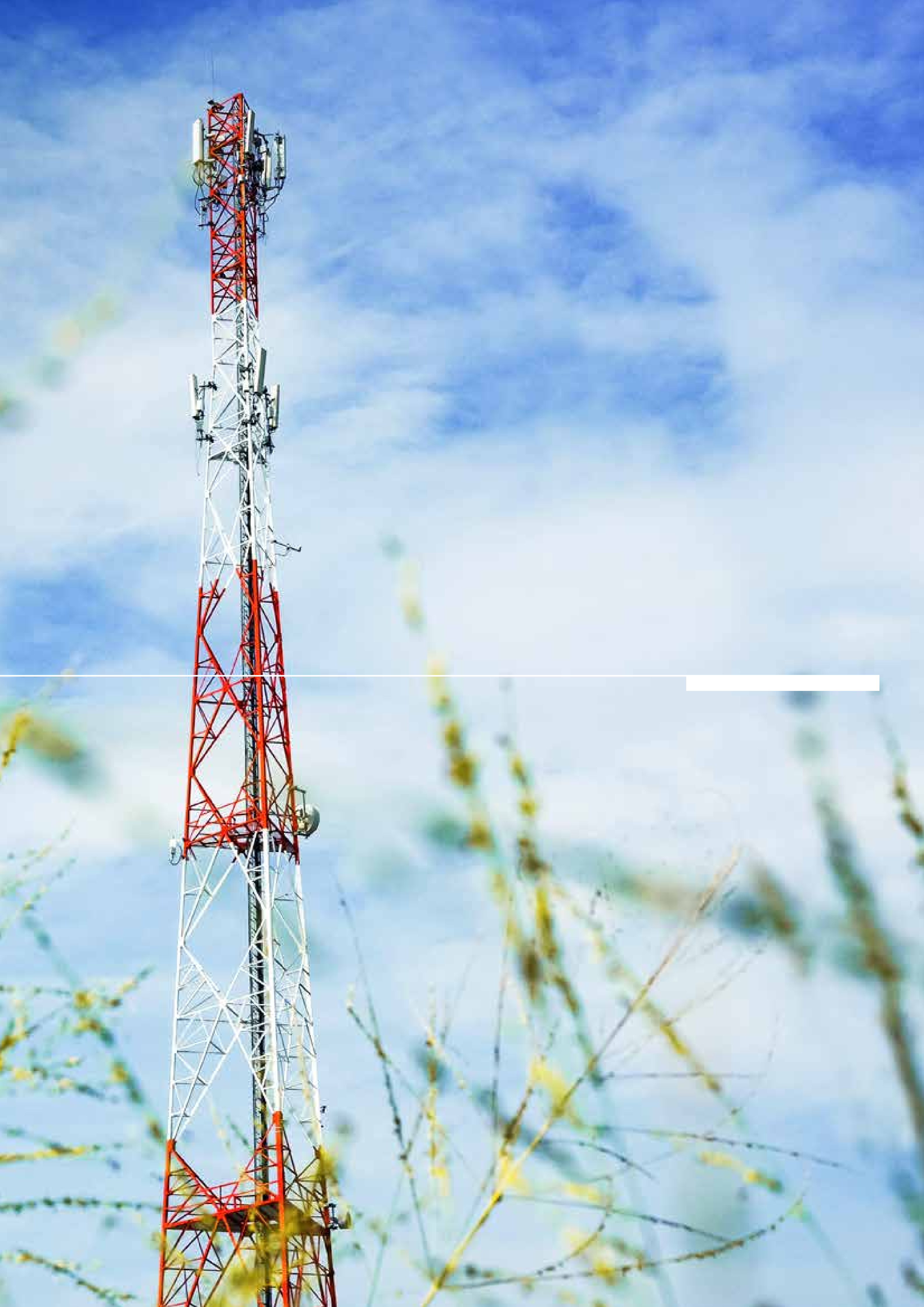
8,807 base stations/ transmitters
Total Completed

2014
Year Started

3,410 base stations/ transmitters
Completed in 2021

Chapter 03

INITIATIVES UNDER REGULATION 5 OF USP REGULATIONS 2002



INVITATION FOR DEPLOYMENT OF NEW COMMUNICATIONS TOWERS

On 15 January 2021, the Commission issued an open invitation under the Regulation 5 of USP Regulations 2002 to all licensees to register their interest and participate in the deployment of new communications towers at 1,661 locations, which represent a massive number of locations at any one time for any USP project to date.

From the total number of locations, 641 locations are within the Peninsular; and 1,020 locations are planned for the Federal Territory of Labuan, Sabah and Sarawak.

This project aims to bridge the digital divide between the urban with rural and remote communities as well as to address the coverage issues. Upon its completion, this project will have a significant impact on the coverage and the quality of services (public cellular and mobile broadband). End-users will enjoy an average speed of 35 Mbps, particularly those who live in rural and remote areas. This is in line with the JENDELA's target to increase 4G coverage to 96.9% by 2022.

Generally, there are several criteria for identifying sites and selecting locations for the implementation of new communications towers in any particular area, as follows:

1. Information from MCMC State Offices;
2. Complaints from the public; and
3. Technical and financial reports based on actual site surveys by independent consultants appointed by the Commission.

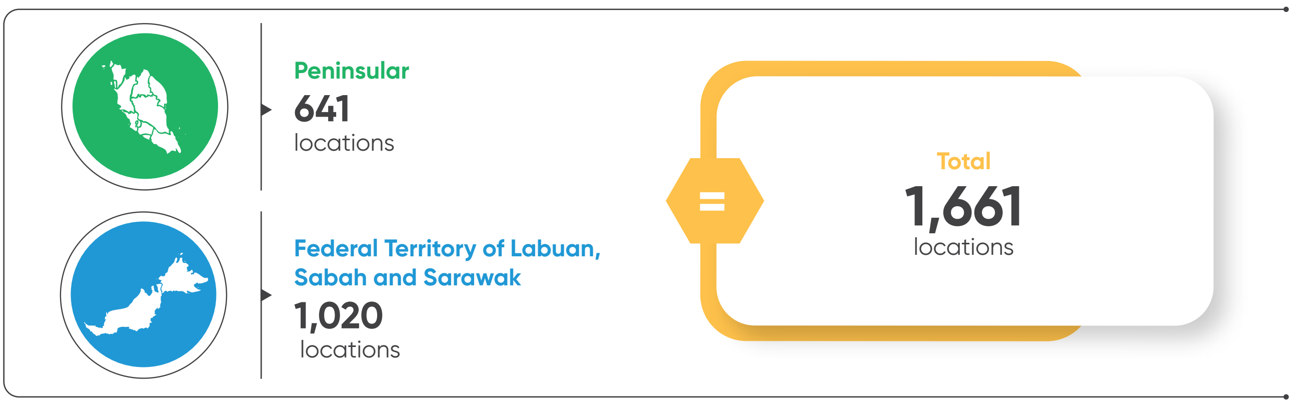


Figure 1: Distribution of 1,661 New Communications Towers Locations

The scope of work to be undertaken by the Designated Universal Service Provider (DUSP) for the rollout of new communications towers is shown in Figure 2:

Scope of Work

Part 1 – Passive Infrastructure	Part 2 – Active Infrastructure
To supply, deliver and install tower(s) and its ancillaries, for the provision of public cellular services • Civil works only	To design, supply, install, test, commission and operate network service equipment and services, and To provide 2G and 4G services with an average speed of 35 Mbps, via Multi Operator Core Network (MOCN) sharing solution for minimum of 4 service providers

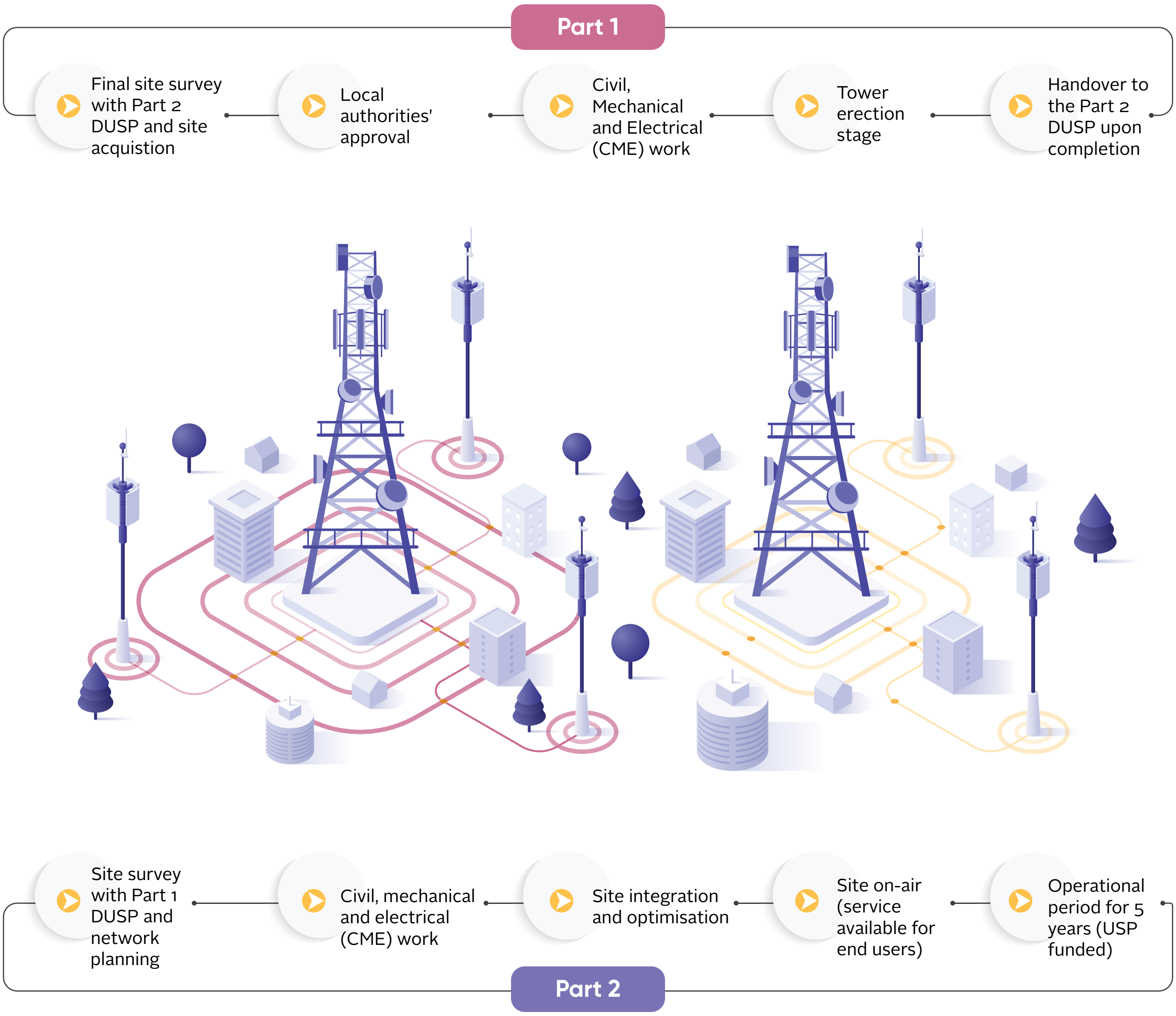


Figure 2: The Scope of Work to be Undertaken by the Designated Universal Service Provider (DUSP) for the Rollout of New Communications Towers

State	Total Number of Locations
Sarawak	636
Sabah	382
Pahang	191
Johor	107
Perak	105
Kedah	67
Terengganu	65
Kelantan	54
Negeri Sembilan	27
Selangor	17
Malacca	7
Federal Territory of Labuan	2
Penang	1
Total	**1,661**

Table 1: Number of New Communications Towers Locations by State

NEW COMMUNICATIONS TOWERS IN LIPIS, PAHANG

This project is part of the Commission's efforts to improve the quality and coverage of communications and multimedia services in Malaysia, in accordance with the objectives pursuant to sub regulation 3(1) of the USP Regulations, by:

a) Enhancing nationwide 4G coverage to 96.9% in populated areas; and

b) Improving the average speed of mobile broadband from 25Mbps to 35Mbps.

AVERAGE SPEED OF MOBILE BROADBAND

25 Mbps to **35 Mbps**

4G COVERAGE

96.9%

in pupolated areas

For decades, the deliciousness of *gula kabung* (palm sugar), a natural sweetener made from the sap of palm trees, produced by the family of Abu Johar Sudin in Kampung Peruang, Benta, Pahang here has only been known among the locals. But now, the business, which has been in operation for the past 45 years, led by Abu Johar or better known as Pak Abu, 65, since he was 20 years old to pay for the education of his seven children, has been receiving overwhelming demands from customers nationwide after expanding their business using various social media platforms.

Abu Johar's youngest daughter, Marzaitul Husna, 28, along with her brother Mohd Azizul, 31, said they have been actively promoting their products through various applications and did not expect to receive encouraging response.

The online marketing effort was made possible through the implementation of the new communications towers, which provided 4G services in the area, and the family has been busy fulfilling the orders received from customers.

Pak Abu, an entrepreneur of gula kabung (palm sugar) - The Star Picture

BROADBAND WIRELESS ACCESS (BWA) VIA SATELLITE CONNECTIVITY

In an effort to provide broadband access to the underserved areas especially in rural and remote areas, the Commission has implemented the Broadband Wireless Access (BWA) via Satellite Connectivity initiative. This is an interim measure and serves as an expedient solution for connectivity issues in the remote areas with challenging geographical terrain. The completion of permanent solutions for the provisioning of public cellular services and mobile broadband in such areas will take a considerable time given the consideration of population density and geographical terrain.

Under this project, a total of 839 locations have been identified nationwide covering Johor, Kelantan, Negeri Sembilan, Pahang, Perak, Selangor, Sabah and Sarawak. The locations comprise Orang Asli settlements in the Peninsular, and remote areas in Sabah and Sarawak. The provisioning of broadband access service will be based on collective access by setting up public WiFi hotspots, proportionate to the number of population and distribution at each location. End users in each location will enjoy free WiFi at an average speed of 35 Mbps, which will highly benefit the community. This supports the national agenda of closing the digital divide.

The use of internet for home-based teaching and learning (PdPR) programme, work from home and socio-economic activities is crucial during the Movement Control Order (MCO) begining March 2020. In this unprecedented situation, internet availability in rural and remote areas has become even more critical and crucial. The outcome of this project is to prioritise the WiFi usage for PdPR and provide equal opportunities and support for socio-economic activities via digital platforms.

The project is part of the JENDELA plan and has been implemented by the designated universal service providers (DUSPs) since September 2021 pursuant to Regulation 5 of the USP Regulations 2002.

The implementation of this project has been delayed by flood, Orang Asli movement, location accessibility, challenging geographical terrain and lack of stable power supply sources. Nevertheless, the Commission, through collaboration with DUSPs, stays committed to overcome all these challenges to ensure that no one is left out from enjoying communications and broadband services.

As of 31 December 2021, the installation of network facilities at 437 locations has been completed, and the broadband services are now available for end-users.

Figure 3: The Milestones of BWA Project

State	Total Number of Locations	Total Completed
Johor	11	8
Kelantan	18	–
Negeri Sembilan	2	2
Pahang	69	8
Perak	73	47
Selangor	5	5
Sabah	138	44
Sarawak	523	323
Total	839	437

*Note: * remaining 402 locations will be completed in 2022.*

Table 2: Number of Locations by State

BROADBAND WIRELESS ACCESS (BWA) VIA SATELLITE CONNECTIVITY IN KAMPUNG ORANG ASLI SUNGAI JUDAH, PULAU CAREY

BWA project site in remote areas in Sarawak - MCMC pictures

Now I can use the WiFi services provided under the BWA project for online classes and completing my assignments smoothly from home without having to go to town to get the internet services. Thanks to MCMC for implementing this project. It helps to ease the people's burden here especially students like me.

Rokna Zaidi, 23,
Universiti Malaysia Kelantan student

This project is part of the Commission's efforts to expand broadband coverage and to address service provisioning requirements in areas which are very remote, have a very low population density. As such, the fibre and terrestrial connectivity is not available and is challenging to deploy and sustain in Malaysia, in accordance with the objectives as specified in sub regulation 3(1) of the USP Regulations.

The provisioning of services here serves as an interim solution (for a period of two years) for people in the underserved areas to have an expedient means of access to connectivity, given the impact of COVID-19 pandemic and associated challenges in carrying out socio-economic activities.

This project, therefore, provides WiFi services to end-users as an interim measure, while the Commission plans for sustainable long-term measures.

PUSAT EKONOMI DIGITAL KELUARGA MALAYSIA (PEDi)

PEDi commenced its operation in 2007, and is fully funded by MCMC through the Universal Service Provision (USP) Fund.

PEDi aims to empower the local community by elevating their socio-economic status. This initiative has evolved over the years from providing collective internet access services in underserved areas to providing enhanced value-added services.

It has also served to improve the B40 group, including the urban poor, through community development programmes related to Information and Communications Technology (ICT), entrepreneurship and multimedia as well as awareness programmes such as *Klik Dengan Bijak* (KDB) and Personal Data Protection Act. The training and upskilling programmes are conducted by the PEDi personnel and are provided free of charge or at a minimal cost to the registered users. Other services provided by PEDi include printing, laminating, photocopying and scanning with minimal charges.

As consumers are moving towards digitalisation especially through e-commerce and online banking, PEDi has been in the forefront of the local community by offering digital entrepreneurship training to entrepreneurs. In line with the need to embrace digitalisation and accelerate digital economy, MCMC has transformed

Pusat Ekonomi Digital Keluarga Malaysia (PEDi), formerly known as Pusat Internet Komuniti (PIK) into a digital economic centric community and learning centres. The aim is to empower the local community to accelerate the growth of digital economy. The focus now will be to nurture and develop the entrepreneurs to adopt and digitalise their businesses to further accelerate the digital economy.

On 21 November 2021, the Community Internet Centre or Pusat Internet Komuniti (PIK) was officially rebranded and launched as Pusat Ekonomi Digital Keluarga Malaysia (PEDi) by the Prime Minister YAB Dato' Seri Ismail Sabri Yaakob.

Out of the total 911 PEDi planned by the Commission under this initiative, 874 PEDi are actually existing centres. The remaining 37 centres, formerly known as Pusat Internet Desa (PID) under the Ministry of Communications and Multimedia (K-KOMM), are transformed into PEDi. The PIDs were then upgraded with better connectivity, including backhaul transmission throughput of minimum 20Mbps, more facilities as well as value added services to the end users.

On 15 April 2021, the Commission issued an invitation under Regulation 5 of the USP Regulations 2002 for 37 new PEDi. Notification of Approval (NoA) was issued on 1 September 2021 and the project commenced on 17 September 2021 and is expected to be completed in February 2022. These new PEDi will have 5 years of operation period until February 2027.

As of 31 December 2021, a total of 883 PEDi are fully operational nationwide while 28 PEDi are still in progress.

	State	Existing PEDi	New PEDi	Total PEDi	Total Completed PEDi
	Johor	86	4	90	87
	Kedah	73	4	77	74
	Kelantan	70	2	72	72
	Malacca	29	1	30	29
	Negeri Sembilan	50	1	51	50
	Pahang	108	3	111	109
	Perak	66	5	71	67
	Perlis	13	1	14	14
	Penang	1	2	3	3
	Sabah	115	3	118	115
	Sarawak	130	3	133	129
	Selangor	42	6	48	43
	Terengganu	64	2	66	64
	Federal Territories				
	Federal Territrory of Kuala Lumpur	21	-	21	21
	Federal Territory of Labuan	2	-	2	2
	Federal Territory of Putrajaya	4	-	4	4
	TOTAL	**874**	**37**	**911**	**883**

Table 3: Number of PEDi by State

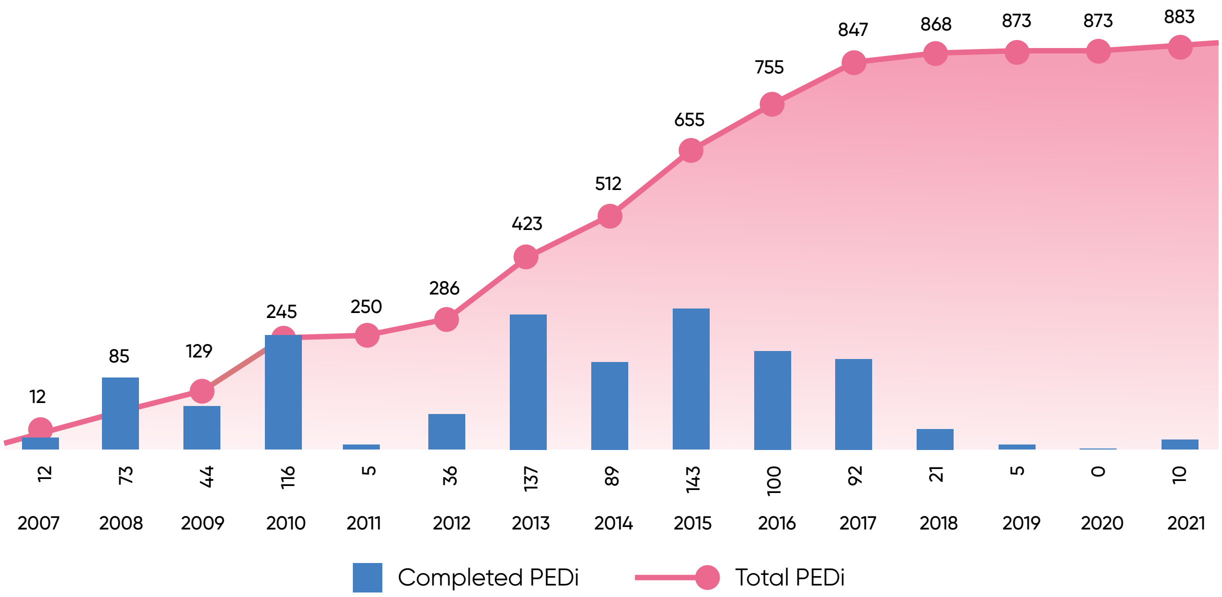


Figure 4: Number of PEDi Completed by Year

Figure 5: Distribution of 37 New PEDi by State

Note:

1) The 37 New PEDi are established within the said vicinities or/and adjacent to the previous PID.
2) The PEDi locations are identified based on the following:
   i. There shall be no other collective internet access facilities or commercial internet access centre(s) within a 5km radius from the premises.
   ii. MCMC State Offices have gathered the information and proposed on the said locations.

PEDi users learning marketing strategy and running online business – MCMC picture

PUSAT EKONOMI DIGITAL KELUARGA MALAYSIA (PEDi) MASJID TANAH

Alhamdulillah, my sales for rendang daging dendeng and rempeyek increased by 50% after participating in the entrepreneurship training conducted at PEDi. I feel grateful to have the opportunity to learn on marketing, packaging, branding and growing my business at PEDi.

Zainoon Akma Ramli, 53,
Akma Event & Catering

This initiative is part of the Commission's ongoing efforts to bridge the digital divide between urban and rural areas, as well as between served and underserved communities in Malaysia, in accordance with the objectives as specified in sub regulation 3(1) of the USP Regulations.

PEDi Taman Bandar Baharu Masjid Tanah has successfully produced a total of 35 active entrepreneurs in Masjid Tanah and grown their businesses to a higher level.

The manager of Akma Event & Catering is now a successful entrepreneur after almost closing her business due to COVID-19 pandemic, two years ago.

Meanwhile, Ecah Food entrepreneur, Hasnah Awang, 53, who sells various cakes and chips, reckoned that PEDi has helped the company run by her eldest daughter, Aisyah Raya, 30 and now has a small factory in Bandar Bakri, Muar, Johor.

PEDi has given us many benefits and I hope it will be continued to develop small enterprises especially in rural areas.

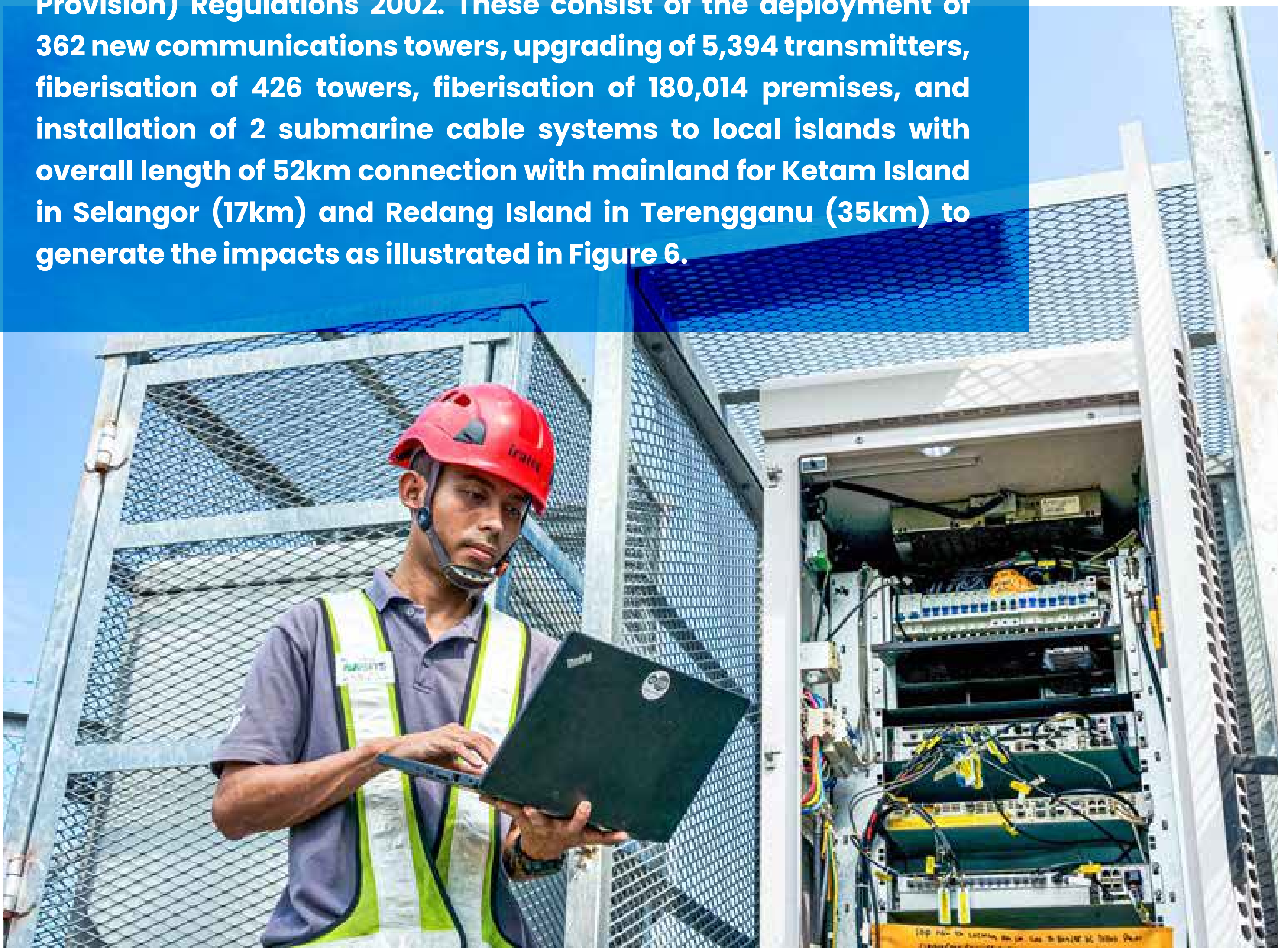
Hasnah Awang, 53,
Ecah Food

Chapter 04

INITIATIVES UNDER REGULATION 36A OF USP REGULATIONS 2002

MAJOR CONTRIBUTOR INITIATIVES

Various initiatives submitted by the major contributors have been approved by the Commission in 2021 under Regulation 36A of the Communications and Multimedia (Universal Service Provision) Regulations 2002. These consist of the deployment of 362 new communications towers, upgrading of 5,394 transmitters, fiberisation of 426 towers, fiberisation of 180,014 premises, and installation of 2 submarine cable systems to local islands with overall length of 52km connection with mainland for Ketam Island in Selangor (17km) and Redang Island in Terengganu (35km) to generate the impacts as illustrated in Figure 6.



1
362
TOWERS
New communications towers

2
5,394
TRANSMITTERS
Existing transmitters upgrade

3
426
TOWERS
Fiberisation of towers

4
180,014
PREMISES
Fiberisation of premises

5
52
KM
Submarine cable systems to islands

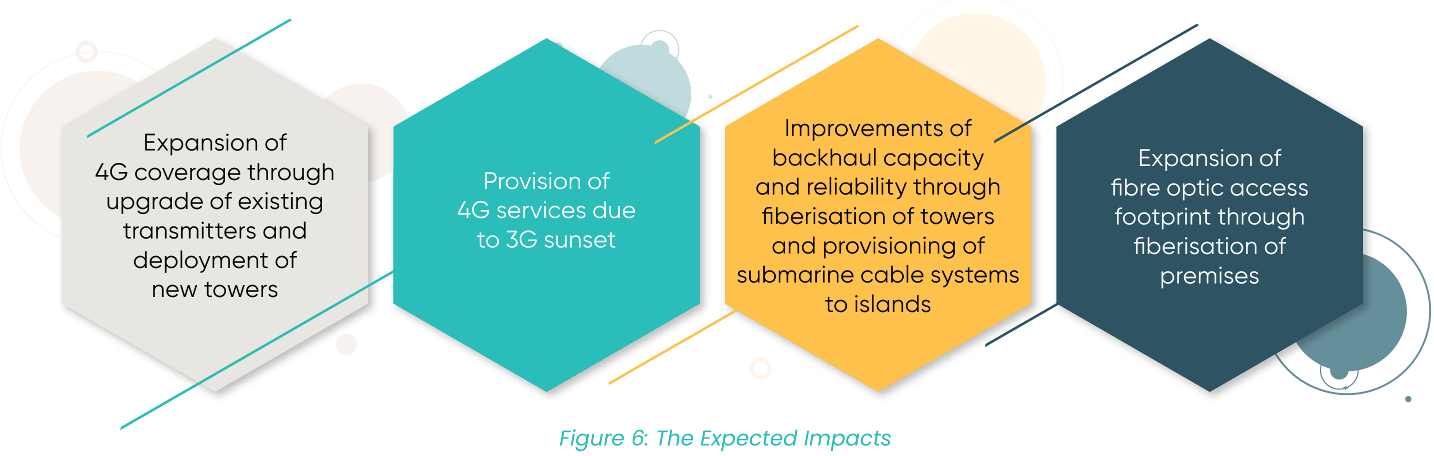


Figure 6: The Expected Impacts

As of 31 December 2021, there were 9 towers out of 362 new communications towers have been completed; 3,408 transmitters out of 5,394 transmitters upgraded and 9,970 out of 180,014 premises connected with fibre optic connectivity.

State	Total Number of Completed		
	New Communications Towers (tower)	Existing Transmitters Upgrade (transmitter)	Fiberisation of Premises (premise)
Johor	-	272	-
Kedah	-	111	1,880
Kelantan	-	228	-
Malacca	-	6	-
Negeri Sembilan	-	125	1,661
Pahang	-	707	-
Perak	-	186	4,804
Perlis	-	2	208
Penang	-	2	27
Sabah	9	756	-
Sarawak	-	628	-
Selangor	-	80	1,390
Terengganu	-	305	-
TOTAL	**9**	**3,408**	**9,970**

Table 4: Number of Initiatives Completed by State

NUMBER OF MAJOR CONTRIBUTOR INITIATIVES APPROVED IN 2021 BY STATE

PERLIS

3
2,285

KELANTAN

13
408
12
5,670

TERENGGANU

9
409
23
2,126
35

KEDAH

19
210
10
4,834

PENANG

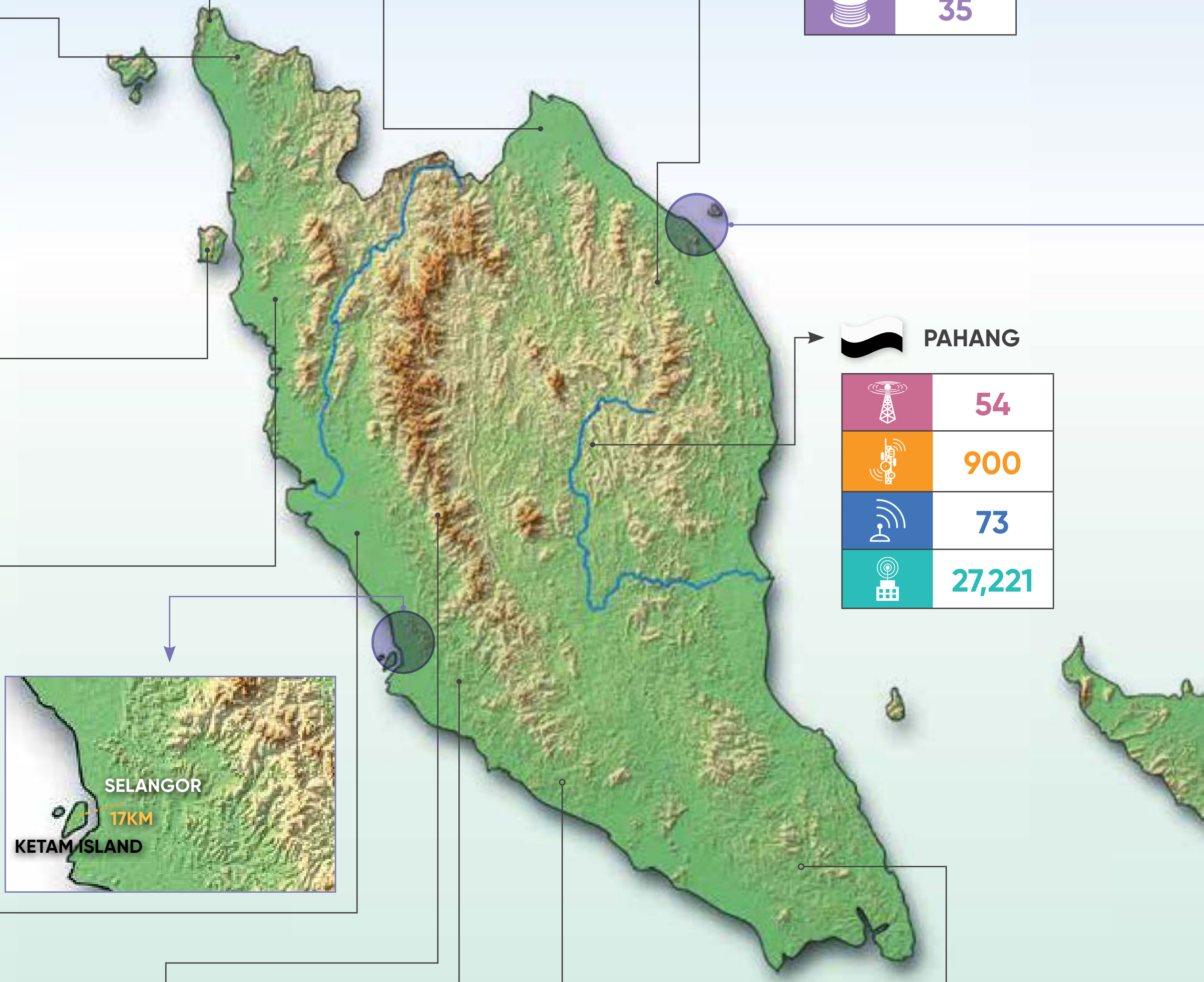
2
663

PAHANG

54
900
73
27,221

PERAK

23
296
60
45,102



SELANGOR

12
93
29
30,071
17

FEDERAL TERRITORY OF KUALA LUMPUR

6,399

** for urban poor areas*

NEGERI SEMBILAN

1
218
42
13,837

MALACCA

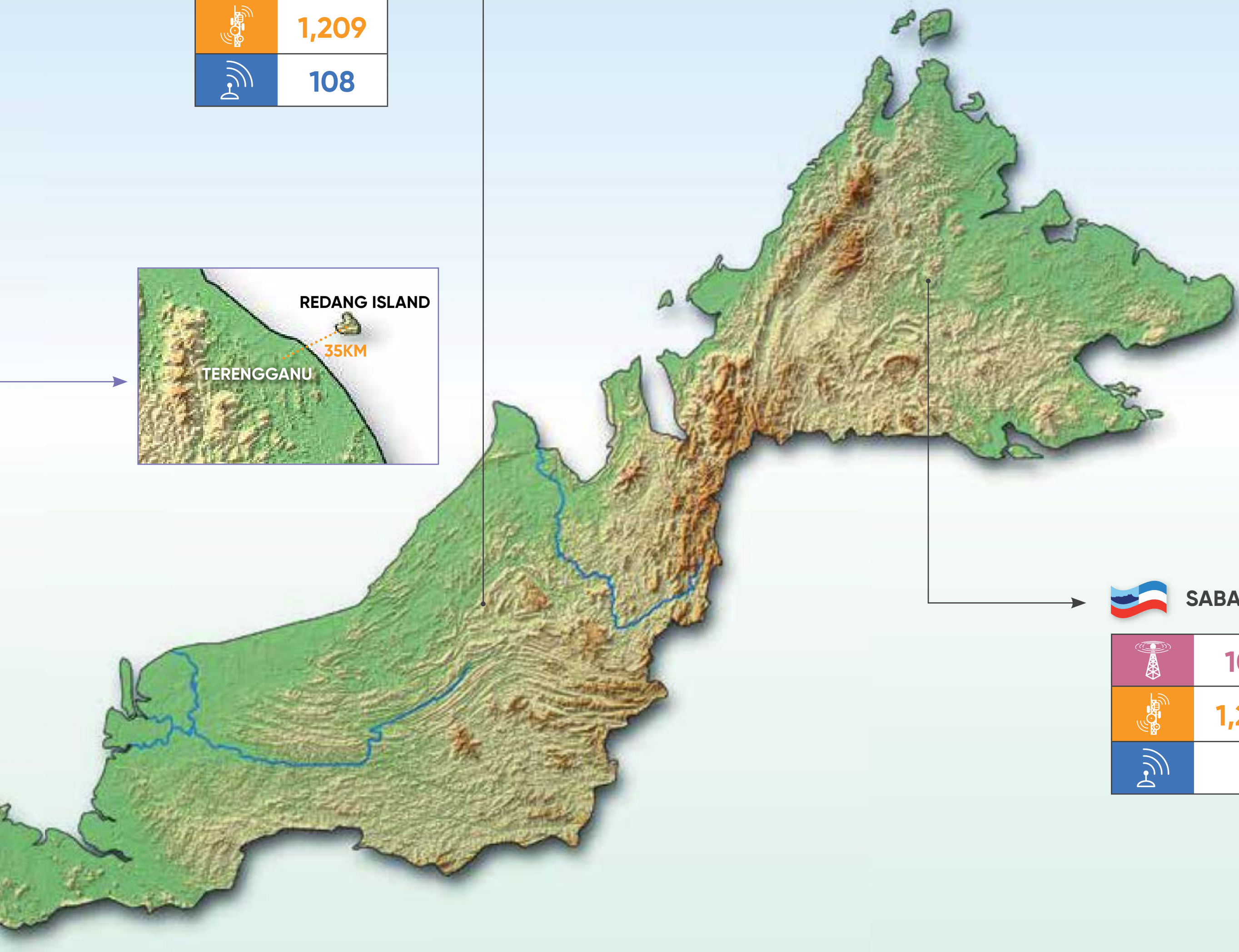
3
8
5,629

JOHOR

22
343
66
36,177

SARAWAK

	106
	1,209
	108



SABAH

	100
	1,295
	3

MALAYSIA

	362	NEW COMMUNICATIONS TOWERS (TOWER)
	5,394	EXISTING TRANSMITTERS UPGRADE (TRANSMITTER)
	426	FIBERISATION OF TOWERS (TOWER)
	180,014	FIBERISATION OF PREMISES (PREMISE)
	52	SUBMARINE CABLE SYSTEM TO ISLANDS (KM)

MIGRATION OF EXISTING COPPER BROADBAND ACCESS NETWORK TO FIBRE OPTIC BROADBAND ACCESS NETWORK

This project was implemented pursuant to Regulation 36A under the Communications and Multimedia (Universal Service Provision) Regulations 2002 that aims to migrate the existing copper broadband access network to fibre optic broadband access network and services within the Universal Service Target (UST) areas nationwide.

Under this initiative, the entire copper facilities were upgraded and the migration of existing copper broadband exercise covers a total of 933,724 subscribers, out of which, 377,360 are existing subscribers. This initiative involves 433 USTs to be upgraded to fixed broadband services using Fibre to the Home (FTTH) technology with broadband access speed up to 1Gbps by utilising USP Fund; while a total of 556,364 subscribers are to be upgraded by service provider under their own funding.

The initiative commenced on 15 March 2021 and is expected to be completed in March 2023. As of 31 December 2021, a total of 144,166 subscribers have been migrated from copper to fibre, while the incidence of churn had affected 47,842 subscribers.

State	No. of Subscribers (Migrated)	No. of Subscribers (Churn)	No. of Subscribers (Rejected Migration)	No. of Subscribers (To Be Upgraded)	Overall Total
Johor	27,715	4,070	2,600	42,270	76,655
Kedah	4,624	1,098	427	6,390	12,539
Kelantan	9,624	1,122	368	5,167	16,281
Malacca	8,252	1,877	801	10,469	21,399
Negeri Sembilan	8,632	1,126	452	14,930	25,140
Penang	4,771	1,614	1,099	9,120	16,604
Pahang	13,164	2,223	1,014	15,766	32,167
Perak	26,383	5,326	2,576	28,499	62,784
Perlis	73	4	4	88	169
Sabah	7,785	1,866	634	6,156	16,441
Sarawak	11,794	1,827	1,094	6,812	21,527
Selangor	13,283	4,571	4,094	20,999	42,947
Terengganu	6,645	1,138	325	5,428	13,536
Federal Territories					
Federal Territory of Kuala Lumpur	443	1,922	2,092	11,705	16,162
Federal Territory of Labuan	871	80	9	1,191	2,151
Federal Territory of Putrajaya	107	114	275	362	858
GRAND TOTAL	**144,166**	**29,978**	**17,864**	**185,352**	**377,360**

Table 5: Copper Migration to Fibre by State

FIXED BROADBAND (FBB) DEPLOYMENT (SUBURBAN AND URBAN BROADBAND)

Fixed Broadband (FBB) initiative was first implemented in 2018 with the aim to expand the fibre optic network for the provision of fixed broadband services to the designated household areas, especially at urban poor and low cost apartments in suburban and urban areas nationwide.

The initiative involves the upgrading of 14 exchanges all over the country. The FBB project is funded under the USP Fund. As of 31 December 2021, a total 12,064 ports were deployed in Johor, Penang, Perak, Selangor and the Federal Territory of Kuala Lumpur, with 8,444 ports deployed in 2021.

12,064 TOTAL PORTS COMPLETED

State	Total Ports Completed
Johor	2,912
Perak	128
Penang	2,080
Selangor	5,888
Federal Territory of Kuala Lumpur	1,056

Table 6: Number of FBB Ports Completed by State

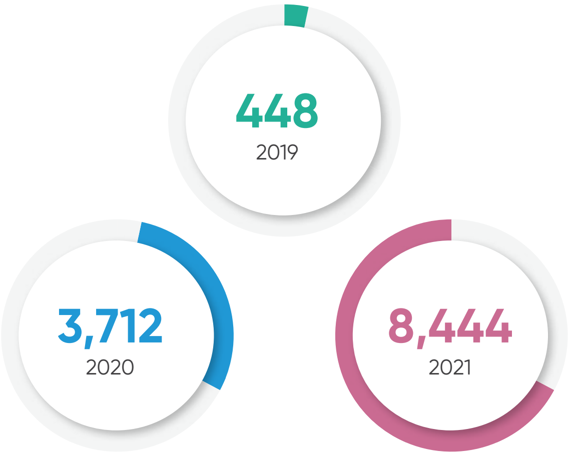
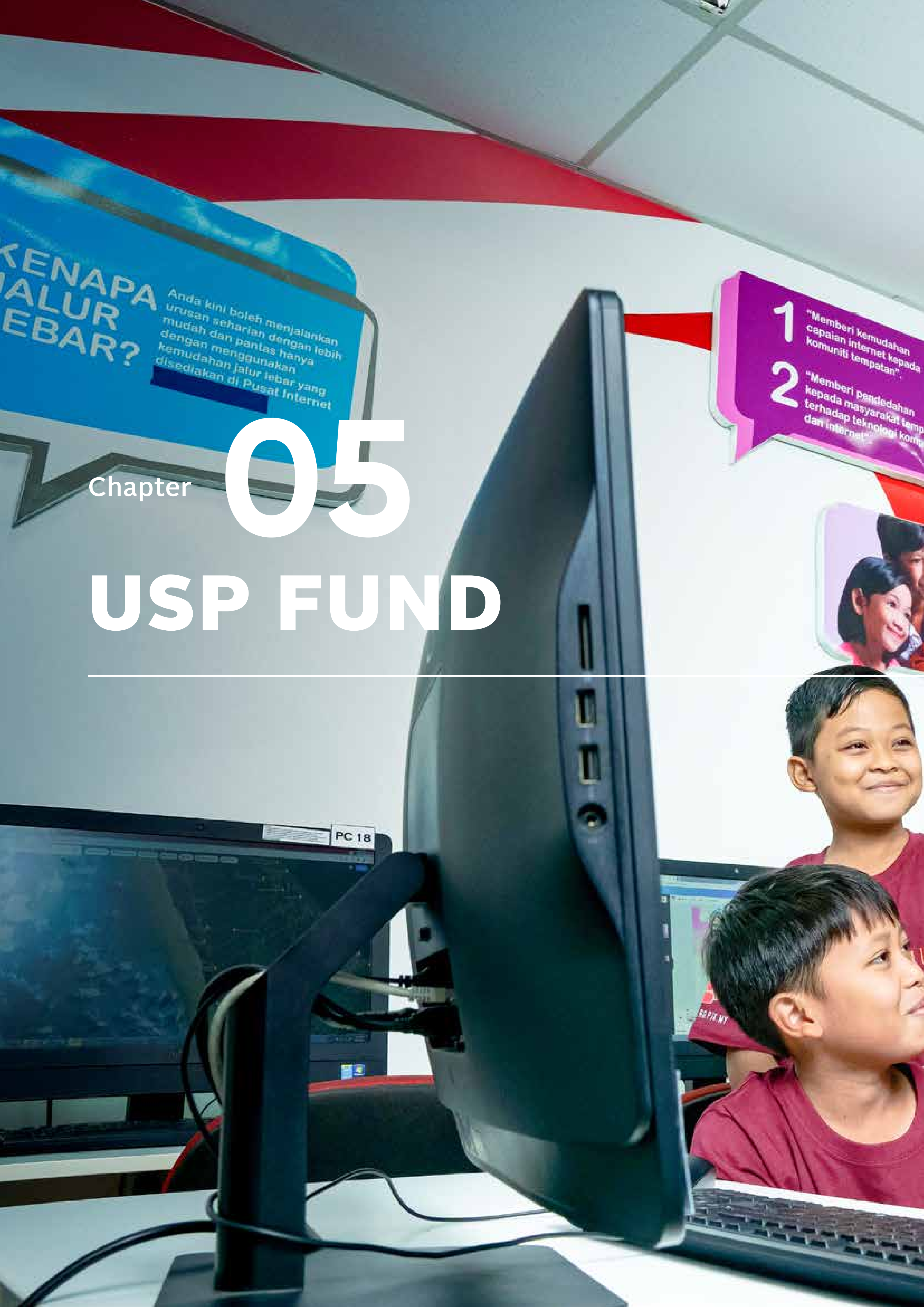


Figure 7: Number of FBB Ports Completed by Year

Chapter 05

USP FUND




3
"Meningkatkan taraf ekonomi dan sosial masyarakat melalui kemudahan yang disediakan dan aktiviti yang dijalankan di PI".
4
"Merapatkan jurang digital di antara masyarakat bandar dan luar bandar selaras dengan matlamat kerajaan".

GOVERNANCE AND FINANCIAL MANAGEMENT

The USP Fund is administered and managed through three (3) main reference sources, namely Regulation, established Financial Policies & Procedures and Best Practices. The reference sources are used as a basis to ensure the USP Fund is managed with integrity to ensure continuity, stability and ultimately deliver service excellence to both internal and external customers.

REGULATION

The Universal Service Provision Fund ("USP Fund") was established under Section 204 of the Communications and Multimedia Act 1998 and is administered under the Communications and Multimedia (Universal Service Provision) Regulations 2002 ("USP Regulations") which are specifically enacted for reducing the digital divide that exists in underserved areas and also to underserved groups in society. In line with the USP Regulations, it is mandatory for telecommunication services companies that record a net revenue of more than RM2 million for the financial year under review to contribute 6% of the determined net revenue to the USP Fund each year.

FINANCIAL POLICIES AND PROCEDURES

USP Fund prepares the financial statements in accordance with the Malaysian Financial Reporting Standards (MFRS) which is adapted from the International Financial Reporting Standards (IFRS). The financial statements of the USP Fund for the financial year ended 31 December 2021 were audited by Messrs. Ernst & Young PLT.

In general, the financial policies and procedures currently being used and in force, are updated from time to time to ensure effectiveness in the delivery of the USP Fund services.

BEST PRACTICES

In line with Government's aspirations in continuing to deliver excellent and effective services to the relevant stakeholders, USP Fund constantly review the work processes in order to improve and add value, in line with a more holistic and up-to-date operational digitisation initiatives. Among the continuous improvement measures are as follows:-

- Improving communication of revenue statement delivery from licensees via electronic platform known as E-Fund Management System (EFMS).
- Improving payment processing performance by introducing a statutory declaration method from the Designated Universal Service Providers ("DUSP") for USP projects, to ensure payments can be made efficiently and in an orderly manner.
- Strengthening the payment process through additional verification initiatives.
- Organising engagement sessions with the DUSPs to discuss matters related to financials, payment verification, performance and planning as well as measures to improve the overall USP project implementation.
- Continuously review the existing financial system known as the USP Financial System (USPFS) and other project monitoring systems to cater the needs to generate complete and comprehensive reports related to USP projects implemented.
- Established an Investment Advisory Team at the management level (and assisted by the MCMC Finance Division) who are responsible for reviewing investment activities and risks, aimed at optimising investment returns and liquidity management in accordance with investment policies, strategies and financial objectives.

COVID-19 PANDEMIC IMPACT MANAGEMENT

Among the initiatives implemented by MCMC to assist the telecommunications and multimedia service providers in ensuring the continuity of services provided and minimising the impact resulted from the COVID-19 Pandemic, in accordance with the provisions of the USP Regulations, MCMC has given the flexibility to the companies that apply for deferment or propose for installment payments for the annual contributions to the USP Fund.

2021 FINANCIAL HIGHLIGHTS

INCOME

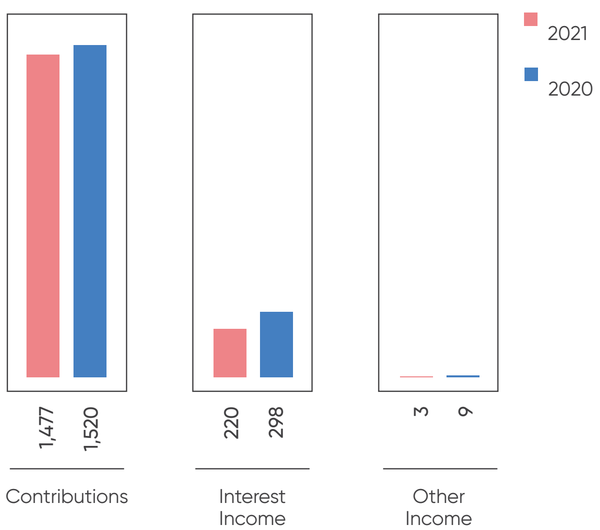


Chart 1: INCOME (RM Million)

For the year ended 31 December 2021, the USP Fund generated a total revenue of RM1.70 billion. Of the total income, 87% represents the core income while the remaining 13% represents the non-core income. Core income comprises licensee contributions amounting to RM1.47 billion which recorded a decrease of 3% or RM42.7 million compared to the previous year of RM1.52 billion.

However, non-core income which is the interest income, recorded a decrease to RM220 million which is 26% or RM78.3 million and other non-core income which is 67% or RM6.3 million compared to the 2020 financial period. A slight decrease in total core income compared to 2020 was due to a reduction in net revenue from licensees and a decrease in interest income due to lower average interest rate of 2.23% compared to 2.62% recorded in 2020. This is due to the reduction in the Overnight Policy Rate (OPR) since January 2020.

EXPENSES

The main expenditure of the USP Fund is attributable to the cost of USP projects implemented by DUSP. A total of RM870.4 million has been recognised as paid and accrued expenditures as compared to RM877.4 million in the year 2020.

SURPLUS AFTER TAX REPRESENTS TOTAL PROFIT RECOGNISED

The surplus after tax recognised for the financial year ended 2021 decreased by RM122.9 million to RM559.9 million compared to the previous year which amounted to RM682.8 million. In comparison, the surplus after tax representing recognised profits reduced due to lower revenue contribution from licensees and lower interest income for fixed deposits.

Chart 2: STATEMENT OF FINANCIAL POSITION (RM Million)

ASSETS

The USP Fund ended the financial year 2021 with assets amounting to RM10.9 billion compared to RM10.7 billion at the end of the previous financial year. There was an increase in other investments comprise of deposits with licensed banks, which was due to a reduction in the payment of USP project costs compared to the previous year. MCMC continues to maintain sound collection procedures to minimise credit risk with a total Contributions and Other Receivables of RM752.7 million compared to RM784.4 million in 2020 respectively.

LIABILITIES

Liabilities as at 31 December 2021 decreased by RM258.2 million to RM229.9 million compared to RM488.1 million recorded in the previous year. This was due to the implementation of improved payment process initiatives and system upgrades during the year which resulted to improved payment timeline compared to the previous year.

RM258.2 million to RM229.9 million
compared with 2020

ACCUMULATED FUNDS

For the financial year ended 2021, the USP Accumulated Funds recorded an increase of 5% or RM0.5 billion to RM10.6 billion from RM10.1 billion recorded in the previous year. The main contributing factor to the increase in the Accumulated Funds was the surplus after tax of RM559.9 million.

5% or RM0.5 billion to RM10.6 billion
compared with 2020

FINANCIAL PLANNING AND COMMITMENT

In line with the Government's efforts in bridging the digital divide, for the financial year ended 31 December 2021, the USP Fund implemented the USP programmes with a cumulative commitment of RM10.9 billion, covering amongst others, the JENDELA Phase 1 project. Among the projects currently being implemented are as follows:-

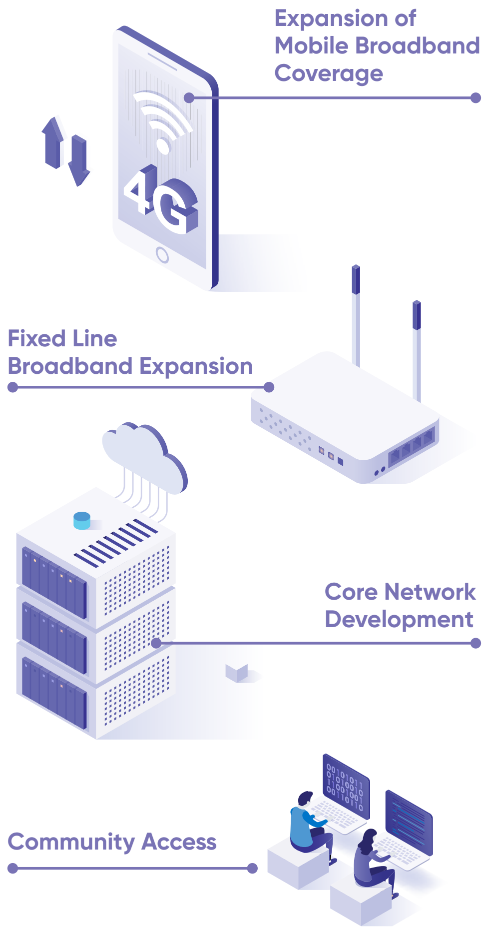


Figure 8: Financial Commitment

Chapter 06

FINANCIAL STATEMENTS

STATEMENT BY THE COMMISSION MEMBERS
of the Malaysian Communications and Multimedia Commission

We, Dato' Dr. Fadhlullah Suhaimi bin Abdul Malek and Datuk Seri Tajuddin Atan, being two of the Commission Members of the Malaysian Communications and Multimedia Commission, do hereby state that in the opinion of the Commission Members, the financial statements set out on pages 46 to 64 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 2021 and of its income and expenditure and cash flows for the financial year then ended.

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

Dato' Dr. Fadhlullah Suhaimi bin Abdul Malek

Datuk Seri Tajuddin Atan

Cyberjaya, Selangor
7 April 2022

STATUTORY DECLARATION

I, Nor Fadhilah Mohd Ali, 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 46 to 64 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 7 April 2022.

Nor Fadhilah Mohd Ali

Before me

PESURUHJAYA SUMPAH
No PJS W720
MOHD AIMI ZAINI BIN MOHD AZHAR
BC/M/692
01-01-2022 - 31-12-2024
MALAYSIA

07 APR 2022

AIMI ZAINURITHA & CO
Peguambela & Peguamcara
No. 22A, Tingkat 1,
Jalan Diplomatik, Presint 15
?050 Wilayah Persekutuan Putrajaya
Tel: +6019-225 8885

INDEPENDENT AUDITORS' REPORT
to the Commission Members of Malaysian Communications and Multimedia Commission

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Universal Service Provision Fund ("the Fund"), which comprise the statement of financial position as at 31 December 2021 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 46 to 64.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2021, and of its financial performance and cash flows for the year then ended in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis of opinion

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Commission for the financial statements

The Commission Members are 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 Members are also responsible for such internal control as the Commission Members 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 Members are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Commission either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Other matters

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

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Ong Chee Wai
No. 02857/07/2022 J
Chartered Accountant

Kuala Lumpur, Malaysia
7 April 2022

STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

	Note	2021 RM'000	2020 RM'000
Assets			
Non-current asset			
Deferred tax asset	3	**2,617**	3,540
Current assets			
Other investments	4	**10,041,357**	9,433,971
Contributions and other receivables	5	**752,689**	784,360
Cash and cash equivalents	6	**85,365**	471,257
		10,879,411	10,689,588
Total assets		**10,882,028**	10,693,128
Current liabilities			
Other payables	7	**229,901**	488,124
Tax payable		**4,698**	117,527
		234,599	605,651
Represented by:			
Accumulated funds	8	**10,647,429**	10,087,477
Total liabilities and accumulated funds		**10,882,028**	10,693,128

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 2021

	Note	2021 RM'000	2020 RM'000
Income			
Contributions	10	**1,477,646**	1,520,256
Interest income		**219,898**	298,255
Other income		**-**	9,113
Reversal of allowance for expected credit loss	5	**3,075**	329
		1,700,619	1,827,953
Expenditure			
Claims by USP service providers	11	**(870,358)**	(877,409)
Allowance for expected credit loss	5	**-**	(510)
Other expenses		**(2)**	(2)
		(870,360)	(877,921)
Surplus before tax		**830,259**	950,032
Tax expense	12	**(270,307)**	(267,207)
Surplus after tax, representing total recognised gains		**559,952**	682,825

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

STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	Note	2021 RM'000	2020 RM'000
Cash flows from operating activities			
Surplus before tax		**830,259**	950,032
Adjustments for:			
Reversal of allowance for expected credit loss		**(3,075)**	(329)
Allowance for expected credit loss		**-**	510
Interest income		**(219,898)**	(298,255)
Operating surplus before changes in working capital		**607,286**	651,958
Changes in working capital:			
Contributions and other receivables		**34,746**	854,587
Other payables		**(258,223)**	(707,733)
Cash generated from operations		**383,809**	798,812
Tax paid		**(382,213)**	(184,957)
Net cash generated from operating activities		**1,596**	613,855
Cash flows from investing activities			
Interest received		**252,512**	324,063
Placement in other investments		**(640,000)**	(1,000,102)
Net cash used in investing activities		**(387,488)**	(676,039)
Net decrease in cash and cash equivalents		**(385,892)**	(62,184)
Cash and cash equivalents at 1 January		**471,257**	533,441
Cash and cash equivalents at 31 December	6	**85,365**	471,257

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

1. CORPORATE INFORMATION

The principal activities of the Universal Service Provision Fund ("the Fund") are to promote the widespread availability and usage of network services and/or application services throughout Malaysia by encouraging the installation of network facilities and the provision for network 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 ("USP Regulations"). The Fund commenced its operations in September 2002. The Fund is managed by the Commission Members and other key management personnel of the Malaysian Communications and Multimedia Commission ("the Commission ") in accordance to the aforesaid regulations.

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

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

These financial statements were authorised for issue by the Commission Members on 7 April 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

2.2 Changes in accounting policies

On 1 January 2021, the Fund adopted the following new and amended MFRSs mandatory for annual financial periods beginning on or after the dates stated below:

Description	Effective for annual periods beginning on or after
Interest Rate Benchmark Reform - Phase 2 (Amendments to MFRS 9, MFRS 139 and MFRS 7)	1 January 2021

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.3 Standards issued but not yet effective

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

Description	Effective for annual periods beginning on or after
Amendments to Annual Improvements to MFRS Standards 2018-2020	1 January 2022
MFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
Onerous Contracts-Cost of Fullling a Contract (Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets)	1 January 2022
Classification of Liabilities as Current or Non-current (Amendments to MFRS 101 Presentation of Financial Statements)	1 January 2023
Definition of Accounting Estimates - Amendments to MFRS 108	1 January 2023
Disclosure of Accounting Policies - Amendments to MFRS 101 and MFRS Practice Statement 2	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to MFRS 112	1 January 2023

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

2.4 Income taxes

(a) Current income tax

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

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

(b) Deferred tax

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Income taxes (contd.)

(b) Deferred tax (contd.)

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

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

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

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

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

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

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

2.5 Recognition of income

(a) Contributions from licensees

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

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

(b) Interest income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.6 Claims by service providers

Claims are recognised as liabilities when the Fund has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

A present obligation arises when a complete set of claims documentation is received and the progress of the projects has been verified by the Commission. Claims are reviewed at each reporting date and adjusted to reflect the current best estimate.

2.7 Financial assets

Initial recognition

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

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

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

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

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

Subsequent measurement

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

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

The Fund categorises its financial assets based on the following:

(i) Financial assets at amortised cost

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.7 Financial assets (contd.)

Subsequent measurement (contd.)

(i) Financial assets at amortised cost (contd.)

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

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

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

The Fund's other investments are categorised as financial assets at fair value through profit or loss.

Derecognition

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

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

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

2.8 Financial liabilities

Initial recognition

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.8 Financial liabilities (contd.)

Subsequent measurement

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

Derecognition

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

2.9 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and are measured as financial assets at amortised cost in accordance with policy Note 2.7.

2.10 Impairment of financial assets

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

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

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

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

2.11 Fair value measurement

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.11 Fair value measurement (contd.)

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

2.12 Current and non-current classification

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

An asset is classified as current when it is:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

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

2.13 Significant accounting judgements and estimates

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

(a) Critical judgements made in applying accounting policies

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

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 disclosed in Note 3.

(iii) Provision for ECL for contributions receivables

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.13 Significant accounting judgements and estimates (contd.)

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

(iv) Unbilled receivables

Unbilled receivables primarily relate to rights to consideration for contributions to be made by licensees but have yet to be notified at the reporting date. The rights to consideration for contributions are based on the USP Regulations, where the Fund has a right to estimate the contribution for a particular calendar year based on the information that is available and the decision of the Fund shall be final if the RONR and related documentations are not submitted within the stipulated deadline.

Contributions are recognised on an accrual basis on the licensees' annual RONR stated at 6% on weighted net revenue of the prior calendar year. As such, the amount of unbilled receivables will be based on the latest RONR reports received from the licensees.

3. DEFERRED TAX ASSET

	2021 RM'000	2020 RM'000
At beginning of year	**3,540**	3,489
Recognised in income statement (Note 12)	**(923)**	51
At end of year	**2,617**	3,540

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

4. OTHER INVESTMENTS

	2021 RM'000	2020 RM'000
These comprise term deposits with:		
- licensed banks	**10,041,357**	9,433,971

Short term deposits with licensed banks are made with maturities ranging from 3 to 12 months (2020: 3 to 12 months). The deposits bore weighted average interest rate of 2.23% (2020: 2.62%).

5. CONTRIBUTIONS AND OTHER RECEIVABLES

	2021 RM'000	2020 RM'000
Contributions receivables	**738,656**	789,435
Less: allowance for ECL (Note b)	**(12,070)**	(15,145)
	726,586	774,290
Unbilled receivables (Note a)	**26,103**	10,070
Total contribution and other receivables	**752,689**	784,360
Add: Cash and cash equivalents (Note 6)	**85,355**	471,257
Total financial assets at amortised cost	**838,044**	1,255,617

(a) Unbilled receivables

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

(b) Provision for ECL

	2021 RM'000	2020 RM'000
At 1 January	**15,145**	14,964
Additions during the year	**-**	510
Reversal during the year	**(3,075)**	(329)
At 31 December	**12,070**	15,145

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

5. CONTRIBUTIONS AND OTHER RECEIVABLES (CONTD.)

(b) Provision for ECL (contd.)

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

31 December 2021

	Average ECL rate %	Gross carrying amount RM'000	Provision for ECL RM'000
1 to 30 days	**1%**	**23,088**	**327**
31 to 60 days	**0.1%**	**168,949**	**114**
61 to 90 days	**0.3%**	**306,269**	**937**
91 to 120 days	**4%**	**5,954**	**223**
121 to 365 days	**0.5%**	**224,963**	**1,036**
More than 365 days	**100%**	**9,433**	**9,433**
		738,656	**12,070**

31 December 2020

	Average ECL rate %	Gross carrying amount RM'000	Provision for ECL RM'000
1 to 30 days	4%	24,922	885
31 to 60 days	0.5%	174,292	822
61 to 90 days	1%	213,105	1,359
91 to 120 days	1%	348,272	2,030
121 to 365 days	5%	19,705	910
More than 365 days	100%	9,139	9,139
		789,435	15,145

6. CASH AND CASH EQUIVALENTS

	2021 RM'000	2020 RM'000
Cash at bank	**1,259**	4,166
Deposits with licensed banks	**84,106**	467,091
Total cash and cash equivalents	**85,365**	471,257

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 1.80% (2020: 1.70%).

As at the reporting date, the Fund's cash at bank balances was placed under a sweep arrangement in the name of the Commission on behalf of the Fund.

Information on financial risks of cash and cash equivalents are disclosed in Note 14.

7. OTHER PAYABLES

	2021 RM'000	2020 RM'000
Accrued USP claims	**229,753**	488,074
Sundry payables	**148**	50
Total other payables, representing total financial liabilities at amortised cost	**229,901**	488,124

8. ACCUMULATED FUNDS

	2021 RM'000	2020 RM'000
As at 1 January	**10,087,477**	9,404,652
Surplus after tax	**559,952**	682,825
As at 31 December	**10,647,429**	10,087,477

Payment out of the USP Fund is governed by the Communications and Multimedia (Universal Service Provision) Regulations 2002. The USP Fund shall be expended for advances for USP projects, claims from designated universal service providers and refunding any overpaid contribution.

9. AUDIT FEE

Audit fee of RM90,000 (2020: RM80,000) is borne by the 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.

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

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

11. CLAIMS BY SERVICE PROVIDERS

These relates to cost of USP projects, comprising both capital and operating expenditures. The cost is recognised as an expense when the Fund has verified the progress of the projects and are satisfied with the completeness of claims documentation received from the USP service providers.

12. TAX EXPENSE

	2021 RM'000	2020 RM'000
Income tax expense		
- Current year	**247,776**	263,374
- Under provision in prior years	**21,608**	3,884
	269,384	267,258
Deferred tax expense (Note 3)		
- Origination and reversal of temporary differences	**923**	(51)
Total tax expense	**270,307**	267,207

The Fund's chargeable income is taxed at scaled rates that are applicable to individuals. The first RM1 million is taxed at rates determined by the tax authority for each year of assessment. Chargeable income for the next RM1 million and beyond RM2 million are taxed at the statutory tax rate of 28% (2020: 28%) and 30% respectively (2020: 30%).

12. TAX EXPENSE (CONTD.)

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

	2021 RM'000	2020 RM'000
Surplus before tax	**830,259**	950,032
Tax on first RM1,000,000	**238**	239
Remaining tax at statutory tax rate of 28% and 30%	**248,757**	265,728
Income not subject to tax	**(296)**	(2,644)
Under provision of income tax in prior years	**21,608**	3,884
Total tax expense	**270,307**	267,207

13. COMMITMENT

	2021 RM'000	2020 RM'000
Costs for the implementation of the Universal Service Provision:		
Approved but not awarded	**4,630,000**	4,630,000
Awarded but not provided for	**6,289,325**	4,416,982
	10,919,325	9,046,982

14. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

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

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

(b) Interest rate risk

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

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

Interest on financial instruments subject to floating interest rates is contractually repriced at intervals of less than 7 days (2020: less than 7 days). The other financial instruments of the Fund that are not subject to floating interest rates will not be subject to interest rate risks.

14. FINANCIAL INSTRUMENTS (CONTD.)

(c) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its project requirements 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 ends.

(d) Credit risk

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

Contributions and other receivables

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

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

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

The Fund's credit period with its licensees is generally for a period of 30 days (2020: 30 days), except for licensees who wish to contribute in two instalments, where the credit period for the second instalment is generally for a period of 180 days (2020: 180 days). The Fund seeks to maintain strict control over its outstanding contributions and has procedures in place to minimise credit risk. Overdue balances are reviewed regularly by senior management. Any outstanding contribution having significant balances past due more than 365 days, which are deemed to have a higher credit risk, will be monitored individually.

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.

15. 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.

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

16. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

There are no transactions with key management personnel in the current and prior financial year. The remuneration of key management personnel are paid by the Commission.

17. FUND MANAGEMENT POLICY

The primary objective of the Fund's fund management is to ensure that it is able to meet its project requirements 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 2021 and 2020.

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