

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.3 Foreign currency translation (continued)

(b) Financial reports of foreign operations that have a functional currency that is not Australian dollars

Our operations include subsidiaries, associates, and jointly controlled entities, the activities and operations of which are in an economic environment where the functional currency is not Australian dollars. The financial statements of these entities are translated to Australian dollars (our presentation currency) using the following method:

- assets and liabilities are translated into Australian dollars using market exchange rates at reporting date;
- equity at the date of investment is translated into Australian dollars at the exchange rate current at that date. Movements post-acquisition (other than retained profits/accumulated losses) are translated at the exchange rates current at the dates of those movements;
- income statements are translated into Australian dollars at average exchange rates for the year, unless there are significant identifiable transactions, which are translated at the exchange rate that existed on the date of the transaction; and
- currency translation gains and losses are recorded in other comprehensive income.

Refer to note 18 for details regarding our accounting policy for derivative financial instruments and foreign currency monetary items that are used to hedge our net investment in entities which have a functional currency that is not in Australian dollars.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, bank deposits, bills of exchange and promissory notes that are held for the purposes of meeting short term cash commitments rather than investment purposes.

Bank deposits are recorded at amounts to be received. Bills of exchange and promissory notes are classified as 'available-for-sale' financial assets and are held at fair value. The carrying amount of these assets approximates their fair value due to the short term to maturity.

2.5 Trade and other receivables

Trade and other receivables are considered financial assets. They are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost using the effective interest method. These financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

An allowance for doubtful debts is raised to reduce the carrying amount of trade receivables, based on a review of outstanding amounts at reporting date. The allowance for doubtful debts is based on historical trends and management's assessment of general economic conditions. An allowance for doubtful debts is raised when management considers there is a credit risk, insolvency risk or incapacity to pay a legally recoverable debt. Bad debts specifically provided for in previous years are eliminated against the allowance for doubtful debts. In all other cases, bad debts are eliminated directly against the carrying amount and written off as an expense in the income statement.

2.6 Inventories

Our finished goods include goods available for sale, and material and spare parts to be used in constructing and maintaining the telecommunications network. We value inventories at the lower of cost and net realisable value.

For the majority of inventory items, we assign cost using the weighted average cost basis. For materials used in the production of directories the 'first in first out' basis is used for assigning cost.

Net realisable value of items expected to be sold is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs incurred in marketing, selling and distribution. It approximates fair value less costs to sell. We calculate net realisable value of inventories by making certain price assumptions to project selling prices into the future and assumptions about technologies at reporting date.

Net realisable value of items expected to be consumed, for example used in the construction of another asset, is the net value expected to be earned through future use.

2.7 Construction contracts

(a) Valuation

We record construction contracts in progress at cost (including any profits recognised) less progress billings and any provision for foreseeable losses. Cost includes:

- both variable and fixed costs directly related to specific contracts;
- amounts which are attributable to contract activity in general and which can be allocated to specific contracts on a reasonable basis; and
- costs expected to be incurred under penalty clauses, warranty provisions and other variances.

Where a significant loss is estimated to be made on completion, a provision for foreseeable losses is brought to account and recorded against the gross amount of construction work in progress.