Notes to the Financial Statements (continued)

7. Expenses (continued)

(a) We have recognised an impairment loss of $190 million (2011: $172 million) relating to impairment of goodwill ($182 million) and other intangible assets ($8 million) in Telstra Group financial statements. Refer to note 14 and note 21 for further details regarding impairment.

(b) We use our cross currency and interest rate swaps as fair value hedges to convert our foreign currency borrowings into Australian dollar floating rate borrowings.

The $9 million unrealised loss for the current year (2011: $27 million) reflects the following valuation impacts:

- movement in base market rates and Telstra's borrowing margins between valuation dates;
- reduction in the number of future interest flows as we approach maturity of the financial instruments; and
- discount factor unwinding as borrowings move closer to maturity.

It is important to note that in general, it is our intention to hold our borrowings and associated derivative instruments to maturity. Accordingly, unrealised revaluation gains and losses will be recognised in our finance costs over the life of the financial instrument and for each transaction will progressively unwind to nil at maturity.

Refer to note 18 for further details regarding our hedging strategies.

(c) A combination of the following factors has resulted in a net unrealised gain of $14 million (2011: loss of $125 million) associated with financial instruments that are either not in a designated hedge relationship or were previously designated in a hedge relationship and no longer qualify for hedge accounting:

- the valuation impacts described at (b) above for fair value hedges;
- the different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value); and
- a net loss of $21 million (2011: $21 million) for the amortisation impact of unwinding previously recognised unrealised gains on those borrowings that were de-designated from hedge relationships.

Although these borrowings and the related derivative instruments do not satisfy the requirements for hedge accounting, they are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

(d) Interest on borrowings has been capitalised using a capitalisation rate of 7.0% (2011: 7.2%). We applied the revised accounting standard AASB 123: "Borrowing Costs" prospectively for any new capital expenditure on qualifying assets incurred from 1 July 2009. The $24 million net increase from prior year (reduction in finance costs) is due to the progressive increase in the value of the qualifying asset base for which borrowing costs are capitalised.