NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7. EXPENSES (CONTINUED)

(a) We have recognised an impairment loss of $13 million (2013: $5 million) relating to impairment of goodwill and other intangible assets. Refer to note 14 for further details.

(b) During the financial year 2013, we recognised an impairment loss of $28 million relating to the impairment of TelstraClear net assets. This was due to the operating results of TelstraClear increasing the net assets at the date of disposal, which were not recoverable through the disposal of TelstraClear. Refer to note 12 for further details.

(c) During the financial year, we recognised $111 million net foreign currency translation losses (2013: $7 million net foreign currency translation gains), which included a $98 million loss written off from the foreign currency translation reserve as a result of the Octave Group entering into voluntary liquidation. Refer to note 25 for further details.

(d) 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 $128 million (2013: $95 million) unrealised loss reflects the following valuation impacts:

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

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.

(e) A combination of the following factors has resulted in a net unrealised loss of $64 million (2013: $89 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 (e) above for fair value hedges
- the different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value)
- a net loss of $21 million (2013: $21 million) for the amortisation impact of unwinding previously recognised unrealised gains on those borrowings.

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.

(f) Interest on borrowings has been capitalised using a capitalisation rate of 6.2 per cent (2013: 6.4 per cent).