

Critical accounting policies and estimates

KPN's significant accounting policies are set out on pages 129 to 137 of the Consolidated Financial Statements. The preparation of our financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts in our Consolidated Financial Statements.

We base our estimates about the carrying values of assets and liabilities that are not readily apparent from other sources on historical experience, independent valuations and various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the accounting policies and estimates that are most critical in the preparation of our consolidated financial statements and which require subjective or complex judgments from management are the following:

- impairments of goodwill and other long-lived assets;
- useful lives of long-lived assets and valuation of acquired assets;
- income taxes;
- pensions and other post-retirement benefits;
- provision for litigation and contingencies; and
- financial instruments.

Impairments of goodwill and other long-lived assets

The inherent management estimates and assumptions used in determining whether an impairment charge should be recognized are as follows:

- determining our cash generating units;
- timing of impairments tests;
- projecting cash flows for determining recoverable amounts or fair values; and
- determining discount rates.

Determining cash generating units

Goodwill

Goodwill is allocated to cash-generating units for the purpose of impairment testing. KPN performed preliminary purchase price allocations for Getronics, iBasis and Tele2/Versatel Belgium. With respect to Getronics, goodwill is allocated to the entire Getronics Segment and partly to the Business Segment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

At December 31, 2007 our total goodwill amounted to EUR 5,781 million. The allocation to cash generating units is shown below.

In millions of euro	2007	2006	2005
Cash-generating unit:			
E-Plus	4,041	4,041	4,026
BASE	59	28	28
Mobile Wholesale The Netherlands ²	63	63	98
Mobile International Other Segment	19	-	-
Consumer Segment ²	338	195	173
Business Segment ²	201	64	20
Getronics Segment ¹	770	-	-
Wholesale & Operations Segment ^{2,3}	277	178	252
Other	13	-	14
Total goodwill	5,781	4,569	4,611
- of which held for sale	-	-	-40
Balance as of December 31	5,781	4,569	4,571

1) The Getronics Segment consists of the following cash generating units: the America's (including North America, Canada and Latin America), Benelux (including The Netherlands, Belgium and Luxembourg), the United Kingdom and the Rest of the World. Goodwill is allocated to this group of cash generating units.

2) By applying IFRS 8, goodwill is reallocated following the new reporting segments based on the relative fair values.

3) iBasis is regarded as a separate cash generating unit within the Wholesale & Operations Segment.

Other long-lived assets

In accordance with IFRS, we assess the impairment of intangible fixed assets (such as our licenses) and property, plant and equipment at the lowest cash generating unit. For the majority of our assets we determined that the segment level is the lowest cash generating unit. Assets to retire or to sell are tested separately.

Critical accounting policies and estimates

Timing of impairment tests

Goodwill

Goodwill is tested on an annual basis, or upon a triggering event (see 'Other long lived assets').

Other long-lived assets

In accordance with IFRS, we assess the impairment of intangible fixed assets (such as our licenses) and property, plant and equipment upon a triggering event. Factors that we consider important, which could trigger an impairment review, include the following:

- significant declines in the asset's market value, more than would be expected as a result of the passage of time or normal usage;
- significant changes in the manner of use of the assets or the strategy for our overall business;
- significant underperformance relative to historical or projected future operating results;
- regulatory developments affecting our business;
- significant adverse industry or economic trends; and
- significant obsolescence or physical damage of an asset.

When one or more of the above indicators of impairment exist, we review the recoverability of the carrying value of the assets.

Projecting cash flows

For the determination of recoverable amounts, we start with the fair value less cost to sell approach as the primary estimate. These estimates are susceptible to change from one period to the next because they require management to make assumptions about future cash flows from sales, purchases and other expenditures. In estimating future sales, we use our internal projections, which are developed based on our strategic plan for existing and new product offerings and expected average revenues per user, and customer base growth. Estimates of our future purchases and other expenditures are developed based on our expected levels of revenue growth, the timing of the building and maintenance of our networks and potential changes in governmental regulations and requirements. The judgments underlying our projections can vary significantly from year to year due to economic or market conditions, technological advances, changes in the business or regulatory environment, or other factors outside our control. If our projections of cash flows change as a result of these factors we may have to recognize additional impairment charges on goodwill, licenses and other long-lived assets. In certain cases we involve a third party valuation specialist (Duff & Phelps) to support us in estimating the underlying fair value taking into account market comparisons and recent transactions. In addition to the use of independent valuation firms, the Company performs internal valuation analysis and considers market information that is publicly available.

If the fair value less cost to sell of the cash generating unit is lower than the carrying amount of the assets involved, we additionally evaluate value in use using the specific guidance on determination of cash flows included in IAS 36.

If the recoverable amount of the cash generating unit is lower than the carrying value of the assets involved an impairment should be recognized.

Determining discount rates

We determine the discount rate based on the time value of money, taking into account the risks specific to the cash generating units. In determining the discount rates we make use of market data for comparable companies and we involve Duff & Phelps as a valuation specialist to support us in estimating the discount rates.

Sensitivities

We recognized the following impairment charges on our goodwill and other fixed assets in the years 2007, 2006 and 2005:

In millions of euro	2007	2006	2005
Total impairments on goodwill	-	1	40
Total impairments on licenses and other intangibles	20	2	4
Total impairments and retirements on property, plant and equipment	14	36	34
Total impairments on financial fixed assets and non-current receivables	0	0	11
Total impairments	34	39	89

At December 31, 2007 the carrying value of the E-Plus related assets amounted to EUR 8,691 million (2006: EUR 9,214 million). Based on our impairment analyses using a discount rate of 8% after tax, our conclusion was that there was no need for an impairment adjustment.

We also performed sensitivity analyses by using 1) a higher discount rate of 9.0% and by using 2) 10% less cash flows in our projections. Each of these scenarios would individually not lead to an impairment.

Useful lives of long-lived assets and valuation of acquired assets

Useful lives of long-lived assets

Long-lived assets, consisting primarily of property, plant and equipment and intangibles, comprise a significant portion of our total assets. Changes in our intended use of these assets, technological development and market conditions may cause the estimated period of use or the value of these assets to change. We perform internal studies on an annual basis to confirm the appropriateness of our estimates of the economic useful lives for each category of property, plant and equipment and other long-lived assets. In determining the initial and remaining estimated useful life of a fixed asset, management estimates: 1) the physical life of the asset; 2) the technological life of the asset; 3) the lives for similar productive assets; and 4) the expected period that benefits will be derived from the asset. The foregoing estimates and assumptions are inherently uncertain and subject to change, including as a result of factors outside our control. If the estimated useful life is shortened, we depreciate or amortize the remaining value of the asset over the revised remaining life of the asset. Likewise, if the anticipated technological or other changes occur more slowly than expected, the life of the group could be extended based on the life assigned to new assets added to the group. This could result in a reduction of depreciation and amortization expense in future periods. Our estimates of useful lives affect the amount of gains or losses reported on the disposal or retirement of long-lived assets. We recognized the following results on disposals or retirement of fixed assets:

In millions of euro	2007	2006	2005
Impairments due to retirement of PP&E	14	36	34
Gains on sale of PP&E	96	32	18

Valuation of assets for purchase accounting

By performing a purchase price allocation we allocate the cost of acquired companies to tangible and identifiable intangible assets and liabilities acquired by reference to their estimated fair values at the time of acquisition. The remaining amount is recorded as goodwill. Any value assigned to the identifiable assets is determined by reference to an active market, independent appraisal, or estimated by our management based on cash flow projections which include estimates and judgment regarding expectations for the economic useful lives of the products and technology acquired.

In certain cases we involve a third party valuation specialist (Duff & Phelps) to support us in estimating the fair values of the acquired companies' tangible and identifiable intangible assets and liabilities.

Critical accounting policies and estimates

<p>Income taxes</p>	<p>As part of the process of preparing our Consolidated Financial Statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing the recognition and measurement of carry forward losses and temporary differences resulting from different treatment for tax purposes compared to IFRS, such as the valuation of our tangible fixed assets and provisions. We must assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe that recovery is more likely than not we recognize a deferred tax asset. To the extent the likelihood of a recovery of deferred tax assets changes, we include an expense or a gain within the tax charge in our Income Statement for the relevant period. Significant management judgment is required in the valuation of our deferred tax assets. For example, a 1% lower estimated growth of revenues at E-Plus would have resulted in a EUR 130 million lower deferred tax asset at December 31, 2007. Conversely, a 1% higher estimated revenue growth at E-Plus would have resulted in a EUR 590 million higher deferred tax asset at December 31, 2007. We consider future taxable income projections, historical results, ongoing tax planning strategies and limitations on the use of carry forward losses in assessing the recoverability of deferred tax assets. We may need to adjust the valuation of our deferred tax assets in the event that actual results differ from these estimates, tax planning strategies fail to materialize or limitations on the use of carry forward losses become applicable. In addition, we may need to adjust the valuation of our deferred and current tax assets and liabilities due to future changes in income tax laws and due to results from final review of our tax returns by tax authorities.</p> <p>The adjustment of the valuation of our deferred and current tax assets and liabilities, amongst others, due to the events and factors mentioned above, could materially impact our financial position and results of operations.</p>
<p>Pensions and other post-retirement benefits</p>	<p>Retirement benefits constitute a current cost of our normal business operations but represent obligations that will not be definitively settled until far in the future. KPN has two main pension plans: Stichting Pensioenfonds KPN and Stichting Ondernemingspensioenfonds KPN. KPN provides pension benefits for most of its employees. The way these benefits are provided varies according to the legal, fiscal and economic conditions of each country, the benefits generally being based on the employees' remuneration and years of service. Such benefits are provided under defined contribution or defined benefit plans. Active Getronics employees in The Netherlands are members of the "Stichting Voorzieningsfonds Getronics" (SVG) besides some smaller groups of employees. Pension costs are determined by actuarial valuations. These valuations include various assumptions, such as employee turnover, discount rate, mortality, retirement age, expected return on plan assets, future wage increases and related indexation of the benefits. These assumptions are normally updated on an annual basis at the beginning of each year. Actual circumstances may vary from these assumptions, giving rise to a different pension liability, which could result in an additional gain or loss in our Consolidated Income Statement.</p> <p>Changes in the related pension benefit costs may occur in the future due to changes in assumptions. The key assumptions used in computing our fiscal year 2007 pension benefit cost were a 4.7% discount rate, 6.2% expected return on plan assets and a 2.5% future wage increase (for the plan with the largest obligation, Stichting Pensioenfonds KPN). In 2007 our pension costs, including costs for the Social Plan 2001, amounted to EUR 100 million (in 2006 EUR 116 million, compared to EUR 95 million in 2005). Our pension benefit cost is expected to increase to approximately EUR 133 million in 2008, primarily the result of the acquisition of Getronics. A decrease in the discount rate of 1.0% point would result in EUR 200 million pension cost for 2008.</p>
<p>Provision for litigation and contingencies</p>	<p>We exercise considerable judgment in recording our accrued liabilities and our exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities. We are a party to lawsuits, claims, investigations, and proceedings, consisting primarily of commercial matters, which are being handled and defended in the ordinary course of business. We review the current status of any pending proceedings with our legal counsel on a quarterly basis. Judgment is used in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. In determining whether provisions are required with respect to pending or threatened litigations, management reviews the following: 1) period in which the underlying cause of the pending or threatened litigation or of the actual or possible claim or assessment occurred; 2) degree of probability of an unfavorable outcome; and 3) ability to make a reasonable estimate of the amount of loss. Upon considering the above items and other known relevant facts and circumstances, we recognize any loss that we consider more likely than not and reasonably estimable as of the balance sheet date. Actual results may differ materially from estimates.</p>

Financial instruments

We believe the following estimates are critical:

- determination of hedge effectiveness; and
- determination of fair value.

For further details, see 'Financial Risk Management' in the Financial Statements.

Recent accounting pronouncements

Following is a short description of new accounting standards that will be effective in 2008:

- IFRS 8 'Operating Segments' introduces the 'management approach' to segment reporting, whereby segment reporting is based on internal management reporting and replaces IAS 14. IFRS 8 aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. IFRS 8 which KPN early adopted in 2007, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker (CEO) in order to assess each segment's performance and to allocate resources to them;
- revised IAS 23 'Borrowing Costs' removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. KPN will not early adopt IAS 23. KPN is investigating the impact of applying IAS 23 on the consolidated financial statements;
- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programs for their customers. It relates to customer loyalty programs under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any material impact on the consolidated financial statements;
- IFRIC 14 '*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*' clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. IFRIC 14 will become mandatory for the Group's 2008 financial statements. IFRIC 14 is not expected to have material impact on the consolidated financial statements. Reference is made to note [22] to the Consolidated Financial Statements ('Provisions for retirement benefit obligations'); and
- we believe that other interpretations and standards (such as IFRIC 11, IFRS 2 '*Group and Treasury Share Transactions*', IFRIC 12 '*Service Concession Arrangement*' which will become mandatory for the Group's 2008 financial statements), will have no material impact on the consolidated financial statements.