

PACKAGING CORP OF AMERICA

Form 424B4

December 16, 2005

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Registration No. 333-130224

Prospectus Supplement to Prospectus dated December 9, 2005.

15,500,000 Shares

## Packaging Corporation of America

### Common Stock

All of the shares of common stock in the offering are being sold by the selling stockholder identified in this prospectus supplement. Packaging Corporation of America will not receive any of the proceeds from the sale of the shares being sold by the selling stockholder.

The common stock is listed on the New York Stock Exchange under the symbol "PKG". The last reported sale price of the common stock on December 15, 2005 was \$22.45 per share.

*See "Risk Factors" on page S-3 of this prospectus supplement and page 1 of the accompanying prospectus to read about factors you should consider before buying shares of the common stock.*

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement and the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial price to public	\$ 21.50	\$ 333,250,000
Underwriting discount	\$ 0.81	\$ 12,555,000
Proceeds, before expenses, to the selling stockholder	\$ 20.69	\$ 320,695,000

To the extent that the underwriters sell more than 15,500,000 shares of common stock, the underwriters have the option to purchase up to an additional 2,325,000 shares from the selling stockholder at the initial price to the public, less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on December 21, 2005.

**Goldman, Sachs & Co.**  
Sole Bookrunning Lead Manager

**JPMorgan**  
Joint Lead Manager

Prospectus Supplement dated December 15, 2005.

**ABOUT THIS PROSPECTUS SUPPLEMENT**

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein. Neither we, the selling stockholder nor the underwriters has authorized anyone to provide information different from that contained in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein. When you make a decision about whether to invest in our common stock, you should not rely upon any information other than the information in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein. Neither the delivery of this prospectus supplement or the accompanying prospectus nor any sale of our common stock means that information contained in this prospectus supplement, the accompanying prospectus, any document incorporated by reference herein or any other offering material is correct as of any date other than its date. This prospectus supplement and the accompanying prospectus are not an offer to sell or solicitation of any offer to buy these shares of common stock in any circumstances or jurisdiction under which the offer or solicitation is unlawful.

The terms "PCA, "we," "us," and "our" as used in this prospectus supplement and the accompanying prospectus refer to Packaging Corporation of America and its consolidated subsidiaries.

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## PROSPECTUS SUPPLEMENT SUMMARY

*This summary is not complete and does not contain all of the information that you should consider before buying shares in this offering. You should read carefully the entire prospectus supplement and the accompanying prospectus, including in particular the section of this prospectus supplement entitled "Risk Factors," and the more detailed information and financial statements and related notes appearing in the documents incorporated by reference in this prospectus supplement.*

## OUR COMPANY

### Overview

Packaging Corporation of America, or PCA, is the sixth largest producer of containerboard and corrugated products in the United States, based on production capacity as reported in the Pulp & Paper 2003-2004 Global Fact and Price Book. With 2004 net sales of \$1.9 billion, PCA produced about 2.3 million tons of containerboard, of which about 80% was consumed in our corrugated products manufacturing plants, 13% was sold to domestic customers and 7% was sold to the export market. Our corrugated products manufacturing plants sold about 29.9 billion square feet of corrugated products.

Our converting operations produce a wide variety of corrugated packaging products, including conventional shipping containers used to protect and transport manufactured goods and multi-color boxes and displays with strong visual appeal that help to merchandise the packaged product in retail locations. In addition, we are a large producer of meat boxes and wax-coated boxes for the agricultural industry.

PCA's strategy of focusing on the containerboard sector allows us to leverage our low cost position, strong operating capabilities, experienced management team and established customer relationships to maximize growth in corrugated products volume and profitability. In addition, our prudent balance sheet management and successful efforts to diversify our sources of energy supply and raw materials provide us with significant strategic and financial flexibility.

Packaging Corporation of America is a Delaware corporation. Our principal executive offices are located at 1900 West Field Court, Lake Forest, IL 60045, and our telephone number is (847) 482-3000. Our website address is <http://www.packagingcorp.com>. Information on our website should not be construed to be part of this prospectus.

## RECENT DEVELOPMENTS

On November 16, 2005, the Fibre Box Association ("FBA") reported that October ending containerboard inventories were 2,182,500 tons. The FBA also reported that industry corrugated products shipments in October were up 2.6% compared to October 2004. On December 15, 2005, the FBA reported that November ending containerboard inventories were 2,178,500 tons, the lowest level since October 1994, and corrugated products shipments in November were up 2.8% compared to November 2004.

Our corrugated products shipments, including shipments resulting from our acquisition of Midland Container in April 2005, were up 3.6% in October and 5.5% in November compared to last year.

The process of passing through our October 2005 containerboard price increase of \$30 per ton to corrugated products has been completed and is effective for essentially all of our customers with January shipments. We have also announced a price increase of \$40 per ton for linerboard and of \$50 per ton for corrugating medium effective January 3, 2006.

# THE OFFERING

Common stock offered by the selling stockholder	15,500,000 shares
Common stock to be outstanding after this offering	108,154,684 shares
Common stock to be outstanding after this offering and the repurchase and subsequent retirement of shares referred to below	103,654,684 shares
Use of proceeds	We will not receive any proceeds from the sale of common stock by the selling stockholder. The selling stockholder will receive all net proceeds from the sale of shares of our common stock offered in the prospectus supplement.
New York Stock Exchange symbol	PKG

We intend to separately purchase 4,500,000 shares of our common stock from the selling stockholder concurrently with the closing of this offering at a price per share equal to the net proceeds per share that the selling stockholder will receive in this offering. We intend to fund this repurchase using cash on hand. The closing of this offering is not conditioned upon the closing of the repurchase, but the closing of the repurchase is conditioned upon the closing of this offering.

The number of shares of common stock to be outstanding after this offering is based on the number of shares outstanding as of November 30, 2005, and excludes:

3,879,059 shares of common stock issuable upon exercise of stock options outstanding as of November 30, 2005, at a weighted average exercise price of \$16.56 per share; and

1,699,553 additional shares of common stock reserved for future grants or awards under our Amended and Restated 1999 Long-Term Equity Incentive Plan.

Unless otherwise expressly stated or the context otherwise requires, the information in this prospectus supplement assumes no exercise of the underwriters' over-allotment option to purchase up to 2,325,000 additional shares of common stock from the selling stockholder.

## RISK FACTORS

*You should carefully consider the following factors in addition to the other information set forth in our Annual Report on Form 10-K before making any investment decisions with respect to our common stock or other securities. If any of the events described below actually occur, our business, financial condition or operating results could be adversely affected in a material way. This could cause the trading prices of our securities to decline significantly.*

### Industry Risks

**Industry Earnings Cyclicalities** *Imbalances of supply and demand for containerboard affect the price at which we can sell containerboard and, as a result, could result in lower selling prices and earnings.*

The price of containerboard could fall if the supply of containerboard available for sale in the market exceeds the demand. The demand for containerboard is driven by market needs for containerboard in the United States and abroad to manufacture corrugated shipping containers. Market needs or demand are driven by both global and U.S. business conditions. If supply exceeds demand, prices for containerboard could decline, resulting in decreased earnings and cash flow.

From time to time, we have taken downtime (or slowbacks) at some of our mills to balance our production of containerboard with the market demand for our containerboard, and we may continue to do so in the future. Some of our competitors have also temporarily closed or reduced production at their containerboard mills, some of which could reopen and increase production capacity. This could result in a supply and demand imbalance and cause prices to fall.

**Competition** *The intensity of competition in the containerboard and corrugated packaging industry combined with the commodity nature of containerboard could result in downward pressure on pricing, which could materially reduce earnings.*

We operate in an industry that is highly competitive, with no single containerboard or corrugated packaging producer having a dominant position. Containerboard cannot generally be differentiated by producer, which tends to intensify price competition. The corrugated packaging industry is also sensitive to price fluctuations, as well as other factors including innovation, design, quality and service. To the extent that one or more competitors are more successful with respect to any key competitive factor, our business could be materially adversely affected. Our products also compete, to some extent, with various other packaging materials, including products made of paper, plastics, wood and various types of metal. The intensity of containerboard competition and the commodity nature of containerboard, plus the intensity of corrugated packaging competition, could lead to a reduction in our market share as well as lower prices for our products, both of which could materially reduce our earnings.

### Company Risks

**Cost of Wood Fiber** *Dependence on external wood fiber sources could lead to higher costs and lower earnings for us.*

During 1999 and 2000, we sold 800,000 acres of owned timberlands. In connection with these sales, we entered into supply agreements at market prices for wood fiber to be consumed at three of our four mills. In addition to these supply agreements, we also secure wood fiber from various other sources at market prices.

Because we do not own any timberlands, we are more vulnerable to changes in availability of wood fiber in areas adjacent to our mills than those of our competitors who do own timberlands in areas adjacent to their mills, and therefore could face higher wood fiber costs than those

competitors, both in terms of the cost of the wood fiber itself as well as the transportation costs to get the wood fiber to our mills. The price for wood fiber has historically fluctuated on a cyclical basis and has often depended on a variety of factors over which we have no control, including environmental and conservation regulations, natural disasters and the weather.

Any increase in wood fiber costs could cause our manufacturing costs to increase and our earnings to decrease to a greater extent than those of our competitors which own their own timberlands.

**Cost of Recycled Fiber** *An increase in the cost of recycled fiber could increase our containerboard manufacturing costs and lower our earnings.*

We purchase recycled fiber for use at three of our four containerboard mills. We currently purchase, net of recycled fiber generated at our box plants, approximately 400,000 tons of recycled fiber per year.

The increase in demand of products manufactured, in whole or in part, from recycled fiber on a global basis has caused an occasional tightness in the supply of recycled fiber. These periods of supply and demand imbalance have tended to create significant price volatility. We expect that periods of above average recycled fiber costs and overall price volatility will continue, which could result in earnings volatility.

**Cost of Purchased Energy** *An increase in the cost of purchased energy, particularly natural gas and fuel oil, could lead to higher manufacturing costs, resulting in reduced earnings.*

We have the capability to use various types of purchased fuels in our manufacturing operations, including coal, bark, natural gas and fuel oil. Energy prices, in particular prices for fuel oil and natural gas, have fluctuated dramatically in the past and have risen substantially in recent years. These fluctuations impact our manufacturing costs and result in earnings volatility. If energy prices rise, our production costs will increase, which will lead to higher manufacturing costs and reduced earnings.

**Environmental Matters** *We may incur significant environmental liabilities with respect to both past and future operations.*

We are subject to, and must comply with, a variety of federal, state and local environmental laws, particularly those relating to air and water quality, waste disposal and the cleanup of contaminated soil and groundwater. Because environmental regulations are constantly evolving, we have incurred, and will continue to incur, costs to maintain compliance with those laws. In the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2004 Annual Report on Form 10-K (see "Incorporation of Certain Information by Reference") under the caption "Environmental Matters", we provide certain estimates of expenditures we expect to make for environmental compliance in the next few years. Although we have established reserves to provide for future environmental liability, these reserves may not be adequate.

**Restrictions Imposed by the Senior Credit Facility, the Receivables Revolving Credit Facility and the Indenture Governing our Notes** *Our operating flexibility is limited in significant respects by the restrictive covenants in our senior credit facility, the receivables revolving credit facility and the indenture governing our notes.*

Our senior credit facility, receivables revolving credit facility and the indenture governing our notes impose restrictions on us that could increase our vulnerability to general adverse economic and industry conditions by limiting our flexibility in planning for and reacting to changes in our business and industry. Specifically, these restrictions limit our ability, among other things, to:

incur liens;

enter into certain transactions with affiliates;

enter into sale and leaseback transactions; and

merge or consolidate with any other person or sell or otherwise dispose of all or substantially all of our assets.

**Major Stockholder; Potential Conflicts** *The interests of our major stockholder could conflict with those of the other holders of our common stock.*

Our largest stockholder, PCA Holdings LLC, an entity controlled by Madison Dearborn Partners, held 44,098,010, or 40.8%, of our outstanding shares of common stock as of November 30, 2005. Upon completion of this offering, PCA Holdings LLC will own approximately 26.4% of our outstanding shares of common stock, or approximately 23.2% of our outstanding shares upon completion of our repurchase and our subsequent retirement of an additional 4,500,000 shares from PCA Holdings LLC concurrently with the closing of this offering. As a result of its ownership of a significant percentage of our outstanding common stock, Madison Dearborn Partners has had and will continue to have substantial influence over the outcome of all matters submitted to a vote of our stockholders, including the election of directors. The interests of Madison Dearborn Partners could conflict with the interests of our other stockholders.

#### **Investment Risks**

**Availability of Significant Amounts of Common Stock for Sale** *The market price of our common stock could be adversely affected as a result of the availability of a significant amount of our common stock for sale.*

PCA Holdings LLC currently has registration rights that require us to register its shares of common stock under the Securities Act at our expense. The future sale of a substantial number of shares of our common stock held by PCA Holdings LLC in the public market, or the perception that such sales could occur, could adversely affect the prevailing market price of our common stock.

**Potential Impediments to a Change of Control** *Some of the provisions of our charter documents and the presence of a large stockholder could discourage acquisition proposals by third parties and could delay, deter or prevent a change in control.*

Our certificate of incorporation authorizes our board of directors, subject to any limitations prescribed by law, to issue shares of preferred stock in one or more series without stockholder approval. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and for other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or discouraging a third party from seeking to acquire, a majority of our outstanding voting stock. The presence of a significant stockholder may also deter a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, even if that might be favorable to us or our other stockholders.

**Market Price of our Common Stock** *The market price of our common stock may be volatile, which could cause the value of your investment to decline.*

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our common stock in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response, the market price of our common stock could decrease significantly. You may be unable to resell your shares of our common stock at or above the public offering price.

### FORWARD-LOOKING STATEMENTS

Some of the statements contained and incorporated by reference in this prospectus supplement and the accompanying prospectus and in particular, statements found under the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2004 and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005, incorporated by reference in this prospectus supplement, that are not historical in nature may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are often identified by the words "will," "should," "anticipate," "believe," "expect," "intend," "estimate," "hope," or similar expressions. These statements reflect management's current views with respect to future events and are subject to risks and uncertainties. There are important factors that could cause actual results to differ materially from those in forward-looking statements, many of which are beyond our control. These factors, risks and uncertainties include the following:

the impact of general economic conditions;

containerboard and corrugated products general industry conditions, including competition, product demand and product pricing;

fluctuations in wood fiber and recycled fiber costs;

fluctuations in purchased energy costs; and

legislative or regulatory requirements, particularly concerning environmental matters.

Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, we can give no assurances that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what impact they will have on our results of operations or financial condition. In view of these uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements. We expressly disclaim any obligation to publicly revise any forward-looking statements that have been made to reflect the occurrence of events after the date hereof. For a discussion of other factors that may affect our business, you should also read carefully the factors described in the "Risk Factors" section.



**SELLING STOCKHOLDER****Beneficial Ownership**

The following table sets forth information with respect to the beneficial ownership of our common stock held as of November 30, 2005 by the stockholder which is selling shares in this offering. Unless otherwise noted, the selling stockholder has sole voting and investment power as to the shares shown.

Name and Address	Shares Beneficially Owned Before the Offering		Shares Being Offered(1)	Shares Beneficially Owned After the Offering(1)(2)	
	Number	Percent		Number	Percent
PCA Holdings LLC(3)					
c/o Madison Dearborn Partners, LLC Three First National Plaza Chicago, IL 60602	44,098,010	40.8%	15,500,000	28,598,010	26.4%

- (1) The selling stockholder has granted the underwriters for this offering an over-allotment option to purchase up to 2,325,000 additional shares of common stock. If the over-allotment option is exercised in full, the number of shares being offered will be 17,825,000, and the number of shares beneficially owned after the offering will be 26,273,010, or 24.3%.
- (2) We intend to purchase 4,500,000 shares from the selling stockholder concurrently with the closing of this offering at a price per share equal to the net proceeds per share that the selling stockholder will receive in this offering. Upon completion of the sale of the shares being offered hereby and the sale by the selling stockholder of 4,500,000 shares to us and the subsequent retirement of those shares by us, the selling stockholder will beneficially own 24,098,010 shares, or 23.2% of our outstanding shares (21,773,010 shares, or 21.0% of our outstanding shares, if the over-allotment option is exercised in full).
- (3) The members of PCA Holdings LLC are Madison Dearborn Capital Partners III, L.P. ("MDCP III") and a fund affiliated with MDCP III. MDCP III and the affiliated fund may be deemed to have beneficial ownership of the shares of common stock of PCA held by PCA Holdings LLC. Shares beneficially owned by MDCP III and the affiliated fund may be deemed to be beneficially owned by Madison Dearborn Partners III, L.P., the general partner of each fund ("MDP III"), by Madison Dearborn Partners LLC, the general partner of MDP III, and by a limited partner committee of MDP III.

**USE OF PROCEEDS**

All of the shares of common stock offered pursuant to this prospectus supplement will be sold by the selling stockholder for its account. We will not receive any of the proceeds from these sales.

**CAPITALIZATION**

The following table sets forth our capitalization as of September 30, 2005 on an actual basis, and as adjusted to reflect the repurchase and subsequent retirement of 4,500,000 shares of our common stock at the initial price to public set forth on the cover of this prospectus supplement, less underwriting discount. The information in this table should be read in conjunction with our consolidated financial statements and the notes thereto incorporated by reference in this prospectus supplement (see "Incorporation of Certain Information by Reference").

	September 30, 2005	
	Actual	As Adjusted
	(In thousands)	
Cash and cash equivalents	\$ 184,429	\$ 90,824(a)
Long-term debt, including current maturities:		
Senior credit facility:		
Revolving credit facility (b)	\$	\$
Term loan	39,000	39,000
Receivables credit facility (c)	109,000	109,000
4 <sup>3</sup> / <sub>8</sub> % Senior Notes due 2008, net of discount	149,624	149,624
5 <sup>3</sup> / <sub>4</sub> % Senior Notes due 2013, net of discount	397,343	397,343
Other	124	124
Total debt	695,091	695,091
Shareholders' equity:		
Common stock, par value \$0.01 per share, 300,000,000 shares authorized, 108,118,659 shares issued and outstanding, actual; 103,618,659 shares issued and outstanding, as adjusted (d)	1,081	1,036
Additional paid in capital (d)	510,367	417,307
Retained earnings	273,789	273,485
Accumulated other comprehensive income:		
Unrealized gain on derivatives, net	20,144	20,144
Cumulative foreign currency translation adjustment	(4)	(4)
Total accumulated other comprehensive income	20,140	20,140
Unearned compensation on restricted stock	(6,549)	(6,549)
Total shareholders' equity	798,828	705,419
Total capitalization	\$ 1,493,919	\$ 1,400,510

(a)

Adjustments reflect the net effect on cash of the following transactions:

Cash and cash equivalents, as reported	\$ 184,429
Common stock repurchases	(93,105)
Estimated fees and expenses	(500)

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Cash and cash equivalents, as adjusted

\$ 90,824

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(b)

As of September 30, 2005, we had a \$100 million revolver with no borrowings outstanding. If we had, the interest rate with four business days notice of borrowing would have been 5.113% per annum on any amounts borrowed.

(c)

As of September 30, 2005, we had a \$150 million receivables credit facility with \$109 million borrowed and outstanding. Borrowings under the receivables credit facility bear an interest rate of 4.223% per annum as of September 30, 2005.

(d)

The as adjusted amount does not include the 3,916,635 shares of common stock issuable upon exercise of stock options issued and outstanding as of September 30, 2005 under our management equity agreements and our amended and restated 1999 long-term equity incentive plan.

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**DIVIDEND POLICY**

On October 13, 2003, we announced our intention to begin paying a quarterly cash dividend of \$0.15 per share, or \$0.60 per share annually, on our common stock. The first quarterly dividend of \$0.15 per share was paid on January 15, 2004 to shareholders of record as of December 15, 2003. On January 19, 2005, we announced an increase in our quarterly dividend to \$0.25 per share, or \$1.00 per share annually, on our common stock. The first quarterly cash dividend of \$0.25 per share was paid to shareholders of record as of March 15, 2005 with a payment date of April 15, 2005. Going forward, we currently intend to pay a cash dividend on a quarterly basis. The continuation of our dividend policy and the payment of future dividends will depend on our earnings, cash needs, terms of debt agreements and other factors our board of directors deems relevant from time to time.

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## DESCRIPTION OF CAPITAL STOCK

### General

Our restated certificate of incorporation authorizes the issuance of up to 300,000,000 shares of common stock, par value \$0.01 per share, 3,000,000 shares of preferred stock, par value \$0.01 per share, and 100 shares of junior preferred stock, par value \$0.01 per share. As of November 30, 2005, 108,154,684 shares of common stock, no shares of preferred stock and no shares of junior preferred stock were outstanding. As of November 30, 2005, we had 63 registered holders of common stock.

### Common Stock

Each holder of common stock is entitled to one vote for each share on all matters to be voted upon by the stockholders and there are no cumulative voting rights. Subject to preferences to which holders of preferred stock and junior preferred stock may be entitled, holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the board of directors out of funds legally available therefor. See "Dividend Policy." In the event of our liquidation, dissolution or winding up, holders of common stock would be entitled to share in our assets remaining after the payment of liabilities and the satisfaction of any liquidation preference granted to the holders of any outstanding shares of preferred stock and junior preferred stock. Holders of common stock have no preemptive or conversion rights or other subscription rights and there are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable. The rights, preferences and privileges of the holders of common stock are subject to, and may be adversely affected by the rights of the holders of shares of any series of preferred stock which we may designate in the future.

### Preferred Stock

Our certificate of incorporation authorizes our board of directors, subject to any limitations prescribed by law, to issue shares of preferred stock in one or more series without stockholder approval. Each series of preferred stock will have the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as will be determined by the board of directors. The purpose of authorizing the board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays and uncertainties associated with a stockholder vote on specific issuances. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or discourage a third party from acquiring, a majority of our outstanding voting stock. We have no present plans to issue any shares of preferred stock.

### Registration Rights

We, the selling stockholder and Pactiv are parties to a registration rights agreement which provides Pactiv and the selling stockholder and their respective affiliates and transferees with "demand" registration rights, entitling them to cause us to register all or part of our common stock and or other securities held by them under the Securities Act of 1933, as well as "piggyback" registration rights. Pactiv exercised one of its "demand" registration rights under this agreement in order to effect the registration of its shares of common stock for sale in the initial public offering of our common stock on January 28, 2000. During 2001, Pactiv sold its remaining ownership in our common stock, and no longer is a party to the registration rights agreement. In addition, the selling stockholder and its affiliates and transferees have "piggyback" registration rights, which entitle them

to cause us to include their securities in a registration in which we propose to register any of its securities under the Securities Act. The selling stockholder and its affiliates are entitled to demand:

- (i) three "long form" registrations in which we will pay the registration expenses, other than underwriting discounts and commissions,
- (ii) an unlimited number of "short form" registrations in which we will pay the registration expenses, other than underwriting discounts and commissions, and
- (iii) an unlimited number of "long form" registrations in which the requesting holders will pay the registration expenses.

#### **Effect of Certificate of Incorporation and Bylaws**

Our restated certificate of incorporation and our second amended and restated bylaws may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us.

The restated certificate provides that stockholder action can be taken only at an annual or special meeting of stockholders and cannot be taken by written consent in lieu of a meeting. The restated certificate provides that, except as otherwise required by law, special meetings of the stockholders can only be called by a resolution adopted by a majority of the board or by our chief executive officer. Stockholders are not permitted to call a special meeting or require the board to call a special meeting.

The restated bylaws establishes an advance notice procedure for stockholder proposals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to the board. Stockholders at an annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the board or by a stockholder who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given to our secretary timely written notice, in proper form, of the stockholders intention to bring that business before the meeting. Although the restated bylaws will not give the board the power to approve or disapprove stockholder nominations of candidates or proposals regarding other business to come before a special or annual meeting, the bylaws may have the effect of precluding the conduct of proposed business at a meeting if the proper procedures are not followed or may discourage or defer a potential acquiror from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of us.

#### **Transfer Agent and Registrar**

The Transfer Agent and Registrar for our common stock is Computershare Investor Services. The address of the Transfer Agent and Registrar is P.O. Box 43069, Providence, Rhode Island 02940-3069, and its telephone number is (877) 282-1168. The telephone number outside North America is (781) 575-2879.

### **CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

#### **General**

The following is a general discussion of the material United States federal income and estate tax consequences of the purchase, ownership and disposition of common stock that may be relevant to you if you are a non-United States Holder. As used in this prospectus supplement, the term "non-United States Holder" is a beneficial owner of our common stock other than:

a citizen or individual resident of the United States;

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a corporation or other entity taxable as a corporation under U.S. federal income tax laws created or organized in or under the laws of the United States, of any state of the United States or the District of Columbia;

an estate the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source; or

a trust subject to the primary supervision of a U.S. court and the control of one or more U.S. persons, or a trust that has validly elected to be treated as a domestic trust under applicable Treasury regulations.

If a partnership, including any entity treated as a partnership for U.S. federal income tax purposes, is a holder of our common stock, the tax treatment of a partner in the partnership will generally depend upon the tax status of the partner and the activities of the partnership. A holder that is a partnership, and partners in such partnership, should consult their own tax advisors regarding the tax consequences of the purchase, ownership and disposition of our common stock.

This discussion is based on current law, which is subject to change, possibly with retroactive effect, or different interpretations. This discussion is limited to non-United States Holders who hold shares of common stock as capital assets. Moreover, this discussion is for general information only and does not address all the tax consequences that may be relevant to you in light of your personal circumstances, nor does it discuss special tax provisions, which may apply to you if you relinquished United States citizenship or residence.

If you are an individual, you may, in many cases, be deemed to be a resident alien, as opposed to a nonresident alien, by virtue of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending with the current calendar year. For these purposes all the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year are counted.

Resident aliens are subject to United States federal income tax as if they were United States citizens. The tax treatment of a person who or that holds an interest in an entity that is treated as a foreign partnership for United States federal income tax purposes will generally depend upon the status of such person or the activities of the entity. Persons who or that hold an interest in such an entity should consult their own tax advisors.

EACH PROSPECTIVE PURCHASER OF COMMON STOCK IS ADVISED TO CONSULT A TAX ADVISOR WITH RESPECT TO CURRENT AND POSSIBLE FUTURE TAX CONSEQUENCES OF PURCHASING, OWNING AND DISPOSING OF OUR COMMON STOCK AS WELL AS ANY TAX CONSEQUENCES THAT MAY ARISE UNDER THE LAWS OF ANY UNITED STATES STATE, MUNICIPALITY OR OTHER TAXING JURISDICTION.

### **Dividends**

If dividends are paid, as a non-United States Holder, you will be subject to withholding of United States federal income tax at a 30% rate or a lower rate as may be specified by an applicable income tax treaty. To claim the benefit of a lower rate under an income tax treaty, you must properly file with the payor an Internal Revenue Service Form W-8BEN, or successor form, claiming an exemption from or reduction in withholding under the applicable tax treaty. In addition, where dividends are paid to a non-United States Holder that is a partnership for U.S. federal income tax purposes, persons holding an interest in the entity may need to provide certification claiming an exemption or reduction in withholding under the applicable treaty.

If dividends are considered effectively connected with the conduct of a trade or business by you within the United States and, where a tax treaty applies, are attributable to a United States permanent establishment of yours, those dividends will be subject to United States federal income tax on a net basis at applicable graduated individual or corporate rates but will not be subject to withholding tax, provided an Internal Revenue Service Form W-8ECI, or successor form, is filed with the payor. If you are a foreign corporation, any effectively connected dividends may, under certain circumstances, be subject to an additional "branch profits tax" at a rate of 30% or a lower rate as may be specified by an applicable income tax treaty.

You must comply with the certification procedures described above, or, in the case of payments made outside the United States with respect to an offshore account, certain documentary evidence procedures, directly or under certain circumstances through an intermediary, to obtain the benefits of a reduced rate under an income tax treaty with respect to dividends paid with respect to your common stock. In addition, if you are required to provide an Internal Revenue Service Form W-8ECI or successor form, as discussed above, you must also provide your tax identification number.

If you are eligible for a reduced rate of United States withholding tax pursuant to an income tax treaty, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

### **Gain on Disposition of Common Stock**

As a non-United States Holder, you generally will not be subject to United States federal income tax on any gain recognized on the sale or other disposition of common stock unless:

the gain is considered effectively connected with the conduct of a trade or business by you within the United States and, where a tax treaty applies, is attributable to a United States permanent establishment of yours (and, in which case, if you are a foreign corporation, you may be subject to an additional "branch profits tax" equal to 30% or a lower rate as may be specified by an applicable income tax treaty);

you are an individual who holds the common stock as a capital asset and are present in the United States for 183 or more days in the taxable year of the sale or other disposition and other conditions are met; or

we are or become a United States Real Property Holding Corporation ("USRPHC"). We believe that we are not currently, and are not likely to become, a USRPHC. If we were to become a USRPHC, then gain on the sale or other disposition of common stock by you generally would not be subject to United States federal income tax provided:

the common stock was "regularly traded on an established securities market"; and

you do not actually or constructively own more than 5% of the common stock during the shorter of (i) the five-year period ending on the date of the disposition or (ii) your holding period for such common stock.

### **Federal Estate Tax**

If you are an individual, common stock held at the time of your death will be included in your gross estate for United States federal estate tax purposes, and may be subject to United States federal estate tax, unless an applicable estate tax treaty provides otherwise.

### **Information Reporting and Backup Withholding Tax**

We must report annually to the Internal Revenue Service and to each of you the amount of dividends paid to you and the tax withheld with respect to those dividends, regardless of whether



withholding was required. Copies of the information returns reporting those dividends and withholding may also be made available to the tax authorities in the country in which you reside under the provisions of an applicable income tax treaty or other applicable agreements.

Backup withholding is generally imposed at a rate currently not to exceed 28% on certain payments to persons that fail to furnish the necessary identifying information to the payor. You generally will be subject to backup withholding tax with respect to dividends paid on your common stock at a rate currently not to exceed 28% unless you certify your non-United States status.

The payment of proceeds of a sale of common stock effected by or through a United States office of a broker is subject to both backup withholding and information reporting unless you provide the payor with your name and address and you certify your non-United States status or you otherwise establish an exemption. In general, backup withholding and information reporting will not apply to the payment of the proceeds of a sale of common stock by or through a foreign office of a broker. If, however, such broker is, for United States federal income tax purposes, a United States person, a controlled foreign corporation, a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States or a foreign partnership that at any time during its tax year either is engaged in the conduct of a trade or business in the United States or has as partners one or more United States persons that, in the aggregate, hold more than 50% of the income or capital interest in the partnership, backup withholding will not apply but such payments will be subject to information reporting, unless such broker has documentary evidence in its records that you are a non-United States Holder and certain other conditions are met or you otherwise establish an exemption.

Any amounts withheld under the backup withholding rules generally will be allowed as a refund or credit against your United States federal income tax liability provided the required information is furnished in a timely manner to the Internal Revenue Service.

**UNDERWRITING**

The company, the selling stockholder and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table from the selling stockholder.

<b>Underwriters</b>	<b>Number of Shares</b>
Goldman, Sachs & Co.	11,625,000
J.P. Morgan Securities Inc.	3,875,000
<b>Total</b>	<b>15,500,000</b>

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 2,325,000 shares from the selling stockholder to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by the selling stockholder. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 2,325,000 additional shares.

**Paid by the Selling Stockholder**

	<b>No Exercise</b>	<b>Full Exercise</b>
Per Share	\$ 0.81	\$ 0.81
Total	\$ 12,555,000	\$ 14,438,250

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to \$0.49 per share from the initial public offering price. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to \$0.10 per share from the initial public offering price. If all the shares are not sold at the initial public offering price, the underwriters may change the offering price and the other selling terms.

We, the selling stockholder and our directors and executive officers have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus supplement continuing through the date 90 days after the date of this prospectus supplement, except with the prior written consent of the underwriters. This agreement does not apply to any existing employee benefit plans.

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to

purchase additional shares from the selling stockholder in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriter is concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the underwriters have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the company's stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on NYSE, in the over-the-counter market or otherwise.

Each of the underwriters has represented and agreed that:

- (a) it has not made or will not make an offer of shares to the public in the United Kingdom within the meaning of section 102B of the Financial Services and Markets Act 2000 (as amended) (FSMA) except to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by the company of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority (FSA);
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to the company; and
- (c) it has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

#### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each Underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of shares to the public in that Relevant Member State prior to the

publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of shares to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The shares may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the shares may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has

acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

The securities have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

We and the selling stockholder estimate that the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately \$500,000.

We and the selling stockholder have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

The underwriters and their affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the company, for which they received or will receive customary fees and expenses.

## LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon by Kirkland & Ellis LLP, Chicago, Illinois. Some of the partners of Kirkland & Ellis LLP are members of a partnership that is an investor in Madison Dearborn Capital Partners III, L.P. Kirkland & Ellis LLP has from time to time represented, and may continue to represent, Madison Dearborn Partners, LLC and some of its affiliates in connection with various legal matters. Sidley Austin Brown & Wood LLP, New York, New York will act as counsel to the underwriters. Some of the partners of Sidley Austin Brown & Wood LLP are investors, directly or through partnerships in which they invest, in Madison Dearborn Capital Partners III, L.P. Sidley Austin Brown & Wood LLP has from time to time represented, and may continue to represent, Madison Dearborn Partners, LLC and some of its affiliates in connection with various legal matters.

## EXPERTS

The consolidated financial statements of Packaging Corporation of America appearing in Packaging Corporation of America's Annual Report on Form 10-K for the year ended December 31, 2004 (including Schedule II appearing therein) and Packaging Corporation of America management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 included therein, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements and management's assessment are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The financial statements of Southern Timber Venture, LLC appearing in Packaging Corporation of America's Annual Report on Form 10-K/A for the year ended December 31, 2004 have been audited by Grantham, Poole, Randall, Reitano, Arrington & Cunningham PLLC, certified public accountants, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

## INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to "incorporate by reference" information into this prospectus supplement, which means that we can disclose important information about us by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this prospectus supplement. This prospectus supplement incorporates by reference the documents and reports listed below (other than portions of these documents that are either (1) described in paragraphs (i), (k) and (l) of Item 402 of Regulation S-K promulgated by the SEC or (2) furnished under Item 2.02, Item 7.01 or Item 8.01 of a Current Report on Form 8-K):

our Annual Report on Form 10-K and Form 10-K/A for the fiscal year ended December 31, 2004;

our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005; and

our Current Report on Form 8-K, filed on May 6, 2005.

We also incorporate by reference the information contained in all other documents we file with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than portions of these documents that are either (1) described in paragraphs (i), (k) and (l) of Item 402 of Regulation S-K promulgated by the SEC or (2) furnished under Item 2.02, Item 7.01 or Item 8.01 of a Current Report on Form 8-K, unless otherwise indicated therein) after the date of this prospectus

supplement and prior to the termination of this offering. The information contained in any such document will be considered part of this prospectus supplement from the date the document is filed with the SEC.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus supplement will be deemed to be modified or superseded to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this prospectus supplement modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement.

We undertake to provide without charge to any person, including any beneficial owner, to whom a copy of this prospectus supplement is delivered, upon oral or written request of such person, a copy of any or all of the documents that have been incorporated by reference in this prospectus supplement, other than exhibits to such other documents (unless such exhibits are specifically incorporated by reference therein). We will furnish any exhibit upon the payment of a specified reasonable fee, which fee will be limited to our reasonable expenses in furnishing such exhibit. Requests for such copies should be directed to Richard B. West, Packaging Corporation of America, 1900 West Field Court, Lake Forest, Illinois 60045, (847) 482-2191.

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PROSPECTUS

17,825,000 Shares

**PACKAGING CORPORATION OF AMERICA**  
Common Stock

The selling stockholder named herein may offer and sell from time to time up to 17,825,000 shares of our common stock covered by this prospectus. The selling stockholder will receive all of the proceeds from any sales of its shares. We will not receive any of the proceeds, but we will incur expenses, in connection with the offering.

Our registration of the shares of common stock covered by this prospectus does not mean that the selling stockholder will offer or sell any of the shares. The selling stockholder may sell the shares of common stock covered by this prospectus in a number of different ways and at varying prices. We provide more information about how the selling stockholder may sell the shares in the section entitled "Plan of Distribution" beginning on page 5.

Our common stock is traded on the New York Stock Exchange under the symbol PKG. On December 8, 2005, the last reported sale price of our common stock on the New York Stock Exchange was \$24.12 per share.

*See "Risk Factors" on page 1 of this prospectus to read about factors you should consider before buying shares of the common stock.*

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is December 9, 2005

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## ABOUT THIS PROSPECTUS

You should rely only on the information contained in or incorporated by reference into this prospectus and any applicable prospectus supplements. Neither we, the selling stockholders nor any underwriter has authorized anyone to provide information different from that contained in this prospectus and the documents incorporated by reference herein. The information contained in this prospectus, in any prospectus supplement, in any document incorporated by reference or any other offering material is accurate only as of its date, regardless of the time of delivery of this prospectus or any sale of common stock. This prospectus is not an offer to sell or solicitation of an offer to buy these shares of common stock in any circumstances under which or jurisdiction in which the offer or solicitation is unlawful. The terms "PCA," "we," "us," and "our" as used in this prospectus refer to Packaging Corporation of America and its consolidated subsidiaries. The phrase "this prospectus" refers to this prospectus and any applicable prospectus supplement, unless the context otherwise requires.

## OUR COMPANY

### Overview

Packaging Corporation of America, or PCA, is the sixth largest producer of containerboard and corrugated products in the United States, based on production capacity as reported in the Pulp & Paper 2003-2004 Global Fact and Price Book. With 2004 net sales of \$1.9 billion, PCA produced about 2.3 million tons of containerboard, of which about 80% was consumed in our corrugated products manufacturing plants, 13% was sold to domestic customers and 7% was sold to the export market. Our corrugated products manufacturing plants sold about 29.9 billion square feet of corrugated products.

Our converting operations produce a wide variety of corrugated packaging products, including conventional shipping containers used to protect and transport manufactured goods, multi-color boxes and displays with strong visual appeal that help to merchandise the packaged product in retail locations. In addition, we are a large producer of meat boxes and wax-coated boxes for the agricultural industry.

Packaging Corporation of America is a Delaware corporation. Our principal executive offices are located at 1900 West Field Court, Lake Forest, IL 60045, and our telephone number is (847) 482-3000. Our website address is [www.packagingcorp.com](http://www.packagingcorp.com). Information on our website should not be construed to be part of this prospectus.

## RISK FACTORS

Investing in our common stock involves risks. You should carefully consider the risks, uncertainties and assumptions discussed under the section "Risk Factors" included as Exhibit 99.1 to our Annual Report on Form 10-K for the year ended December 31, 2004, which are incorporated by reference in this prospectus, and which may be amended, supplemented or superseded from time to time by other documents we file with the Securities and Exchange Commission ("SEC") in the future (see "Incorporation of Certain Information by Reference").

## FORWARD-LOOKING STATEMENTS

Some of the statements contained and incorporated by reference in this prospectus and in particular, statements found under the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2004 and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005, incorporated by reference in this prospectus, that are not historical in nature may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are often identified by the words "will," "should," "anticipate," "believe," "expect," "intend," "estimate," "hope," or similar expressions. These statements reflect management's current views with respect to future events and are subject to risks and uncertainties. There are important factors that could cause actual results to differ materially from those in forward-looking statements, many of which are beyond our control. These factors, risks and uncertainties include the following:

the impact of general economic conditions;

containerboard and corrugated products general industry conditions, including competition, product demand and product pricing;

fluctuations in wood fiber and recycled fiber costs;

fluctuations in purchased energy costs; and

legislative or regulatory requirements, particularly concerning environmental matters.

## Edgar Filing: PACKAGING CORP OF AMERICA - Form 424B4

Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, we can give no assurances that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what impact they will have on our results of operations or financial condition. In view of these uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements. We expressly disclaim any obligation to publicly revise any forward-looking statements that have been made to reflect the occurrence of events after the date hereof. For a discussion of other factors that may affect our business, you should also read carefully the factors described in the "Risk Factors" section incorporated by reference into this prospectus (see "Risk Factors").

## SELLING STOCKHOLDER

## Beneficial Ownership

The following table sets forth information with respect to the beneficial ownership of our common stock held as of November 30, 2005 by the stockholder which is selling shares in this offering. Unless otherwise noted, the selling stockholder has sole voting and investment power as to the shares shown. The selling stockholder may sell, from time to time, all, some or none of the shares covered by this prospectus.

Name and Address	Shares Beneficially Owned Before the Offering		Shares Being Offered	Shares Beneficially Owned After the Offering(1)	
	Number	Percent		Number	Percent
PCA Holdings LLC(2)					
c/o Madison Dearborn Partners, LLC Three First National Plaza Chicago, IL 60602	44,098,010	40.8%	17,825,000	26,273,010	24.3%

(1) Assumes that the selling stockholder disposes of all the shares of common stock covered by this prospectus, and does not acquire beneficial ownership of any additional shares. The registration of these shares does not necessarily mean that the selling stockholder will sell all or any portion of the shares covered by this prospectus.

(2) The members of PCA Holdings LLC are Madison Dearborn Capital Partners III, L.P. ("MDCP III") and a fund affiliated with MDCP III. MDCP III and the affiliated fund may be deemed to have beneficial ownership of the shares of common stock of PCA held by PCA Holdings LLC. Shares beneficially owned by MDCP III and the affiliated fund may be deemed to be beneficially owned by Madison Dearborn Partners III, L.P., the general partner of each fund ("MDP III"), by Madison Dearborn Partners LLC, the general partner of MDP III, and by a limited partner committee of MDP III.

## Material Relationships with the Selling Stockholder

**Registration Rights Agreement.** We, the selling stockholder and Pactiv Corporation entered into a registration rights agreement under which the selling stockholder and Pactiv and their respective affiliates have "demand" registration rights, which entitle them to cause us to register their securities of PCA under the Securities Act. Pactiv exercised one of its "demand" registration rights under this agreement in order to effect the registration of its shares of common stock for sale in the initial public offering of our common stock on January 28, 2000. During 2001, Pactiv sold its remaining ownership in our common stock, and no longer is a party to the registration rights agreement. In addition, the selling stockholder and its affiliates and transferees have "piggyback" registration rights, which entitle them to cause us to include their securities in a registration in which we propose to register any of our securities under the Securities Act. The selling stockholder and its affiliates are entitled to demand:

- (1) three "long form" registrations in which we will pay the registration expenses, other than underwriting discounts and commissions,
- (2) an unlimited number of "short form" registrations in which we will pay the registration expenses, other than underwriting discounts and commissions, and
- (3) an unlimited number of "long form" registrations in which the requesting holders will pay the registration expenses.

The selling stockholder and its affiliates will have priority, before any other holders of our securities, to participate in any registrations of our securities. We have registered the shares

covered by this prospectus pursuant to the selling stockholder's exercise of its demand registration rights under the registration rights agreement.

**Services Agreement.** On April 12, 1999, we entered into a holding company support agreement with the selling stockholder, under which we agreed to reimburse the selling stockholder for all fees, costs and expenses, up to an aggregate amount of \$250,000 per year, related to the selling stockholder's investment in us. These expenses include the selling stockholder's general operating expenses, franchise tax obligations, accounting, legal, corporate reporting and administrative expenses, and any other expenses incurred by the selling stockholder as a result of its investment in us. No amounts have ever been paid under this agreement.

#### USE OF PROCEEDS

All of the shares of common stock offered pursuant to this prospectus will be sold by the selling stockholder for its account. We will not receive any of the proceeds from these sales.

## PLAN OF DISTRIBUTION

We are registering 17,825,000 shares of our common stock for possible sale by the selling stockholder. Unless the context otherwise requires, as used in this prospectus, "selling stockholder" includes the selling stockholder named in the table above and donees, pledgees, transferees or other successors-in-interest selling shares received from the selling stockholder as a gift, pledge, partnership distribution or other transfer after the date of this prospectus.

The selling stockholder may offer and sell all or a portion of the shares covered by this prospectus from time to time, in one or more or any combination of the following transactions:

on the New York Stock Exchange, in the over-the-counter market or on any other national securities exchange on which our shares are listed or traded;

in privately negotiated transactions;

in underwritten transactions;

in a block trade in which a broker-dealer will attempt to sell the offered shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

through purchases by a broker-dealer as principal and resale by the broker-dealer for its account pursuant to this prospectus;

in ordinary brokerage transactions and transactions in which the broker solicits purchasers; and

through the writing of options (including put or call options), whether the options are listed on an options exchange or otherwise.

The selling stockholder may sell the shares at prices then prevailing or related to the then current market price or at negotiated prices. The offering price of the shares from time to time will be determined by the selling stockholder and, at the time of the determination, may be higher or lower than the market price of our common stock on the New York Stock Exchange or any other exchange or market.

The shares may be sold directly or through broker-dealers acting as principal or agent, or pursuant to a distribution by one or more underwriters on a firm commitment or best-efforts basis. The selling stockholder may also enter into hedging transactions with broker-dealers. In connection with such transactions, broker-dealers or other financial institutions may engage in short sales of our common stock in the course of hedging the positions they assume with the selling stockholder. The selling stockholder may also enter into options or other transactions with broker-dealers or other financial institutions which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction). In connection with an underwritten offering, underwriters or agents may receive compensation in the form of discounts, concessions or commissions from the selling stockholder or from purchasers of the offered shares for whom they may act as agents. In addition, underwriters may sell the shares to or through dealers, and those dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. The selling stockholder and any underwriters, dealers or agents participating in a distribution of the shares may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended, or the Securities Act, and any profit on the sale of the shares by the selling stockholder and any commissions received by broker-dealers may be deemed to be underwriting commissions under the Securities Act.

The selling stockholder may agree to indemnify an underwriter, broker-dealer or agent against certain liabilities related to the selling of the common stock, including liabilities arising under the

Securities Act. Under the registration rights agreement, we have agreed to indemnify the selling stockholder against certain liabilities related to the sale of the common stock, including liabilities arising under the Securities Act. Under the registration rights agreement, we have also agreed to pay the costs, expenses and fees of registering the shares of common stock; however, the selling stockholder will pay any underwriting discounts or commissions relating to the sale of the shares of common stock in any underwritten offering.

Upon our notification by the selling stockholder that any material arrangement has been entered into with an underwriter or broker-dealer for the sale of shares through a block trade, special offering, exchange distribution, secondary distribution or a purchase by an underwriter or broker-dealer, we will file a supplement to this prospectus, if required, pursuant to Rule 424(b) under the Securities Act, disclosing certain material information, including:

the name of each such selling stockholder;

the number of shares being offered;

the terms of the offering;

the names of the participating underwriters, broker-dealers or agents;

any discounts, commissions or other compensation paid to underwriters or broker-dealers and any discounts, commissions or concessions allowed or reallocated or paid by any underwriters to dealers;

the public offering price; and

other material terms of the offering.

In addition, upon being notified by the selling stockholder that a donee, pledgee, transferee or other successor-in-interest intends to sell more than 500 shares, we will, to the extent required, promptly file a supplement to this prospectus to name specifically such person as a selling stockholder.

The selling stockholder is subject to the applicable provisions of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the rules and regulations under the Exchange Act, including Regulation M. This regulation may limit the timing of purchases and sales of any of the shares of common stock offered in this prospectus by the selling stockholder. The anti-manipulation rules under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholder and its affiliates. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of the shares to engage in market-making activities for the particular securities being distributed for a period of up to five business days before the distribution. The restrictions may affect the marketability of the shares and the ability of any person or entity to engage in market-making activities for the shares.

To the extent required, this prospectus may be amended and/or supplemented from time to time to describe a specific plan of distribution. Instead of selling the shares of common stock under this prospectus, the selling stockholder may sell the shares of common stock in compliance with the provisions of Rule 144 under the Securities Act, if available, or pursuant to other available exemptions from the registration requirements of the Securities Act.

## LEGAL MATTERS

The validity of the shares of common stock offered pursuant to this prospectus will be passed upon by Kirkland & Ellis LLP, Chicago, Illinois, and for any underwriters or agents by counsel named in the applicable prospectus supplement. Some of the partners of Kirkland & Ellis LLP are members of a partnership that is an investor in Madison Dearborn Capital Partners III, L.P. Kirkland & Ellis LLP has from time to time represented, and may continue to represent, Madison Dearborn Partners, LLC and some of its affiliates in connection with various legal matters.





## EXPERTS

The consolidated financial statements of Packaging Corporation of America appearing in Packaging Corporation of America's Annual Report on Form 10-K for the year ended December 31, 2004 (including Schedule II appearing therein) and Packaging Corporation of America management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 included therein, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements and management's assessment are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The financial statements of Southern Timber Venture, LLC appearing in Packaging Corporation of America's Annual Report on Form 10-K/A for the year ended December 31, 2004 have been audited by Grantham, Poole, Randall, Reitano, Arrington & Cunningham PLLC, certified public accountants, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

## WHERE YOU CAN FIND MORE INFORMATION

**Filings.** We are currently subject to the information requirements of the Exchange Act and in accordance therewith file periodic reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy (at prescribed rates) any such reports, proxy statements and other information at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. For further information concerning the SEC's Public Reference Room, you may call the SEC at 1-800-SEC-0330. Some of this information may also be accessed on the World Wide Web through the SEC's Internet address at <http://www.sec.gov>.

**Stock Market:** Our common shares are listed on the New York Stock Exchange and similar information can be inspected and copied at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

**Registration Statement.** We have filed with the SEC a registration statement on Form S-3 with respect to the shares of common stock offered hereby. This prospectus does not contain all the information set forth in the registration statement, parts of which are omitted in accordance with the rules and regulations of the SEC. Any statements made in this prospectus concerning the provisions of legal documents are not necessarily complete and you should read the documents that are filed as exhibits to the registration statement or otherwise filed with the SEC for a more complete understanding of the document or matter.

## INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to "incorporate by reference" information into this prospectus, which means that we can disclose important information about us by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this prospectus. This prospectus incorporates by reference the documents and reports listed below (other than portions of these documents that are either (1) described in paragraphs (i), (k) and (l) of Item 402 of Regulation S-K promulgated by the SEC or (2) furnished under Item 2.02, Item 7.01 or Item 8.01 of a Current Report on Form 8-K):

our Annual Report on Form 10-K and Form 10-K/A for the fiscal year ended December 31, 2004;

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our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005; and

our Current Report on Form 8-K, filed on May 6, 2005.

We also incorporate by reference the information contained in all other documents we file with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than portions of these documents that are either (1) described in paragraphs (i), (k) and (l) of Item 402 of Regulation S-K promulgated by the SEC or (2) furnished under Item 2.02, Item 7.01 or Item 8.01 of a Current Report on Form 8-K, unless otherwise indicated therein) after the date of this prospectus and prior to the termination of this offering. The information contained in any such document will be considered part of this prospectus from the date the document is filed with the SEC.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus will be deemed to be modified or superseded to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this prospectus modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We undertake to provide without charge to any person, including any beneficial owner, to whom a copy of this prospectus is delivered, upon oral or written request of such person, a copy of any or all of the documents that have been incorporated by reference in this prospectus, other than exhibits to such other documents (unless such exhibits are specifically incorporated by reference therein). We will furnish any exhibit upon the payment of a specified reasonable fee, which fee will be limited to our reasonable expenses in furnishing such exhibit. Requests for such copies should be directed to Richard B. West, Packaging Corporation of America, 1900 West Field Court, Lake Forest, Illinois 60045, (847) 482-2191.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement or the accompanying prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of its date.

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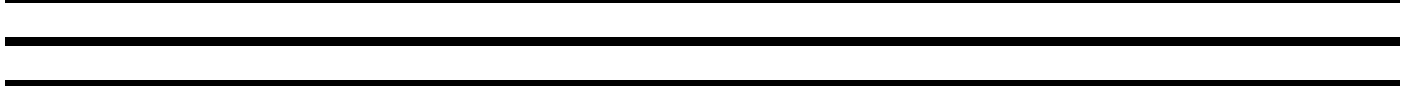
15,500,000 Shares

**Packaging Corporation  
of America**

**Common Stock**

**Goldman, Sachs & Co.**

**JPMorgan**



QuickLinks

Filed Pursuant to Rule 424(b)(4) Registration No. 333-130224

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\$ \$3

**Non-current accounts payable:**

Telecom Italia Sparkle S.p.A. (b)

\$ \$22

Latin American Nautilus Argentina S.A. (b)

2 \$ \$24



**Table of Contents****TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Consolidated Financial Statements**

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

**7 Related party transactions (continued)**

		Years ended December 31,		
Transaction description		2010	2009	2008
<b>Services rendered:</b>				
TIM Participacoes S.A. (b)	Roaming	\$ 16	\$ 12	\$ 14
Telecom Italia Sparkle S.p.A. (b) (c)	International inbound calls	11	9	7
Telecom Italia S.p.A. (b)	Roaming	5	7	6
Latin American Nautilus Ltd. (b)	International inbound calls	1		
Latin American Nautilus Argentina S.A. (b)	International inbound calls and roaming		1	1
Caja de Seguros S.A. (a)	Others	19	2	
Standard Bank (a)	Others	13	9	5
Standard Bank (a)	Interest	2	3	
Standard Bank (a)	Loss on derivatives	(12)	(9)	
Nortel S.A	Interest	1	2	1
<b>Total services rendered</b>		<b>\$ 56</b>	<b>\$ 36</b>	<b>\$ 34</b>
<b>Services received:</b>				
Latin American Nautilus Ltd. (b) . (c)	International inbound calls and data	\$ (60)	\$	\$
Telecom Italia Sparkle S.p.A. (b) (c)	International outbound calls and others	(32)	(75)	(41)
Telecom Italia S.p.A. (b)	Fees for services and roaming	(20)	(27)	(14)
Grupo Italtel (b) (d)	Maintenance, materials and supplies	(23)		(6)
Etec S.A. (b) (e)	International outbound calls	(11)	(7)	(4)
TIM Participacoes S.A. (b)	Roaming	(7)	(7)	(5)
Latin American Nautilus Argentina S.A. (b)	International outbound calls	(6)	(4)	(4)
Latin American Nautilus USA Inc. (b)	International outbound calls	(3)	(6)	(2)
Entel S.A. (Bolivia) (b)	International outbound calls			(1)
La Caja Aseguradora de Riesgos del Trabajo ART S.A. (a)	Salaries and social security	(21)	(13)	(10)
Caja de Seguros S.A. (a)	Insurance	(8)	(5)	(3)
La Estrella Cía de Seguros de retiro S.A. (a)	Insurance	(2)	(2)	(1)
<b>Total services received</b>		<b>\$ (193)</b>	<b>\$ (146)</b>	<b>\$ (91)</b>
<b>Purchases of fixed assets/intangible assets:</b>				
Grupo Italtel (b) (d)		\$ 14	\$	\$ 111
Telecom Italia S.p.A. (b)			1	1
Latin American Nautilus Ltd. (b)			11	4

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Latin American Nautilus Argentina S.A. (b)	1	2
Telecom Italia Sparkle S.p.A. (b) (c)		33
Latin American Nautilus USA Inc. (b)		1

<b>Total fixed assets and intangible assets</b>	<b>\$ 14</b>	<b>\$ 13</b>	<b>\$ 152</b>
---	--------------	--------------	---------------

- (a) Such companies relate to W de Argentina Inversiones S.L.
- (b) Such companies relate to Telecom Italia Group.
- (c) Since June 2010, Telecom Italia Sparkle S.p.A. has assigned to Latin American Nautilus Ltd. all existing agreements with Telecom Argentina.
- (d) This company ceased to be related party from January 2009 to September 2010.
- (e) This entity is no longer related party as from January 2011.

The transactions discussed above were made on terms no less favorable to the Company than would have been obtained from unaffiliated third parties. The Board of Directors approved transactions representing more than 1% of the total shareholders' equity of the Company, after being approved by the Audit Committee in compliance with Decree No. 677/01.

### (e) Merger of Cubecorp

In July 2008, Telecom Argentina acquired 100% of the shares of Cubecorp for approximately \$98. With this acquisition, Telecom Argentina strengthens its Data Center services, as the Data Center acquired is equipped with world class infrastructure, which permits to offer clients with high reliability, availability and scalability customized to their needs.

The Board of Directors of Telecom Argentina and Cubecorp held on September 10, 2008, and October 7, 2008, respectively, approved a Preliminary Agreement of Merger, by which Telecom Argentina would merge Cubecorp, effective January 1st, 2009.

In March 2009, the Board of Directors of Cubecorp and Telecom Argentina approved the Merger Agreement, by which both companies would merge (subject to the approval of the CNV and to the approval of the Shareholders' Meetings of Cubecorp and the Company), being the Company the continuing company and Cubecorp the dissolved without liquidation company. The CNV determined no legal or accounting observations for the merger and ordered the publication of the Merger Agreement in the Buenos Aires Stock Exchange's (the BCBA's) Daily Bulletin and in the CNV's website ([www.cnv.gob.ar](http://www.cnv.gob.ar), section Autopista de Información Financiera).



**Table of Contents****TELECOM ARGENTINA S.A.*****Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer*****Notes to the Consolidated Financial Statements**

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

**7 Related party transactions (continued)**

The Extraordinary Shareholders Meeting of Cubecorp held on March 19, 2009, and the Annual General Ordinary and Extraordinary Shareholders Meeting of Telecom Argentina held on April 28, 2010 approved the merger, the corresponding financial statements and, in the case of the Meeting of Cubecorp, the dissolution without liquidation of Cubecorp as provided by Law No. 19,550 section 94 art. 7. Additionally, the Final Merger Agreement with Cubecorp was authorized, effective January 1st, 2009. The period specified in the Law No. 19,550 section 83 was completed and the Final Merger Agreement was granted on June 2, 2010. On June 7, 2010, the process of registration of the merger with the CNV began, whose Board of Directors, on June 24, 2010, decided to hold the proceeding until the CNDC authorizes the acquisition of shares of Cubecorp by Telecom Argentina. For the purposes of its pronouncement on this last operation, the CNDC is awaiting the considered opinion that requested the SC in accordance with the provisions of Section 16 of Law No. 25,156. The unification of the activities had effect since January 1st, 2009, when the Company assumed the rendering of Cubecorp's services.

The relevance of the merger in the shareholders' equity, in accordance with the results of the Merger Special Consolidated Balance Sheet of Cubecorp and Telecom Argentina prepared as of December 31, 2008, with effect as from the first hour of January 1<sup>st</sup>, 2009, was the following:

	<b>Telecom Argentina</b>	<b>Cubecorp</b>	<b>Elimination</b>	<b>Merged balance sheet</b>
Current assets	1,141	10	(6)	<b>1,145</b>
Non-current investments Cubecorp	64		(64)	
Other non-current assets	5,888	69		<b>5,957</b>
<b>Total assets</b>	<b>7,093</b>	<b>79</b>	<b>(70)</b>	<b>7,102</b>
Current liabilities	2,391	5	(6)	<b>2,390</b>
Non-current liabilities	682	10		<b>692</b>
<b>Total liabilities</b>	<b>3,073</b>	<b>15</b>	<b>(6)</b>	<b>3,082</b>
<b>Shareholders' equity</b>	<b>4,020</b>	<b>64</b>	<b>(64)</b>	<b>4,020</b>
<b>Total liabilities and shareholders' equity</b>	<b>7,093</b>	<b>79</b>	<b>(70)</b>	<b>7,102</b>

**(f) Núcleo's voluntary capital reduction**

On June 5, 2009, Núcleo's General Extraordinary Shareholders Meeting approved the voluntary capital reduction in an amount of \$21, which was reimbursed to the shareholders in October 2009. This reduction resulted in a gain of \$13 included in the item line Gain on equity investees corresponding to the realization of the foreign currency translation adjustments originally included in the item line Other reserves in the Shareholders' equity.

**8 Debt****8.1. Short-term and long-term debt**

As of December 31, 2010 and 2009, the Company's short-term and long-term debt comprises the following:

	As of December 31, 2010	As of December 31, 2009
<b>Short-term debt:</b>		
Principal:		
Notes	\$	\$ 686
Issue discount and underwriting fees		(1)
Bank loans	31	72
Bank overdrafts	9	
Subtotal	40	757
Accrued interest	2	3
Derivatives		3
<b>Total short-term debt</b>	<b>\$ 42</b>	<b>\$ 763</b>
<b>Long-term debt:</b>		
Principal:		
Bank loans	\$ 121	\$ 58
<b>Total long-term debt</b>	<b>\$ 121</b>	<b>\$ 58</b>
<b>Total debt</b>	<b>\$ 163</b>	<b>\$ 821</b>

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(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

**8 Debt (continued)**

The following table segregates the Telecom Group's debt by company as of December 31, 2010 and 2009:

	Personal	Núcleo	Consolidated as of December 31, 2010	Personal	Núcleo	Consolidated as of December 31, 2009
<b>Principal</b>		161	<b>161</b>	685	130	<b>815</b>
<b>Accrued interest</b>		2	<b>2</b>	1	2	<b>3</b>
<b>Subtotal</b>		<b>163</b>	<b>163</b>	<b>686</b>	<b>132</b>	<b>818</b>
<b>Derivatives</b>				3		<b>3</b>
<b>Total debt</b>		<b>163</b>	<b>163</b>	<b>689</b>	<b>132</b>	<b>821</b>
<b>Short-term debt</b>		42	<b>42</b>	689	74	<b>763</b>
<b>Long-term debt</b>		121	<b>121</b>		58	<b>58</b>

**8.2. Restructured debt of the subsidiaries*****(a) Personal*****Notes**

On December 22, 2010, Personal fully cancelled its Notes issued under the Global Program for the Issuance of Notes for a maximum outstanding amount of U\$S 500 million or its equivalent in other currencies for a term of five years.

At the same date, Personal cancelled all the derivative instruments that had been held in relation to the above mentioned Notes (Note 4 s).

The Shareholders' Ordinary and Extraordinary Meeting of Personal held on December 2, 2010, approved the creation of a Global Program for the Issuance of Notes for a maximum outstanding amount of U\$S 500 million or its equivalent in other currencies for a term of five years. At the date of issuance of these financial statements, Personal is preparing the documentation required by the CNV to approve this program.

***(b) Núcleo******1. Bank loans***

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The following table shows the outstanding loans with banks with operations in Paraguay and the main terms as of December 31, 2010:

Nominal value			
(in million of			
Guaraníes)	Amortization term	Book value (in million of \$)	
		Current	Non-current
37,500	5 years	1	31
39,500	4 years	2	33
50,000	4 years	2	41
15,680	2 years	14	
32,650	2 years	12	16
175,330		31	121

The average annual rate of these loans is 9.2% in Guaraníes.

The terms and conditions of Núcleo's loans provide for certain events of default which are considered standard for these kinds of operations.

### 2. Bank overdrafts

At December 31, 2010, Núcleo has bank overdrafts amounting to \$9 (equivalent to Guaraníes 9,933 million). The average annual rate of these loans is 5.5% in Guaraníes.

## 9 Shareholders' equity

### (a) Common stock

At December 31, 2010, the Company had 502,034,299 authorized, issued and outstanding shares of \$1 par value Class A Common Stock (51% of the total capital stock), 440,910,912 shares of \$1 par value Class B Common Stock (44.79% of the total capital stock) and 41,435,767 shares of \$1 par value Class C Common Stock (4.21% of the total capital stock – see c below). Common stockholders are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders.

The Company's shares are authorized by the CNV, the BCBA and the New York Stock Exchange ( NYSE ) for public trading. Only 404,078,504 of Class B shares are traded since Nortel owns all of the outstanding Class A shares and 36,832,408 Class B shares; and Class C shares are dedicated to the employee stock ownership program, as described below.

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**TELECOM ARGENTINA S.A.**

***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***

**Notes to the Consolidated Financial Statements**

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

**9 Shareholders equity (continued)**

Each ADS represents 5 Class B shares and are traded on the NYSE under the ticker symbol TEO.

**(b) Restrictions on distribution of profits**

The Company is subject to certain restrictions on the distribution of profits. Under the Argentine Corporations Law, the by-laws of the Company and rules and regulations of the CNV, a minimum of 5% of net income for the year calculated in accordance with Argentine GAAP, plus/less previous years adjustments and accumulated losses, if any, must be appropriated by resolution of the shareholders to a legal reserve until such reserve reaches 20% of the outstanding capital (common stock plus inflation adjustment of common stock). When a company uses the legal reserve to absorb accumulated losses, it will not be able to distribute dividends until it restores the legal reserve.

Telecom Argentina's Annual General and Extraordinary Shareholders' Meeting held on April 28, 2010, approved the restoring of the legal reserve that has been absorbed in the fiscal year 2006.

**(c) Share ownership program**

In 1992, a decree from the Argentine Government, which provided for the creation of the Company upon the privatization of ENTel, established that 10% of the capital stock then represented by 98,438,098 Class C shares was to be included in the *Programa de Propiedad Participada* or PPP (an employee share ownership program sponsored by the Argentine Government). Pursuant to the PPP, the Class C shares were held by a trustee for the benefit of former employees of the state-owned company who remained employed by the Company and who elected to participate in the plan.

In 1999, Decree No. 1,623/99 of the Argentine Government eliminated the restrictions on some of the Class C shares held by the PPP, although it excluded Class C shares of the Fund of Guarantee and Repurchase subject to an injunction against their use. In March 2000, the shareholders meeting of the Company approved the conversion of up to unrestricted 52,505,360 Class C shares into Class B shares (these shares didn't belong to the Fund of Guarantee and Repurchase), most of which was sold in a secondary public offering in May 2000.

The Annual General and Extraordinary Meetings held on April 27, 2006, approved that the power for the conversion of up to 41,339,464 Class C ordinary shares into the same amount of Class B ordinary shares, be delegated to the Board of Directors. The conversion will take place based on: a) what is determined by Banco de la Ciudad de Buenos Aires (Fiduciary agent of PPP) as the case may be; and b) the amount of Class C shares eligible for conversion. As granted by the Meetings, the Board transferred the powers to convert the shares to some of the Board's members and/or the Company's executive officers. From the total shares eligible for conversion approved by the Shareholders' Meetings, 4,496,971 Class C ordinary shares were converted into Class B ordinary shares.

Class C shares of the Fund of Guarantee and Repurchase which were affected by an injunction measure recorded in file *Garcías de Vicchi, Amerinda y otros c/ Sindicación de Accionistas Clase C del Programa de Propiedad Participada* were not eligible for conversion to Class B. As of the date of these consolidated financial statements, the injunction was not released, although it is limited to the amount of 4,593,274 shares. 41,418,562 Class C shares are still part of the Fund of Guarantee and Repurchase and are subject to the injunction described above.

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In October 2009, the comptroller of the PPP, who was timely appointed by the National Court of Federal Civil and Commercial No.10, informed to Telecom Argentina that he intends to obtain the release of the injunctions affecting part of the shares included in the Fund of Guarantee and Repurchase. Likewise, on June 24, 2010, Telecom Argentina received a letter from the National Civil and Commercial Court of First Instance No. 10, Secretariat No. 20, recorded in file Arévalo, Pedro Diego y otros c / Fondo de Garantía y Recompra PPP de Telecom Argentina s/ División de condominio , which orders to Telecom Argentina s Board of Directors the conversion of 4,000,000 Class C shares into Class B shares. Following this court order, the Board of Directors of Telecom Argentina, requested and obtained the authorization from the BCBA and the CNV for the conversion of such shares. It is currently pending that the shares to be converted were nominated on behalf of the file Arévalo, Pedro Diego y otros c / Fondo de Garantía y Recompra PPP de Telecom Argentina s/ División de condominio and under the officiating court order, on the Registro de Acciones of the Caja de Valores to complete the conversion process.

**Table of Contents****TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Consolidated Financial Statements**

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

**10. Income tax**

As describe in Note 4.o, the Company accounts for income taxes in accordance with the guidelines of RT 17.

Income tax payable as of December 31, 2010 and 2009 consists of the following:

	As of December 31, 2010				As of December 31, 2009	
	Telecom Argentina	Personal	Núcleo	Telecom USA	Total	
Income tax provision	\$ 405	\$ 662	\$ 4	\$	\$ 1,071	\$ 797
Payments in advance of income taxes	(212)	(367)	(5)		(584)	(346)
Credit on minimum presumed income tax						(23)
Law No. 26,476 Tax Regularization Regime	3				3	3
<b>Current Income tax payable (receivable)</b>	<b>196</b>	<b>295</b>	<b>(*) (1)</b>		<b>490</b>	<b>431</b>
Non current net deferred tax liabilities	106	27	5	2	140	199
Law No. 26,476 Tax Regularization Regime	14				14	13
<b>Non current Income tax payable</b>	<b>120</b>	<b>27</b>	<b>5</b>	<b>2</b>	<b>154</b>	<b>212</b>
<b>Total Income tax liabilities, net</b>	<b>\$ 316</b>	<b>\$ 322</b>	<b>\$ 4</b>	<b>\$ 2</b>	<b>\$ 644</b>	<b>\$ 643</b>

(\*) Núcleo's receivable is included in Other receivables current Tax credits.

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and liabilities are presented below:

	As of December 31, 2010				As of December 31, 2009	
	Telecom Argentina	Personal	Núcleo	Telecom USA	Total	
Tax loss carryforwards	\$	\$ 1	\$	\$	\$ 1	\$ 1
Allowance for doubtful accounts	22	26	1		49	55
Provision for contingencies	173	68			241	184
Inventories		13			13	20
Other deferred tax assets	91	7			98	73
<b>Total deferred tax assets</b>	<b>286</b>	<b>115</b>	<b>1</b>		<b>402</b>	<b>333</b>

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Fixed assets	(73)	(120)	9	(2)	(186)	(142)
Inflation adjustments (i)	(319)	(6)	(15)		(340)	(377)
<b>Total deferred tax liabilities</b>	<b>(392)</b>	<b>(126)</b>	<b>(6)</b>	<b>(2)</b>	<b>(526)</b>	<b>(519)</b>
<b>Subtotal net deferred tax liabilities</b>	<b>(106)</b>	<b>(11)</b>	<b>(5)</b>	<b>(2)</b>	<b>(124)</b>	<b>(186)</b>
Valuation allowance (Note 15.e)		(16)			(16)	(13)
<b>Net deferred tax liabilities as of December 31, 2010</b>	<b>\$ (106)</b>	<b>\$ (27)</b>	<b>\$ (5)</b>	<b>\$ (2)</b>	<b>\$ (140)</b>	
<b>Net deferred tax liabilities as of December 31, 2009</b>	<b>\$ (187)</b>	<b>\$ (10)</b>	<b>\$</b>	<b>\$ (2)</b>	<b>\$</b>	<b>(199)</b>

(i) Mainly related to inflation adjustment on fixed assets, intangibles and other assets for financial reporting purposes. As of December 31, 2010, the Company has accumulated an operating tax loss carryforward of \$1 which expiration year is 2011.

Income tax benefit (expense) for the years ended December 31, 2010, 2009 and 2008 consists of the following:

	Year ended December 31, 2010				
	Telecom Argentina	Personal	Núcleo	Telecom USA	Total
Current tax expense	\$ (408)	\$ (655)	\$ (4)	\$	\$ (1,067)
Deferred tax benefit (expense)	84	(17)	(7)		60
Valuation allowance (Note 15.e)		(3)			(3)
<b>Income tax expense</b>	<b>\$ (324)</b>	<b>\$ (675)</b>	<b>\$ (11)</b>	<b>\$</b>	<b>\$ (1,010)</b>

	Year ended December 31, 2009				
	Telecom Argentina	Personal	Núcleo	Telecom USA	Total
Current tax expense	\$ (301)	\$ (511)	\$ (6)	\$	\$ (818)
Deferred tax benefit (expense)	31	(6)	(1)	(1)	23
Valuation allowance (Note 15.e)		(2)			(2)
<b>Income tax expense</b>	<b>\$ (270)</b>	<b>\$ (519)</b>	<b>\$ (7)</b>	<b>\$ (1)</b>	<b>\$ (797)</b>

	Year ended December 31, 2008				
	Telecom Argentina	Personal	Núcleo	Telecom USA	Total
Current tax expense	\$ (238)	\$ (390)	\$ (7)	\$	\$ (635)
Deferred tax benefit	93	2	3		98
Valuation allowance	2				2
<b>Income tax expense</b>	<b>\$ (143)</b>	<b>\$ (388)</b>	<b>\$ (4)</b>	<b>\$</b>	<b>\$ (535)</b>



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**10. Income tax (continued)**

Income tax expense for the years ended December 31, 2010, 2009 and 2008 differed from the amounts computed by applying the Company's statutory income tax rate to pre-tax income as a result of the following:

	<b>Argentina</b>	<b>International</b>	<b>Total</b>
Pre-tax income on a separate return basis	\$ 4,060	\$ 66	\$ 4,126
Non taxable items Gain on equity investees	(1,274)		(1,274)
Non taxable items Other	9	33	42
Subtotal	2,795	99	2,894
Statutory income tax rate	35%	(*)	
<b>Income tax expense at statutory tax rate</b>	<b>(978)</b>	<b>(10)</b>	<b>(988)</b>
Change in deferred assets and liabilities	(18)		(18)
Change in valuation allowance (Note 15.e)	(3)	(1)	(4)
<b>Income tax expense as of December 31, 2010</b>	<b>\$ (999)</b>	<b>\$ (11)</b>	<b>\$ (1,010)</b>
Pre-tax income on a separate return basis	\$ 3,130	\$ 53	\$ 3,183
Non taxable items Gain on equity investees	(978)		(978)
Non taxable items Other	24	20	44
Subtotal	2,176	73	2,249
Statutory income tax rate	35%	(*)	
<b>Income tax expense at statutory tax rate</b>	<b>(762)</b>	<b>(8)</b>	<b>(770)</b>
Change in deferred assets and liabilities	(6)		(6)
Law No. 26,476 Tax Regularization Regime	(19)		(19)
Change in valuation allowance (Note 15.e)	(2)		(2)
<b>Income tax expense as of December 31, 2009</b>	<b>\$ (789)</b>	<b>\$ (8)</b>	<b>\$ (797)</b>
Pre-tax income on a separate return basis	\$ 2,186	\$ 39	\$ 2,225
Non taxable items Gain on equity investees	(731)		(731)
Non taxable items Other	48	(15)	33
Subtotal	1,503	24	1,527
Statutory income tax rate	35%	(*)	

<b>Income tax expense at statutory tax rate</b>	<b>(527)</b>	<b>(2)</b>	<b>(529)</b>
Additional income tax from cash dividends paid by foreign companies	(6)	(2)	(8)
Change in valuation allowance	2		2
<b>Income tax expense as of December 31, 2008</b>	<b>\$ (531)</b>	<b>\$ (4)</b>	<b>\$ (535)</b>

(\*) The statutory tax rate in Paraguay was 10% plus an additional rate of 5% in case of payment of dividends, in the USA the effective tax rate was 34% and in Uruguay the statutory tax rate was 25%.

## 11. Commitments and contingencies

### (a) Purchase commitments

The Company has entered into various purchase orders amounting in the aggregate to approximately \$1,676 as of December 31, 2010, primarily related to the supply of switching equipment, external wiring, infrastructure agreements, inventory and other service agreements. This amount also includes the commitments mentioned in c) and d) below.

### (b) Investment commitments

In August 2003, Telecom Argentina was notified by the SC of a proposal for the creation of a \$70-million fund (the Complejo Industrial de las Telecomunicaciones 2003 or 2003 Telecommunications Fund) to be funded by the major telecommunication companies and aimed at developing the telecommunications sector in Argentina. Banco de Inversion y Comercio Exterior ( BICE ) was designated as Trustee of the Fund.

In November 2003, the Company contributed \$1.5 at the inception of the Fund. In addition, management announced that it is the Company's intention to promote agreements with local suppliers which would facilitate their access to financing.

### (c) Commitments and contingencies assumed by Telecom Argentina from the sale of Publicom

On March 29, 2007, Telecom Argentina's Board of Directors approved the sale of its equity interest in Publicom to Yell Publicidad S.A. (a company incorporated in Spain, member of the Yell Group *Grupo Yell*), which was executed on April 12, 2007 (the Closing Date).

A series of declarations and guarantees, standard for this type of transactions, assumed by Telecom Argentina towards the buyer with respect to Publicom and to itself and others assumed by the buyer towards Telecom Argentina and towards itself are included in the contract. Reciprocal obligations and commitments are also set forth, between Telecom Argentina and the buyer.

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**11. Commitments and contingencies (continued)**

It has been ruled that Telecom Argentina shall indemnify and shall hold the buyer harmless from any and all damages that might result from:

- (i) Any claim addressed to the buyer by third parties in which the owner's equity, entitlement to inherent rights and /or unrestricted disposal of shares is successfully objected;
- (ii) Damages and losses of equity derived from incorrectness or inaccuracy of the declarations and guarantees;
- (iii) Damages and losses of equity derived from the non-fulfillment of the obligations and commitments undertaken by Telecom Argentina.

These indemnities granted by Telecom Argentina have time as well as economic limits.

On Closing Date and after the stock transfer was actually performed, Publicom accepted a proposal from Telecom Argentina. According to said proposal, Telecom Argentina:

engages Publicom to publish Telecom Argentina's directories ( white pages ) for a 5-year period, which may be extended upon expiry date;

engages Publicom to distribute Telecom Argentina's white pages for a 20-year period, which may be extended upon expiry date;

engages Publicom to maintain the Internet portal, which allows to access the white pages through the web, for a 20-year period, term which may be extended upon expiry date;

grants Publicom the right to lease advertising spaces on the white pages for a 20-year period, which may be extended upon expiry date; and

authorizes the use of certain trademarks for the distribution and/or consultation on the Internet and/or advertising spaces agreements for the same specified period.

Telecom Argentina reserves the right to supervise certain matters associated with white pages publishing and distribution activities that allow Telecom Argentina to assure the fulfillment of its regulatory obligations during the term of the proposal. The terms and conditions of the proposal include usual provisions that allow Telecom Argentina to apply economic sanctions in the case of non-compliance, and in the case of serious non-compliance, allow Telecom Argentina to require an early termination. In the latter case, the Company could enter into an agreement with other providers.

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The proposal set prices for the publishing, printing and distribution of the 2007 directories, and provided clauses for the subsequent editions in order to ensure Telecom Argentina that said services will be contracted at market price.

Telecom Argentina shall continue to include in its own invoices the amounts to be paid by its customers to Publicom for the contracted services or those that may be contracted in the future, and subsequently collect the amounts for said services on behalf and to the order of Publicom, without absorbing any delinquency.

### **(d) Commitments assumed by Núcleo**

During September and October 2010, the CONATEL awarded Núcleo a public bidding for the implementation of the expansion of the infrastructure of networks used as platform for the mobile telephony access services and the basic service in areas of public or social interest in Paraguay.

Núcleo commits to install and render satisfactorily functioning all the assets and services covered by the bidding, by means of an approximate investment of \$16 (which was fully completed in the fiscal year 2010), of which \$11 will be subsidized by the CONATEL.

At the date of issuance of these consolidated financial statements, the CONATEL has disbursed the first installment of \$3. The works are in the final stage and are expected to be finished in March 2011.

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**11. Commitments and contingencies (continued)**

**(e) Contingencies**

The Company is a party to several civil, tax, commercial, labor and regulatory proceedings and claims that have arisen in the ordinary course of business. In order to determine the proper level of reserves relating to these contingencies, the Management of the Company, based on the opinion of its internal and external legal counsel, assesses the likelihood of any adverse judgments or outcomes related to these matters as well as the range of probable losses that may result from the potential outcomes. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual case. The determination of the required reserves may change in the future due to new developments or changes as a matter of law or legal interpretation. Consequently, as of December 31, 2010, the Company has established reserves in an aggregate amount of \$690 to cover potential losses under these claims (\$90 for regulatory contingencies deducted from assets and \$600 included under liabilities) and certain amounts deposited in the Company's bank accounts have been restricted as to their use due to some judicial proceedings. As of December 31, 2010, these restricted funds totaled \$46 (included in the caption Other receivables).

Below is a summary of the most significant claims and legal actions for which reserves have been established:

**Profit sharing bonds**

In August 2008, the Supreme Court of Justice, when resolving a case against Telefónica, found the Decree No. 395/92 unconstitutional. Different legal actions were brought, mainly by former employees of the Company against the National Government and the Company, requesting that Decree No. 395/92 which expressly exempted the Company from issuing the profit sharing bonds provided in Law No. 23,696 be struck down as unconstitutional and, therefore, claiming compensation for the damages they had suffered because such bonds had not been issued.

In those suits for which judgment has already been rendered, the trial court judges hearing the matter resolved to dismiss the actions brought relying on arguments made by each case's respective prosecutors pointing that such rule was valid and constitutional. However, and based on the National Supreme Court of Justice's judgment on this matter, the three Divisions of the Courts of Appeal ruled that Decree No. 395/92 was unconstitutional.

In order to defend its rights, the Company filed various appeals against these unfavorable decisions, and although said decisions have not been reviewed by the National Supreme Court of Justice, it should be noted that the abovementioned ruling of the Supreme Court on the case against Telefónica has created a judicial precedent that, in the opinion of the legal counsel of the Company, increases the probability that the Company has to face certain contingencies as a result of an adverse ruling, notwithstanding the right of reimbursement that attends Telecom Argentina against the National State.

Said Court decision found the abovementioned decree unconstitutional and ordered to send the proceedings back to the court of origin so that said court could decide on which was the subject compelled to pay licensee and/or National Government and the parameters that were to be taken into account in order to quantify the complaints set forth therein (percentage of profit sharing, status of limitation, distribution method between the beneficiaries of the program).

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As of December 31, 2010, the management of the Company, with the aid of its legal counsel, has recorded provisions for contingencies that it estimates are sufficient to cover the risks associated with these claims, having considered the legal background up to the date of issuance of these consolidated financial statements.

### Wage differences by food vouchers and non-remunerative lump sum

The Company is subject to various lawsuits initiated by some employees and former employees who claim wage differences caused by the impact of the concepts non-remunerative lump sum and food vouchers over the settlement of items such as overtime, productivity, vacation, supplementary annual salary and other additional benefits provided by the Collective Bargaining Agreement.

In this regard, the Supreme Court of Justice has recognized that food vouchers are remunerative and are part of the employees' compensations, declaring the unconstitutionality of Sect. 103 bis, inc. C of the Employment Contract Act (which gives them the character of social benefits). Considering these judicial precedents, at December 31, 2010, the Management of the Company, with the aid of its legal counsel, has recorded a provision for contingencies that it estimates is sufficient to cover the risks associated with these claims at the date of issue of these consolidated financial statements.

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**11. Commitments and contingencies (continued)**

In addition, the Company is subject to other claims and legal actions that have arisen in the ordinary course of business. Although there can be no assurance as to the ultimate disposition of these matters, it is the opinion of the Management of the Company, based upon the information available at this time and consultation with external and internal legal counsel, that the expected outcome of these other claims and legal actions, individually or in the aggregate, will not have a material effect on the Company's financial position or results of operations. Accordingly, no reserves have been established for the outcome of these actions.

Below is a summary of the most significant other claims and legal actions for which reserves have not been established:

**Labor proceedings**

Based on a legal theory of successor company liability, Telecom Argentina has been named as a co-defendant with ENTEL in several labor lawsuits brought by former employees of ENTEL against the state-owned company. The Transfer Agreement provided that ENTEL and the Argentine Government, and not the Company, are liable for all amounts owed in connection with claims brought by former ENTEL employees, whether or not such claims were made prior to the Transfer Date, if the events giving rise to such claims occurred prior to the Transfer Date.

ENTEL and the Argentine Government have agreed to indemnify and hold the Company harmless in respect of such claims. Under current Argentine legislation, the Argentine Government may settle any amounts payable to the Company for these claims through the issuance of treasury bonds. As of December 31, 2010, total claims in these labor lawsuits amounted to \$9.

**Tax matters**

In December 2001, the AFIP made an additional income tax claim on the amortization period utilized by Telintar to depreciate its optic fiber network in submarine cables. Telintar was dissolved and merged in equal parts into Telecom Argentina Internacional S.A. and Telefónica Larga Distancia de Argentina S.A., entities controlled by Telecom Argentina and Telefónica, respectively. Telecom Argentina Internacional S.A. was subsequently merged with and into Telecom Argentina in September 1999.

In July 2005, the National Fiscal Court resolved against Telecom Argentina ratifying the tax assessment relating to additional taxes, although it excluded interest and penalties. On the same grounds as described in the above paragraph, during the third quarter of 2005, Telecom Argentina recorded a current tax liability amounting to \$0.5 against income taxes in the statement of income. Telecom Argentina and Telefónica appealed this judgment before the corresponding Federal Court. In June 2009, the Court revoked the ruling of the Fiscal Court and nullified the tax assessment that had been appealed. The Tax Authority has filed an appeal before the National Supreme Court of Justice.

The management of the Company together with its legal counsel believes it has meritorious legal defenses to these unfavorable judgments and that the ultimate outcome of these cases will not result in an incremental adverse impact on Telecom Argentina's results of operations and financial condition.

In December 2006, the AFIP assessed additional income tax and tax on minimum presumed income for the 2000 and 2001 tax years claiming that Personal incorrectly deducted certain uncollectible receivables. Personal appealed this assessment with the National Fiscal Tribunal. The AFIP's claim is contrary to certain jurisprudential precedents by the National Fiscal Tribunal. Consequently, Personal and its legal counsel

believe that the matter will be resolved in its favor when the appeal process is completed.



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**11. Commitments and contingencies (continued)**

*Other claims*

*Consumer Trade Union Proceedings*

In November 1995, Telecom Argentina was served with notice of a complaint filed by a consumer trade union, Consumidores Libres Cooperativa Limitada de Provisión de Servicios Comunitarios, against Telecom Argentina, Telefónica, Telintar and the Argentine Government. The suit seeks to declare null, illegal and unconstitutional all tariff rules and agreements as of the Transfer Agreement and to reduce the tariffs of the licensees so as to obtain a return rate not in excess of an annual 16% on fixed assets as described in the List of Conditions. Furthermore, the complaint seeks reimbursement of sums allegedly received in excess of the 16% return rate as well as sums resulting from the reduction in the rate of turnover tax for the city of Buenos Aires.

In October 2001, the Federal Court of Appeals for Contentious and Administrative Matters issued a precautionary measure suspending the ability of telecommunications companies to increase tariffs by reference to the U.S. consumer price index. However, the Public Emergency Law and the reformation of the exchange regime have had an analogous result to that proposed by the precautionary measure, by prohibiting, as of January 6, 2002, contracts held with the public administration, including public work and services contracts, from being adjusted to dollars or other foreign currencies. A decision of the Court of Appeals is still pending.

Additionally, upon the extension of the exclusivity period for the provision of telecommunication services, the same consumer group filed a new lawsuit in Argentine federal courts against the service providers and the Argentine Government. Plaintiffs are seeking damages, an injunction revoking the licenses granted to telecommunication service providers and termination of the exclusivity period. This case is currently in a preliminary stage.

*Users and Consumer Trade Union Proceedings*

In August 2003, another consumer group filed suit against Telecom Argentina in Argentine federal court alleging the unconstitutionality of certain resolutions issued by the SC. These resolutions had amended a prior resolution which prescribed the way service providers had to refund customers for additional charges included in monthly fixed-line service fees. The amendment was intended to establish another method of refunding customers due to practical reasons. Telecom Argentina complied with the amended resolution and provided refunds to customers. The case is ready for sentence, but Telecom Argentina does not believe it has merit and will contest it vigorously. Telecom Argentina is unable, however, to predict the outcome of this proceeding, or reasonably estimate a range of possible loss given the current status of the litigation.

**12. Segment information**

Operating segments are revenue-producing components of the enterprise for which separate financial information is produced internally for management. Under this definition, the Company conducts its business through five legal entities which represent five operating segments. Under Argentine GAAP, these operating segments have been aggregated into reportable segments according to the nature of the products and services provided. The Company manages its segments to the net income (loss) level of reporting.

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Telecom Argentina and its subsidiaries conform the following reportable segments:

<b>Reportable segment</b>	<b>Services provided</b>	<b>Consolidated company/ Operating segment</b>
<b>Fixed Telephony</b>	<b>Voice, data and Internet</b>	Telecom Argentina Telecom USA Micro Sistemas (i)
<b>Mobile Services</b>	<b>Voice, data and Mobile Internet</b>	Personal Núcleo Springville (i)

(i) Dormant entity at December 31, 2010, 2009 and 2008.

The accounting policies of the operating segments are the same as those described in Note 4. Intercompany sales have been eliminated.

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**12. Segment information (continued)**

For the years ended December 31, 2010, 2009 and 2008, 96% of the Company's revenues were from sales generated in Argentina. More than 92% of the Company's fixed assets are in Argentina. Segment financial information was as follows:

*For the year ended December 31, 2010***Income statement information**

	<b>Fixed telephony (a)</b>	<b>Personal</b>	<b>Móvil Núcleo</b>	<b>Subtotal</b>	<b>Total</b>
Services	4,584	8,483	530	9,013	13,597
Equipment sales	56	1,018	8	1,026	1,082
<b>Net sales</b>	<b>4,640</b>	<b>9,501</b>	<b>538</b>	<b>10,039</b>	<b>14,679</b>
Salaries and social security	(1,412)	(423)	(45)	(468)	(1,880)
Taxes	(308)	(934)	(19)	(953)	(1,261)
Maintenance, materials and supplies	(472)	(204)	(32)	(236)	(708)
Bad debt expense	(24)	(92)	(3)	(95)	(119)
Interconnection costs	(197)				(197)
Cost of international outbound calls	(134)				(134)
Lease of circuits	(87)	(33)	(27)	(60)	(147)
Fees for services	(240)	(400)	(23)	(423)	(663)
Advertising	(142)	(270)	(39)	(309)	(451)
Agent commissions and distribution of prepaid cards commissions	(58)	(950)	(41)	(991)	(1,049)
Other commissions	(62)	(162)	(13)	(175)	(237)
Roaming		(194)	(6)	(200)	(200)
Charges for TLRD		(660)	(52)	(712)	(712)
Cost of sales	(45)	(1,463)	(33)	(1,496)	(1,541)
Others	(380)	(408)	(37)	(445)	(825)
<b>Operating income before depreciation and amortization</b>	<b>1,079</b>	<b>3,308</b>	<b>168</b>	<b>3,476</b>	<b>4,555</b>
Depreciation of fixed assets and amortization of intangible assets	(719)	(530)	(105)	(635)	(1,354)
<b>Operating income</b>	<b>360</b>	<b>2,778</b>	<b>63</b>	<b>2,841</b>	<b>3,201</b>
Financial results, net	74	(117)	9	(108)	(34)
Other expenses, net	(213)	(103)	(1)	(104)	(317)

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<b>Net income before income tax and noncontrolling interest</b>	221	2,558	71	2,629	2,850
Income tax expense, net	(324)	(675)	(11)	(686)	(1,010)
Noncontrolling interest			(19)	(19)	(19)
<b>Net (loss) income</b>	(103)	1,883	41	1,924	1,821

- (a) Includes net sales of \$48, operating income before depreciation of \$15, operating profit of \$11 and net income of \$11 corresponding to Telecom USA.

.. **Balance sheet information**

<b>Fixed assets, net</b>	4,411	2,439	629	<b>3,068</b>	<b>7,479</b>
<b>Intangible assets, net</b>	171	591	7	<b>598</b>	<b>769</b>
<b>Capital expenditures (without ARO and debt issue costs)</b>	1,048	791	185	<b>976</b>	<b>2,024</b>
<b>Depreciation of fixed assets</b>	(698)	(b) (529)	(104)	<b>(633)</b>	<b>(1,331)</b>
<b>Amortization of intangible assets (without debt issue costs)</b>	(21)	(1)	(1)	<b>(2)</b>	<b>(23)</b>
<b>Net financial asset (debt)</b>	874	(b) 504	(154)	<b>350</b>	<b>1,224</b>

- (b) In Depreciation of fixed assets, includes \$(1) from Springville; in Net financial asset, includes \$2 of Cash and banks from Springville.

.. Cash flow information

<b>Cash flows provided by operating activities</b>	<b>1,588</b>	<b>1,974</b>	<b>176</b>	<b>2,150</b>	<b>3,738</b>
<b><u>Cash flows from investing activities</u></b>					
Acquisition of fixed assets and intangible assets	(831)	(801)	(198)	(999)	(1,830)
Decrease in investments not considered as cash and cash equivalents and other	10	15		15	25
Inter-segment transfers of cash	4	(4)		4	
<b>Total cash flows used in investing activities</b>	<b>(817)</b>	<b>(790)</b>	<b>(198)</b>	<b>(988)</b>	<b>(1,805)</b>
<b><u>Cash flows from financing activities</u></b>					
Debt proceeds			200	200	200
Payment of debt		(718)	(172)	(890)	(890)
Payment of interest and debt-related expenses		(63)	(15)	(78)	(78)
Cash dividends paid	(1,053)				(1,053)
Inter-segment transfers of cash	575	(575)		(575)	
<b>Total cash flows used in financing activities</b>	<b>(478)</b>	<b>(1,356)</b>	<b>(13)</b>	<b>(1,343)</b>	<b>(1,821)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>293</b>	<b>(172)</b>	<b>(9)</b>	<b>(181)</b>	<b>112</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>579</b>	<b>676</b>	<b>18</b>	<b>694</b>	<b>1,273</b>
<b>Cash and cash equivalents at year end</b>	<b>872</b>	<b>(b) 504</b>	<b>9</b>	<b>513</b>	<b>1,385</b>

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(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

**12. Segment information (continued)***For the year ended December 31, 2009***Income statement information**

	Fixed telephony (a)	Personal	Núcleo	Subtotal	Total
Services	4,114	6,832	435	7,267	11,381
Equipment sales	43	796	6	802	845
<b>Net sales</b>	<b>4,157</b>	<b>7,628</b>	<b>441</b>	<b>8,069</b>	<b>12,226</b>
Salaries and social security	(1,151)	(314)	(39)	(353)	(1,504)
Taxes	(266)	(716)	(17)	(733)	(999)
Maintenance, materials and supplies	(408)	(165)	(24)	(189)	(597)
Bad debt expense	(33)	(96)	(2)	(98)	(131)
Interconnection costs	(180)				(180)
Cost of international outbound calls	(152)				(152)
Lease of circuits	(83)	(34)	(25)	(59)	(142)
Fees for services	(214)	(270)	(16)	(286)	(500)
Advertising	(118)	(216)	(26)	(242)	(360)
Agent commissions and distribution of prepaid cards commissions	(50)	(794)	(34)	(828)	(878)
Other commissions	(55)	(128)	(7)	(135)	(190)
Roaming		(164)	(4)	(168)	(168)
Charges for TLRD		(675)	(55)	(730)	(730)
Cost of sales	(46)	(1,082)	(9)	(1,091)	(1,137)
Others	(322)	(308)	(28)	(336)	(658)
<b>Operating income before depreciation and amortization</b>	<b>1,079</b>	<b>2,666</b>	<b>155</b>	<b>2,821</b>	<b>3,900</b>
Depreciation of fixed assets and amortization of intangible assets	(663)	(381)	(94)	(475)	(1,138)
<b>Operating income</b>	<b>416</b>	<b>2,285</b>	<b>61</b>	<b>2,346</b>	<b>2,762</b>
Gain on equity investees		13		13	13
Financial results, net	(172)	(150)	(7)	(157)	(329)
Other expenses, net	(148)	(79)	(2)	(81)	(229)
<b>Net income before income tax and noncontrolling interest</b>	<b>96</b>	<b>2,069</b>	<b>52</b>	<b>2,121</b>	<b>2,217</b>
Income tax, net	(271)	(519)	(7)	(526)	(797)

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Noncontrolling interest			(15)	(15)	(15)
<b>Net (loss) income</b>	<b>(175)</b>	<b>1,550</b>	<b>30</b>	<b>1,580</b>	<b>1,405</b>

- (a) Includes net sales of \$42, operating income before depreciation of \$15, operating profit of \$11 and net income of \$10 corresponding to Telecom USA.

.. **Balance sheet information**

<b>Fixed assets, net</b>	4,176	(b) 2,192	471	<b>2,663</b>	<b>6,839</b>
<b>Intangible assets, net</b>	176	594	3	<b>597</b>	<b>773</b>
<b>Capital expenditures (without ARO and debt issue costs)</b>	915	(b) 790	116	<b>906</b>	<b>1,821</b>
<b>Depreciation of fixed assets</b>	(646)	(379)	(94)	<b>(473)</b>	<b>(1,119)</b>
<b>Amortization of intangible assets (without debt issue costs)</b>	(17)	(2)		<b>(2)</b>	<b>(19)</b>
<b>Net financial asset (debt)</b>	579	(b) 4	(114)	<b>(110)</b>	<b>469</b>

- (b) In Fixed assets, net and Capital expenditures, includes \$1 from Springville; in Net financial asset, includes \$2 of Cash and banks from Springville.

Cash flow information

<b>Cash flows provided by operating activities</b>	<b>1,607</b>	<b>1,549</b>	<b>132</b>	<b>1,681</b>	<b>3,288</b>
<b><u>Cash flows from investing activities</u></b>					
Acquisition of fixed assets and intangible assets	(852)	(566)	(73)	(639)	(1,491)
Decrease (increase) in investments not considered as cash and cash equivalents and other	268	(8)		(8)	260
<b>Total cash flows used in investing activities</b>	<b>(584)</b>	<b>(574)</b>	<b>(73)</b>	<b>(647)</b>	<b>(1,231)</b>
<b><u>Cash flows from financing activities</u></b>					
Debt proceeds		218	143	361	361
Payment of debt	(1,442)	(293)	(117)	(410)	(1,852)
Payment of interest and debt-related expenses	(84)	(71)	(13)	(84)	(168)
Cash dividends paid			(19)	(19)	(19)
Payment of capital reimbursement of Núcleo			(8)	(8)	(8)
Inter-segment transfers of cash	730	(697)	(33)	(730)	
<b>Total cash flows used in financing activities</b>	<b>(796)</b>	<b>(843)</b>	<b>(47)</b>	<b>(890)</b>	<b>(1,686)</b>
<b>Increase in cash and cash equivalents</b>	<b>227</b>	<b>132</b>	<b>12</b>	<b>144</b>	<b>371</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>352</b>	<b>544</b>	<b>6</b>	<b>550</b>	<b>902</b>
<b>Cash and cash equivalents at year end</b>	<b>579</b>	<b>(b) 676</b>	<b>18</b>	<b>694</b>	<b>1,273</b>



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**12. Segment information (continued)***For the year ended December 31, 2008***Income statement information**

	Fixed telephony (a)	Personal	Mobile services Núcleo	Subtotal	Total
Services	3,612	5,853	382	6,235	9,847
Equipment sales	41	712	8	720	761
<b>Net sales</b>	<b>3,653</b>	<b>6,565</b>	<b>390</b>	<b>6,955</b>	<b>10,608</b>
Salaries and social security	(931)	(256)	(30)	(286)	(1,217)
Taxes	(230)	(590)	(12)	(602)	(832)
Maintenance, materials and supplies	(371)	(137)	(20)	(157)	(528)
Bad debt expense	(10)	(55)	(2)	(57)	(67)
Interconnection costs	(156)				(156)
Cost of international outbound calls	(145)				(145)
Lease of circuits	(67)	(38)	(19)	(57)	(124)
Fees for services	(181)	(208)	(11)	(219)	(400)
Advertising	(137)	(224)	(27)	(251)	(388)
Agent commissions and distribution of prepaid cards commissions	(43)	(691)	(35)	(726)	(769)
Other commissions	(51)	(104)	(4)	(108)	(159)
Roaming		(174)	(3)	(177)	(177)
Charges for TLRD		(707)	(57)	(764)	(764)
Cost of sales	(40)	(978)	(10)	(988)	(1,028)
Others	(257)	(242)	(25)	(267)	(524)
<b>Operating income before depreciation and amortization</b>	<b>1,034</b>	<b>2,161</b>	<b>135</b>	<b>2,296</b>	<b>3,330</b>
Depreciation of fixed assets and amortization of intangible assets	(822)	(375)	(92)	(467)	(1,289)
<b>Operating income</b>	<b>212</b>	<b>1,786</b>	<b>43</b>	<b>1,829</b>	<b>2,041</b>
Financial results, net	(166)	(102)	3	(99)	(265)
Other expenses, net	(212)	(56)		(56)	(268)
<b>Net (loss) income before income tax and noncontrolling interest</b>	<b>(166)</b>	<b>1,628</b>	<b>46</b>	<b>1,674</b>	<b>1,508</b>

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Income tax, net	(143)	(388)	(4)	(392)	(535)
Noncontrolling interest			(12)	(12)	(12)
<b>Net (loss) income</b>	<b>(309)</b>	<b>1,240</b>	<b>30</b>	<b>1,270</b>	<b>961</b>

(a) Includes net sales of \$40, operating income before depreciation of \$10, operating profit of \$8 and net income of \$8 corresponding to Telecom USA. It also includes net sales of \$6, operating loss before depreciation of \$(1), operating loss of \$(3) and net loss of \$(4) corresponding to Cubecorp.

.. **Balance sheet information**

<b>Fixed assets, net</b>	<b>4,032</b>	<b>1,788</b>	<b>368</b>	<b>2,156</b>	<b>6,188</b>
<b>Intangible assets, net</b>	<b>173</b>	<b>598</b>	<b>1</b>	<b>599</b>	<b>772</b>
<b>Capital expenditures (without ARO and debt issue costs)</b>	<b>924</b>	<b>661</b>	<b>102</b>	<b>763</b>	<b>1,687</b>
<b>Net book value of Cubecorp's fixed assets included in the acquisition of shares</b>	<b>132</b>				<b>132</b>
<b>Depreciation of fixed assets</b>	<b>(806)</b>	<b>(370)</b>	<b>(91)</b>	<b>(461)</b>	<b>(1,267)</b>
<b>Amortization of intangible assets (without debt issue costs)</b>	<b>(16)</b>	<b>(5)</b>	<b>(1)</b>	<b>(6)</b>	<b>(22)</b>
<b>Net financial debt</b>	<b>(679)</b>	<b>(139)</b>	<b>(85)</b>	<b>(224)</b>	<b>(903)</b>

.. **Cash flow information**

<b>Cash flows provided by operating activities</b>	<b>1,781</b>	<b>1,435</b>	<b>103</b>	<b>1,538</b>	<b>3,319</b>
<b><u>Cash flows from investing activities:</u></b>					
Acquisition of fixed assets and intangible assets	(826)	(636)	(99)	(735)	(1,561)
Acquisition of Cubecorp	(97)				(97)
Decrease (increase) in investments not considered as cash and cash equivalents and other	346	(5)		(5)	341
<b>Total cash flows used in investing activities</b>	<b>(577)</b>	<b>(641)</b>	<b>(99)</b>	<b>(740)</b>	<b>(1,317)</b>
<b><u>Cash flows from financing activities:</u></b>					
Debt proceeds		3	88	91	91
Payment of debt	(1,197)	(208)	(39)	(247)	(1,444)
Payment of interest and debt-related expenses	(109)	(72)	(4)	(76)	(185)
Cash dividends paid			(20)	(20)	(20)
Inter-segment transfers of cash	231	(194)	(37)	(231)	
<b>Total cash flows used in financing activities</b>	<b>(1,075)</b>	<b>(471)</b>	<b>(12)</b>	<b>(483)</b>	<b>(1,558)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>129</b>	<b>323</b>	<b>(8)</b>	<b>315</b>	<b>444</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>223</b>	<b>221</b>	<b>14</b>	<b>235</b>	<b>458</b>
<b>Cash and cash equivalents at year end</b>	<b>352</b>	<b>544</b>	<b>6</b>	<b>550</b>	<b>902</b>

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(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

**13. Unconsolidated information**

In accordance with Argentine GAAP, the presentation of the parent company's individual financial statements is mandatory. Consolidated financial statements are to be included as supplementary information. For the purpose of these financial statements, individual financial statements have been omitted since they are not required for SEC reporting purposes. The tables below present unconsolidated financial statement information, as follows:

**Balance sheets:**

	As of December 31, 2010	As of December 31, 2009
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and banks	\$ 57	\$ 26
Investments	816	552
Accounts receivable, net	673	724
Other receivables, net	111	79
Other assets, net	6	6
<b>Total current assets</b>	<b>1,663</b>	<b>1,387</b>
<b>Non-Current Assets</b>		
Other receivables, net	32	46
Investments (i)	2,613	1,915
Fixed assets, net	4,399	4,170
Intangible assets, net	171	176
Other assets, net	3	3
<b>Total non-current assets</b>	<b>7,218</b>	<b>6,310</b>
<b>TOTAL ASSETS</b>	<b>\$ 8,881</b>	<b>\$ 7,697</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 1,242	\$ 931
Salaries and social security payable	311	244
Taxes payable	251	263
Other liabilities	41	39
Contingencies	58	57
<b>Total current liabilities</b>	<b>1,903</b>	<b>1,534</b>

<b>Non-Current Liabilities</b>		
Accounts payable		24
Salaries and social security payable	109	81
Taxes payable	120	202
Other liabilities	166	153
Contingencies	346	267
<b>Total non-current liabilities</b>	<b>741</b>	<b>727</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 2,644</b>	<b>\$ 2,261</b>
<b>SHAREHOLDERS EQUITY</b>	<b>\$ 6,237</b>	<b>\$ 5,436</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 8,881</b>	<b>\$ 7,697</b>

- (i) Includes \$2,612 and \$1,914 as of December 31, 2010 and 2009, respectively, corresponding to Telecom Argentina's equity interests in its consolidated subsidiaries. As of December 31, 2010, includes \$2,607 and \$5, corresponding to Personal and Telecom USA, respectively. As of December 31, 2009, includes \$1,909 and \$5, corresponding to Personal and Telecom USA, respectively.

Statements of income:

	Years ended December 31,		
	2010	2009	2008
Net sales	\$ 5,349	\$ 4,816	\$ 4,226
Cost of services	(2,814)	(2,496)	(2,355)
<b>Gross profit</b>	<b>2,535</b>	<b>2,320</b>	<b>1,871</b>
General and administrative expenses	(358)	(289)	(233)
Selling expenses	(1,142)	(979)	(856)
<b>Operating income</b>	<b>1,035</b>	<b>1,052</b>	<b>782</b>
Gain on equity investees (i)	1,240	937	694
Financial results, net	77	(171)	(162)
Other expenses, net	(206)	(143)	(210)
<b>Net income before income tax</b>	<b>2,146</b>	<b>1,675</b>	<b>1,104</b>
Income tax (expense) benefit, net	(325)	(270)	(143)
<b>Net income</b>	<b>\$ 1,821</b>	<b>\$ 1,405</b>	<b>\$ 961</b>

(i) The **gain on equity investees** includes:

	Years ended December 31,		
	2010	2009	2008
Personal	\$ 1,240	\$ 936	\$ 694
Telecom Argentina USA		1	2
Cubecorp			(2)
<b>Total</b>	<b>\$ 1,240</b>	<b>\$ 937</b>	<b>\$ 694</b>

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**13. Unconsolidated information (continued)***Condensed statements of cash flows:*

	Years ended December 31,		
	2010	2009	2008
<b>Cash flows provided by operating activities</b>	<b>\$ 1,588</b>	<b>\$ 1,603</b>	<b>\$ 1,774</b>
<b>Cash flows from investing activities from continuing operations</b>			
Acquisition of fixed and intangible assets	(831)	(847)	(818)
Dividends received	575	730	220
Acquisition of Cubecorp and paid in capital		2	(109)
Decrease in investments not considered as cash and cash equivalents and other concepts	14	268	357
<b>Total cash flows provided by (used in) investing activities</b>	<b>(242)</b>	<b>153</b>	<b>(350)</b>
<b>Cash flows from financing activities</b>			
Payment of dividends	(1,053)		
Payment of debt		(1,442)	(1,188)
Payment of interest and debt-related expenses		(84)	(109)
<b>Total cash flows used in investing activities</b>	<b>(1,053)</b>	<b>(1,526)</b>	<b>(1,297)</b>
<b>Increase in cash and cash equivalents</b>	<b>293</b>	<b>230</b>	<b>127</b>
<b>Cash and cash equivalents at the beginning of year</b>	<b>578</b>	<b>348</b>	<b>221</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>\$ 871</b>	<b>\$ 578</b>	<b>\$ 348</b>

**14. Differences between Argentine GAAP and IFRS applicable to the Telecom Group**

IFRS is a set of accounting standards issued by the IASB specially designed for financial reporting of public entities, including companies whose shares or notes are traded in capital markets or have applied for registration in such markets.

On December 30, 2009, the CNV issued General Resolution No. 562/09 ( RG 562/09 ) adopting RT 26 of the FACPCE for certain public companies (as defined by Law No. 17,811 Regime for Public Offering), including the Company and Personal. RT 26 adopts IFRS as issued by the IASB. On December 3, 2010, RT 26 was modified through RT 29, with the aim to align the dates of adoption established by the professional standards with those established by RG 562/09. Additionally, RT 29 contemplates the optional implementation of IFRS for SMEs for entities that, unlike the Company, are not required to adopt IFRS. Therefore, Argentine companies not included in the scope of RG 562/09 may, at their

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discretion, continue applying existing accounting standards (Argentine GAAP), to apply IFRS or to apply the IFRS for SMEs for the preparation of their financial statements. At the date of issuance of these consolidated financial statements the CNV has not yet adopted RT 29.

The mandatory adoption of IFRS for public companies in Argentina is effective for fiscal years beginning January 1, 2012, while early adoption is permitted for fiscal years beginning January 1, 2011.

In accordance with RG 562/09, the Company developed an implementation plan for the adoption of IFRS in Telecom Argentina and its subsidiaries ( the Implementation Plan ). Such Implementation Plan was approved by the Board of Directors on March 16, 2010. On March 17, 2010, the Company made a public release to the market through the CNV to inform the approval of the Implementation Plan as Relevant event , and the designation of the *Project Manager for IFRS Implementation Process* in Telecom Argentina.

On July 1, 2010, the CNV issued Resolution No. 576/10 ( RG 576/10 ). RG 576/10 is complementary of RG 562/09, incorporating clarifications to certain issues identified in RG 562/09. Also extends and modifies other issues that were subject of consultations and comments after its issuance.

At the date of issuance of these consolidated financial statements, the Company is making successful progress in the Implementation Plan in accordance with the scheduled dates.

Although adoption of IFRS is mandatory for the Company effective January 1, 2012, the Company has finalized the diagnostic of the main valuation differences between Argentine GAAP and IFRS in the Telecom Group. The differences were quantified using January 1, 2009 as the date of transition to IFRS.

For the purposes of this quantification, the Company's management has elected to make use of some of the exemptions provided for in IFRS 1 with the aim to simplify the first-time adoption of IFRS. The Company has made use of the exemptions as detailed below:

*Deemed cost for Property, Plant and Equipment (PP&E) and Intangible Assets:* Argentine GAAP valuation for PP&E and Intangible Assets (which includes inflation adjustment as described in note 3.c) has been elected as deemed cost at the transition date to IFRS, since it was considered to be broadly comparable to cost or depreciated cost in accordance with IFRS, adjusted to reflect changes in a general or specific price index.

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**14. Differences between Argentine GAAP and IFRS (continued)**

*Cumulative translation differences for foreign operations:* The cumulative translation differences for all foreign operations were deemed to be zero at the date of transition to IFRS. This exemption applies to the financial statements translations of the subsidiaries Núcleo, Telecom USA and Springville.

*Business combinations:* The Company has elected not to apply IFRS 3 (as revised in 2008) retrospectively to business combinations that occurred before the date of transition to IFRS.

*Share-based payment transactions:* The Company has elected not to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before November 7, 2002. This exemption applies to the Share Ownership Program described in note 9. Additionally, IFRS provides for alternative criteria for measurement after initial recognition of each class of PP&E and Intangible Assets. An entity shall choose either the cost model or the revaluation model. The Management of the Company has elected to continue applying the cost model for all classes of PP&E and intangible assets.

After considering exemptions elected and the cost model chosen to measure PP&E and Intangible Assets, the main differences identified between Argentine GAAP and IFRS and their impact on equity as of December 31, 2010 and 2009 and net income for the years then ended are described below:

<b>Reconciliation of equity:</b>	<b>As of December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Net equity under Argentine GAAP</b>	<b>6,237</b>	<b>5,436</b>
<b><u>IFRS adjustments:</u></b>		
<b>1. Noncontrolling interest</b>	126	92
<b>Subtotal equity and noncontrolling interest under Argentine GAAP</b>	6,363	5,528
<b>2. Revenue recognition</b>		
2.1 Upfront connection fees	(100)	(105)
2.2 Revenues from contracts for the construction of networks and other assets	4	
2.3 Customer loyalty programs	(4)	(8)
<b>3. Intangible Assets</b>		
3.1 Service connection or habilitation costs	107	114
3.2 Subscriber acquisition costs	359	186
<b>4. Reversal of the adjustments for the effects of inflation in foreign entities financial statements</b>	(70)	(17)



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<b>5.</b>	<b>Borrowing costs that do not qualify for capitalization</b>	(47)	(57)
<b>6.</b>	<b>Other adjustments</b>		
6.1	Inventories	9	1
6.2	Fixed assets held for sale	(1)	(2)
<b>7.</b>	<b>Tax effects on IFRS adjustments</b>	(109)	(43)
<b>Total equity under IFRS</b>		<b>6,511</b>	<b>5,597</b>
Equity attributable to the parent		<b>6,404</b>	<b>5,509</b>
Equity attributable to noncontrolling interest		<b>107</b>	<b>88</b>

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**14. Differences between Argentine GAAP and IFRS (continued)**

Reconciliation of net income:	Years ended December 31,	
	2010	2009
	Gain / (Loss)	
<b>Net income under Argentine GAAP</b>	<b>1,821</b>	<b>1,405</b>
<b><u>IFRS adjustments:</u></b>		
<b>1. Noncontrolling interest</b>	19	15
<b>Net Income under IFRS and noncontrolling interest under Argentine GAAP</b>	<b>1,840</b>	<b>1,420</b>
<b>2. Revenue recognition</b>		
2.1 Upfront connection fees	5	1
2.2 Revenues from contracts for the construction of networks and other assets	4	
2.3 Customer loyalty programs	4	(2)
<b>3. Intangible Asset</b>		
3.1 Service connection or habilitation costs	(7)	(7)
3.2 Subscriber acquisition costs	173	(2)
<b>4. Reversal of the adjustments for the effects of inflation in foreign entities financial statements</b>	<b>(23)</b>	<b>(11)</b>
<b>5. Borrowing costs that do not qualify for capitalization</b>	<b>10</b>	<b>10</b>
<b>6. Other adjustments</b>		
6.1 Inventories	8	9
6.2 Fixed assets held for sale	1	
<b>7. Tax effects on IFRS adjustments</b>	<b>(66)</b>	<b>(1)</b>
<b>Net income under IFRS</b>	<b>1,949</b>	<b>1,417</b>
<b>Net income attributable to the parent</b>	<b>1,935</b>	<b>1,405</b>
<b>Net income attributable to noncontrolling interest</b>	<b>14</b>	<b>12</b>
<b>Description of changes in total equity under IFRS</b>	<b>Years ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Total equity under IFRS as of the beginning of the year</b>	<b>5,597</b>	<b>4,179</b>
<b>Net income under IFRS</b>	<b>1,949</b>	<b>1,417</b>

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Dividends distribution	(1,053)	(12)
Capital reimbursement of Núcleo		(6)
Other comprehensive income	18	19
<b>Total equity as of the end of the year</b>	<b>6,511</b>	<b>5,597</b>

### 1. Noncontrolling interest

Under IFRS, the noncontrolling interest in a subsidiary should be presented within total equity in the consolidated statement of financial position, identifying separately the portion attributable to the parent (economic rights attributable to Telecom Argentina as Parent company) and the portion attributable to the noncontrolling interest (represented by ABC Telecomunicaciones S.A. as noncontrolling shareholder of Núcleo and Nortel as noncontrolling shareholder of Personal) instead of being presented as a separate caption between total liabilities and equity as required by Argentine GAAP.

Likewise, the noncontrolling interest in a subsidiary's profit or loss for the year is presented within net income in the consolidated statement of income as a gain or loss incurred by the parent.

Therefore, a reconciling item has been included to present noncontrolling interest as required by IFRS (although measured under Argentine GAAP) representing an increase of \$126 and \$92 in total equity as of December 31, 2010 and 2009, respectively, and an increase in net income of \$19 and \$15 for the years ended December 31, 2010 and 2009, respectively.

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**14. Differences between Argentine GAAP and IFRS (continued)**

**2. Revenue recognition**

**2.1 Upfront connection fees**

Under IFRS, non-refundable up-front connection fees for fixed telephony, data and Internet services that are non-separable from the service are accounted for as a single transaction and deferred over the term of the contract, or in the case of indefinite period contracts, over the average period of the customer relationship. This approach is consistent with the recognition of service connection costs described in 3.1 below. This accounting treatment differs from that provided for under Argentine GAAP, where up-front connection fees are fully recognized as income when the customer is connected to the network or the service is enabled, which usually occurs at the beginning of the relationship with the customer.

The impact of the deferral of up-front connection fees under IFRS, net of the effect of the deferred fees accrued during the year, represents a decrease of \$100 and \$105 in total equity as of December 31, 2010 and 2009, respectively, and an increase of \$5 and \$1 in net income for the years ended December 31, 2010 and 2009, respectively. Such impacts are substantially originated in Telecom Argentina from the connection of fixed line customers, with an estimated deferral period of 9 years.

**2.2 Revenues from contracts for the construction of networks and other assets**

Revenue from construction contracts are substantially derived from the construction of data networks or other value-added services assets for large customers of fixed telephony.

Under IFRS, revenues from construction contracts that are specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use, in which the buyer is able to specify the major structural elements of the design before construction, should be accounted for by reference to the stage of completion of the contract activity. Under this method, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period, thus recognizing profit margin of the contract. The stage of completion of a contract may be determined in a variety of ways. The Company has used the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Any expected loss by reason of the contract should be recognized immediately as an expense.

Under Argentine GAAP revenues for construction contracts are fully recognized when construction is completed and the assets are transferred to the buyer together with related risks and benefits.

The impact in revenue for construction contracts under IFRS represents an increase of \$4 in total equity as of December 31, 2010 and in net income for the year then ended.

### 2.3 Customer Loyalty Programs

Personal offers to its customers a loyalty program named Club Personal . Under such program Personal grants award credits as part of the sales transactions which can be subsequently redeemed for goods or services. IFRS requires that the fair value of the award credits be accounted for as deferred revenue, and recognized when the award credits are redeemed or expire. Those revenues are classified as service or goods revenues depending on the goods or services redeemed by the customers. Under Argentine GAAP such program is accounted for considering the cost of the points expected to be redeemed by the customers. Such cost is recorded as operating expenses at the time the points are granted to the customers. Reconciling item reflects the net effect of (i) deferral of revenues associated with unredeemed points valued at exit fair value, net of income accrued for the year, and (ii) reversal of operating costs accrued under Argentine GAAP based on points expected to be effectively redeemed.

The impact of the measurement of the customer loyalty program under IFRS represents a decrease of \$4 and \$8 in total equity as of December 31, 2010 and 2009, respectively, an increase of \$4 in net income for the year ended December 31, 2010, and a decrease of \$2 in net income for the year ended December 31, 2009.

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**14. Differences between Argentine GAAP and IFRS (continued)**

**2.4 Revenue recognition on contracts with multiple deliverables**

Under IFRS, total revenue generated by transactions that include separately identifiable components (as equipment and service) should be allocated to the separately identifiable units of accounting based on their fair values, provided that the total amount of revenue to be recognized does not exceed the contract revenue.

IFRS does not prescribe a specific method for such allocation of revenue. However, telecommunications industry practice generally applies the method known as residual method .

The residual method requires identifying all the components that comprise a transaction and allocating its fair value on an individual basis to each of them. Under this method, the fair value of a delivered item (which could not be individually determined) is determined as the difference between the total arrangement consideration and the fair value of the undelivered element.

Personal is engaged in sale transactions including multiple identifiable components whose fair value determination becomes more complex and relate to sales of equipment to customers jointly with contracts with minimum duration, fixed monthly bills for services and cancellation fees for early termination. For such transactions, equipment is sold at a discount compared to selling price of equipment sold without related service contract. However, the fair value of services sold is independent of the fact that the customer purchases a handset together with the service. Therefore the fair value of equipment sold can be determined as the difference between the total arrangement consideration and the service fair value.

Consequently, the allocation of revenues between equipment and services under IFRS is equivalent to the revenues accounted for under Argentine GAAP, where revenues from sale of each component of the transaction are recognized by the amount contractually agreed with the client, recognizing equipment revenues when the item is delivered to the customer and service revenues when rendered.

Therefore, considering the industry accounting practices currently prevailing under IFRS there is no quantitative impact for this matter between IFRS and Argentine GAAP.

**3. Intangible Assets**

**3.1 Service connection or habilitation costs**

Under IFRS direct costs incurred for connecting customers to the network are accounted for as assets and then amortized over the term of the contract with the customer if certain conditions are met. This approach is consistent with the recognition of up-front connection fees described in 2.1 above. For indefinite period contracts, the deferral of these costs is limited to the amount of non contingent revenue from the customer and expensed over the average period life of the customer relationship. Costs exceeding that amount are expensed as incurred. Connection costs are generated mainly in Telecom Argentina for the installation of fixed lines whose average deferral period is 9 years.

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Under Argentine GAAP, connection costs are expensed as incurred, in order to match these costs with connection revenues that are fully recognized in the same period.

The effect of deferral of connection costs under IFRS, net of accumulated depreciation, represents an increase of \$107 and \$114 in total equity as of December 31, 2010 and 2009, respectively, and a decrease in net income of \$7 for each of the years ended December 31, 2010 and 2009.

### 3.2 Subscriber acquisition costs

Under IFRS, direct and incremental costs incurred for the acquisition of new subscribers with minimum contractual duration are capitalized when the following conditions are met: the asset is separately identifiable, it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably. Capitalized SAC is amortized on a straight-line basis over the term of the contract with the customer.

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**14. Differences between Argentine GAAP and IFRS (continued)**

The cost of acquiring postpaid and cuentas claras customers in mobile telephony and broadband customers in fixed telephony meet the conditions established by IFRS for its recognition as intangible asset, since these contracts establish a minimum contractual period, include an enforced termination penalty and fixed monthly bill for services. SAC are mainly composed of upfront commissions paid to third parties and subsidies on the sale of handsets. Under Argentine GAAP, these costs are expensed as incurred since there are no specific criteria for deferral of costs associated with customer contracts.

The impact of capitalization of SAC as intangible assets under IFRS, net of accumulated depreciations, represents an increase of \$359 and \$186 in total equity as of December 31, 2010 and 2009, respectively, (of which, \$339 and \$20 are attributable to Mobile and Fixed telephony as of December 31, 2010, respectively and \$166 and \$20 are attributable to Mobile and Fixed telephony as of December 31, 2009, respectively); an increase in net income of \$173 for the year ended December 31, 2010 (fully attributable to Mobile telephony) and a decrease of \$2 in net income for the year ended December 31, 2009 (fully attributable to Mobile telephony).

4. Reversal of the adjustments for the effects of inflation in foreign entities financial statements

Under IFRS financial statements of any entity whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the end of the reporting period. Under Argentine GAAP financial statements of Núcleo are prepared in guaraníes the local and functional currency of Núcleo- restated in terms of the measuring unit current at the end of the reporting period. However, the economic environment where Núcleo performs its activities does not meet the requirements established by IFRS to consider the Paraguayan economy as hyperinflationary. The reconciling item reflects the reversal of the inflation adjustment made under Argentine GAAP, after considering the IFRS 1 exemption for deemed cost for the measurement of PP&E and Intangible Assets described above.

The impact of reversing the restatement recorded under Argentine GAAP is summarized in the table below:

Impact of reversing the restatement at the end of the reporting period:	Total equity as of		Net income for		Other Comprehensive Income	
	December 31, 2010	2009	December 31, 2010	2009	for the years ended December 31, 2010	2009
Attributable to the parent	(48)	(13)	(15)	(8)	(20)	(5)
Attributable to noncontrolling interest	(22)	(4)	(8)	(3)	(10)	(1)
<b>Total of the reconciling item</b>	<b>(70)</b>	<b>(17)</b>	<b>(23)</b>	<b>(11)</b>	<b>(30)</b>	<b>(6)</b>



5. Borrowing costs that do not qualify for capitalization

Under IFRS, capitalization of foreign currency exchange differences originated in foreign currency denominated debt is required as part of the cost of a qualifying asset, when they are considered to be an adjustment to interest costs. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use.

Under Argentine GAAP, foreign currency exchange differences (gains or losses) generated on or after January 6, 2002 through July 28, 2003, in connection with foreign-currency denominated debts as of such dates were capitalized as part of the cost of assets acquired or constructed with such financing, as long as a series of conditions and requirements were met (the devaluation of the Peso in that period was approximately 180%).

The reconciliation item represents the reversal of the amounts capitalized under Argentine GAAP that do not comply with the requirements for capitalization under IFRS, net of accumulated depreciation. Such reversal represents a decrease of \$47 and \$57 in total equity as of December 31, 2010 and 2009, respectively, and an increase of \$10 in net income for each of the years ended December 31, 2010 and 2009.

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**14. Differences between Argentine GAAP and IFRS (continued)**

**6. Other adjustments**

**6.1 Inventories**

Under IFRS inventories are measured at the lower of cost and net realizable value, while Last in first out method is not allowed. Under Argentine GAAP inventories are stated at replacement cost.

The reconciliation item for valuation of inventories under IFRS represents an increase of \$9 and \$1 in total equity as of December 31, 2010 and 2009, respectively, and an increase of \$8 and \$9 in net income for the years ended December 31, 2010 and 2009, respectively. Such impacts are substantially generated in Personal with a lower impact generated by Núcleo s inventories.

**6.2 Fixed Assets held for sale**

According to IFRS non-current assets should be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. To meet that definition, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

Under Argentine GAAP the Company classifies certain fixed assets as held for sale. Such assets are included under the caption Other assets and measured at the lower of cost less depreciation at the time of transfer to the Held-for-sale category or net recoverable value. As far as those assets do not comply with the requirements stated by IFRS to be classified as held for sale, they should be classified as PP&E and measured at cost less accumulated depreciation.

The impact of this reconciling item represents a decrease of \$1 and \$2 in total equity as of December 31, 2010 and 2009, respectively, and an increase of \$1 in net income for the year ended December 31, 2010. Such impacts are fully generated in Telecom Argentina.

**7. Tax effects on IFRS adjustments**

The adjustment represents the effect on deferred income taxes of the foregoing reconciling items, as appropriate, at a tax rate of 35% (for Núcleo, the tax rate is 10%). The effect of the IFRS adjustments on income taxes represents a decrease of \$109 and \$43 in total equity as of December 31, 2010 and 2009, respectively, and a decrease in net income of \$66 and \$1 for the years ended December 31, 2010 and 2009, respectively.

It should be noted that these amounts include the effect of the additional income tax rate according to the Argentine tax law in force on the undistributed profits of Núcleo as it is considered probable that those results will flow to Personal in the form of dividends. Under Argentine GAAP this additional income tax rate is recognized according to the proposal for dividend distribution to be considered by the next shareholder s meeting of Núcleo.

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As regards to disclosure differences affecting the income statement, the following describes the most relevant differences identified to date, while there may be others deemed not material:

- a) there are no specific rules under IFRS in the form to present the income statement of a company. Presentation of income and expenses by nature or by activity is allowed (cost of services provided, administration and selling expenses). The Company has elected to disclose income and expenses by nature; and
- b) the items that are included under Other expenses under Argentine GAAP should be classified as operating expenses or financial results under IFRS, as the case may be.

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**14. Differences between Argentine GAAP and IFRS (continued)**

The following table shows the net income for the years ended December 31, 2010 and 2009 that would be reported under IFRS giving effect to the valuation criteria and the main disclosure differences described above:

	<b>Consolidated Statements of Income for the years ended December 31,</b>			
	<b>Adjustment</b>	<b>2010</b>	<b>2009</b>	<b>Variation</b>
Service Revenues	<b>2.1/2.3/4</b>	13,531	11,325	19%
Equipment Sales	<b>2.2</b>	1,096	845	30%
Other income		32	34	(6%)
<b>Total Revenues and other income</b>		<b>14,659</b>	<b>12,204</b>	<b>20%</b>
Salaries and social security	<b>4</b>	(1,874)	(1,499)	25%
Taxes	<b>4</b>	(1,258)	(997)	26%
Interconnection costs and lease of circuits	<b>4</b>	(473)	(471)	
Agent commissions and distribution of prepaid cards commissions and other commissions	<b>3.2/4</b>	(1,141)	(942)	21%
Charges for TLRD and Roaming		(904)	(890)	2%
Fees for services, maintenance, materials and supplies and advertising costs	<b>2.2/3.1/3.2/4</b>	(1,778)	(1,436)	24%
Cost of sales	<b>3.2/4</b>	(1,210)	(907)	33%
Contingencies		(130)	(48)	171%
Severance payments and termination benefits		(94)	(65)	45%
Other operating expenses		(926)	(770)	20%
<b>Operating income before depreciation and amortization</b>		<b>4,871</b>	<b>4,179</b>	<b>17%</b>
Depreciation of PP&E	<b>4/5/6.2</b>	(1,302)	(1,098)	19%
Depreciation of new intangible assets according to IFRS	<b>3.1/3.2</b>	(387)	(428)	(10%)
Amortization of other intangible assets		(23)	(19)	21%
<b>Operating income</b>		<b>3,159</b>	<b>2,634</b>	<b>20%</b>
Gain on equity investees			13	n/a
Financial results generated by assets	<b>4/6.1</b>	193	236	(18%)
Financial results generated by liabilities (*) (**)		(327)	(668)	(51%)

<b>Net income before income tax</b>		<b>3,025</b>	<b>2,215</b>	<b>37%</b>
Income tax expense, net	<b>7</b>	(1,076)	(798)	35%
<b>Net income</b>		<b>1,949</b>	<b>1,417</b>	<b>38%</b>
Net Income under IFRS attributable to the parent		<b>1,935</b>	<b>1,405</b>	<b>38%</b>
Net Income under IFRS attributable to noncontrolling interest		<b>14</b>	<b>12</b>	<b>17%</b>

- (\*) Includes financial costs generated by contingencies of \$70 and \$80 for the years ended December 31, 2010 and 2009, respectively.
- (\*\*) Includes financial costs generated by termination benefits of \$27 and \$8 for the years ended December 31, 2010 and 2009, respectively.

	<b>2010</b>	<b>2009</b>
<i>Operating income before D&amp;A/Total Revenues and other income</i>	<b>33%</b>	<b>34%</b>
<i>Operating income/ Total Revenues and other income</i>	<b>22%</b>	<b>22%</b>
<i>Net income/ Total Revenues and other income</i>	<b>13%</b>	<b>12%</b>
<i>Return over equity (ROE)</i>	<b>35%</b>	<b>34%</b>

**15. Other financial statement information**

The following tables present additional consolidated financial statement disclosures required under Argentine GAAP:

- a. Fixed assets, net
- b. Intangible assets, net
- c. Securities and equity investments
- d. Current investments
- e. Allowances and provisions
- f. Cost of services
- g. Foreign currency assets and liabilities
- h. Expenses
- i. Aging of assets and liabilities

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**15. Other financial statement information (continued)****(a) Fixed assets, net**

Principal account	As of the beginning of year	Additions	Original value Foreign currency translation adjustments	Transfers	Decreases	As of the end of the year
Land	127		1	4		132
Building	1,545			28	(2)	1,571
Tower and pole	447	1	8	33		489
Transmission equipment	4,812	21	60	153		5,046
Mobile network access	1,895	21	17	162		2,095
Switching equipment	4,677	26	15	265		4,983
Power equipment	744	2	11	62		819
External wiring	6,602			190	(2)	6,790
Computer equipment	4,334	31	51	460	(1)	4,875
Telephony equipment and instruments	932		30	8		970
Equipment lent to customers at no cost	214	41	29	1	(30)	255
Vehicles	169	14	1		(4)	180
Furniture	91	2	1	8	(6)	96
Installations	398	5	7	37		447
Improvements in third parties buildings	130			23		153
Work in progress	733	1,704	4	(1,348)		1,093
<b>Subtotal</b>	<b>27,850</b>	<b>(a) 1,868</b>	<b>235</b>	<b>86</b>	<b>(45)</b>	<b>29,994</b>
Asset retirement obligations	41	3			(8)	36
Advances to suppliers	15			(15)		
Materials	234	(b) 136	8	(71)	(114)	193
<b>Total</b>	<b>28,140</b>	<b>2,007</b>	<b>243</b>		<b>(167)</b>	<b>30,223</b>
<b>Total as of December 31, 2009</b>	<b>26,281</b>	<b>1,801</b>	<b>244</b>		<b>(186)</b>	<b>28,140</b>

Principal account	Depreciation Amount	Net	Net
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	Accumulated as of the beginning of the year	Annual rate (%)		Foreign currency translation adjustments	Decreases and transfers	Accumulated as of the end of the year	carrying value as of December 31, 2010	carrying value as of December 31, 2009
Land							132	127
Building	(920)	2	7	(39)		(959)	612	625
Tower and pole	(312)	5	7	(24)	(7)	(344)	145	135
Transmission equipment	(3,960)	10	13	(182)	(29)	(4,171)	875	852
Mobile network access	(1,357)	10	12	(131)	(14)	(1,502)	593	538
Switching equipment	(4,028)	10	15	(164)	(12)	(4,204)	779	649
Power equipment	(579)	7	10	(36)	(10)	(625)	194	165
External wiring	(5,187)	6		(197)	2	(5,382)	1,408	1,415
Computer equipment	(3,281)	18	20	(415)	(32)	(3,728)	1,147	1,053
Telephony equipment and instruments	(888)	13	20	(9)	(26)	(923)	47	44
Equipment lent to customers at no cost	(174)	50		(44)	(26)	(214)	41	40
Vehicles	(105)	20		(23)	(1)	(119)	61	64
Furniture	(77)	9	11	(5)	(1)	(83)	13	14
Installations	(287)	7	10	(43)	(4)	(334)	113	111
Improvements in third parties buildings	(93)	3		(18)	1	(110)	43	37
Work in progress							1,093	733
<b>Subtotal</b>	<b>(21,248)</b>			<b>(1,330)</b>	<b>(162)</b>	<b>(22,698)</b>	<b>7,296</b>	<b>6,602</b>
Asset retirement obligations	(28)	10	14	(1)	2	(27)	9	13
Advances to suppliers								15
Materials							193	234
<b>Total</b>	<b>(21,276)</b>			<b>(c) (1,331)</b>	<b>(162)</b>	<b>(22,725)</b>	<b>7,498</b>	<b>6,864</b>
<b>Total as of December 31, 2009</b>	<b>(20,074)</b>			<b>(c) (1,119)</b>	<b>(159)</b>	<b>(21,276)</b>	<b>6,864</b>	

- (a) Includes \$14 in Transmission equipment, \$40 in Equipment lent to customers at no cost and \$139 in Work in progress, transferred from materials.
- (b) Net of \$193 transferred to fixed assets.
- (c) Includes \$(10) and \$(10) in December 2010 and 2009, respectively, corresponding to the depreciation of capitalized foreign currency exchange differences (Note 4.c).



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**15. Other financial statement information (continued)****(b) Intangible assets, net**

	As of the beginning of the year	Additions	Foreign currency translation adjustments	Original value Decreases	As of the end of the year
<b>Principal account</b>					
Software obtained or developed for internal use	460		9		469
Debt issue costs	37			(27)	10
PCS license	658				658
Band B license and PCS license (Paraguay)	294		51		345
Rights of use	227	20		(3)	244
Exclusivity agreements	54			(13)	41
Customer relationship	2				2
<b>Total</b>	<b>1,732</b>	<b>20</b>	<b>60</b>	<b>(43)</b>	<b>1,769</b>
<b>Total as of December 31, 2009</b>	<b>1,645</b>	<b>23</b>	<b>64</b>		<b>1,732</b>

	Accumulated as of the beginning of the year	Amount	Amortization Foreign currency translation adjustments	Decreases	Accumulated as of the end of the year	Net carrying value as of December 31, 2010	Net carrying value as of December 31, 2009
<b>Principal account</b>							
Software obtained or developed for internal use	(459)	(2)	(8)		(469)		1
Debt issue costs	(35)	(2)		27	(10)		2
PCS license	(70)				(70)	588	588
Band B license and PCS license (Paraguay)	(293)		(51)		(344)	1	1
Rights of use	(71)	(19)		3	(87)	157	156
Exclusivity agreements	(31)	(2)		13	(20)	21	23
Customer relationship						2	2
<b>Total</b>	<b>(959)</b>	<b>(a) (25)</b>	<b>(59)</b>	<b>43</b>	<b>(1,000)</b>	<b>769</b>	<b>773</b>
<b>Total as of December 31, 2009</b>	<b>(873)</b>	<b>(b) (22)</b>	<b>(64)</b>		<b>(959)</b>	<b>773</b>	

- a) An amount of \$(21) is included in cost of services, \$(2) in selling expenses and \$(2) in financial results, net.  
b) An amount of \$(16) is included in cost of services, \$(3) in selling expenses and \$(3) in financial results, net.

(c) **Securities and equity investments**

Issuer and characteristic of the securities	Market value	Number of securities	Net realizable value as of December 31, 2010	Cost value as of December 31, 2010	Book value as of December 31, 2010	Book value as of December 31, 2009
<b>CURRENT INVESTMENTS</b>						
<b>Government bonds</b>						
Germany Government bonds (i)	\$	1,929,074	2	2	2	
<b>Total government bonds</b>			<b>2</b>	<b>2</b>	<b>2</b>	
<b>Mutual funds</b>						
Other						120
<b>Related parties Mutual funds</b>						
Alpha \$ Clase A Standard Bank						16
<b>Total related parties</b>						<b>16</b>
<b>Total current investments</b>			<b>2</b>	<b>2</b>	<b>2</b>	<b>136</b>

- (i) The Company had classified these securities as held-to-maturity as management had the intent and ability to hold them to maturity (November 2011).

**Table of Contents****TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Consolidated Financial Statements**

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

**15. Other financial statement information (continued)****(d) Current investments**

	Cost as of December 31, 2010	Book value as of December 31, 2010	December 31, 2009
<b>CURRENT INVESTMENTS</b>			
<b>Time deposits</b>			
<b><u>With an original maturity of three months or less</u></b>			
In foreign currency (Note 15.g)	\$ 532	\$ 533	\$ 418
In Argentine pesos	729	733	657
<b>Total cash and cash equivalents</b>	<b>\$ 1,261</b>	<b>\$ 1,266</b>	<b>\$ 1,075</b>
<b><u>With an original maturity of more than three months</u></b>			
In Argentine pesos Related parties	\$	\$	\$ 16
<b>Total related parties</b>	<b>\$</b>	<b>\$</b>	<b>\$ 16</b>
<b>Total current investments</b>	<b>\$ 1,261</b>	<b>\$ 1,266</b>	<b>\$ 1,091</b>
<b>NON-CURRENT INVESTMENTS</b>			
In Argentine pesos Related parties	\$	\$	\$
<b>Total related parties</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Total non-current investments</b>	<b>\$ 1,261</b>	<b>\$ 1,266</b>	<b>\$ 1,091</b>

**(e) Allowances and provisions**

Items	Opening balances	Additions	Reclassifications	Deductions	As of December 31, 2010
<b>Deducted from current assets</b>					
Allowance for doubtful accounts receivables	144	120		(113)	151
Allowance for doubtful accounts and other assets	13	1			14
Regulatory contingencies	4		(4)		4

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Allowance for obsolescence of inventories	21	28	(28)	21	
<b>Total deducted from current assets</b>	<b>182</b>	<b>149</b>	<b>(4)</b>	<b>(141)</b>	<b>186</b>
<b>Deducted from non-current assets</b>					
Valuation allowance of net deferred tax assets (a)	13	3			16
Regulatory contingencies	75	13	2		90
Allowance for doubtful accounts and other assets	24	(4)		(1)	19
Write-off of materials	25	(4)		(2)	19
<b>Total deducted from non-current assets</b>	<b>137</b>	<b>8</b>	<b>2</b>	<b>(3)</b>	<b>144</b>
<b>Total deducted from assets</b>	<b>319</b>	<b>(b) 157</b>	<b>(2)</b>	<b>(144)</b>	<b>330</b>
<b>Included under current liabilities</b>					
Provision for contingencies	73		27	(36)	64
<b>Total included under current liabilities</b>	<b>73</b>		<b>27</b>	<b>(36)</b>	<b>64</b>
<b>Included under non-current liabilities</b>					
Provision for contingencies	374	187	(25)		536
<b>Total included under non-current liabilities</b>	<b>374</b>	<b>187</b>	<b>(25)</b>		<b>536</b>
<b>Total included under liabilities</b>	<b>447</b>	<b>(c) 187</b>	<b>2</b>	<b>(36)</b>	<b>600</b>

(a) This allowance is included in Taxes payable non-current.

(b) Includes \$119 in selling expenses, \$33 in other expenses, net, \$4 in income tax and \$1 in Foreign currency translation differences.

(c) Included in other expenses, net.

Items	Opening balances	Additions	Reclassifications	Deductions	As of December 31, 2009
<b>Deducted from current assets</b>					
Allowance for doubtful accounts receivables	136	131	1	(124)	144
Allowance for doubtful accounts and other assets	13				13
Regulatory contingencies	11		6	(13)	4
Allowance for obsolescence of inventories	16	25		(20)	21
<b>Total deducted from current assets</b>	<b>176</b>	<b>156</b>	<b>7</b>	<b>(157)</b>	<b>182</b>
<b>Deducted from non-current assets</b>					
Allowance for doubtful accounts receivables	1		(1)		
Valuation allowance of net deferred tax assets (a)	12	2		(1)	13
Regulatory contingencies	75	6	(6)		75
Allowance for doubtful accounts and other assets	20	4			24
Write-off of materials	19	16		(10)	25
<b>Total deducted from non-current assets</b>	<b>127</b>	<b>28</b>	<b>(7)</b>	<b>(11)</b>	<b>137</b>
<b>Total deducted from assets</b>	<b>303</b>	<b>(d) 184</b>		<b>(168)</b>	<b>319</b>
<b>Included under current liabilities</b>					
Provision for contingencies	36	26	41	(30)	73

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<b>Total included under current liabilities</b>	<b>36</b>	<b>26</b>	<b>41</b>	<b>(f) (30)</b>	<b>73</b>
<b>Included under non-current liabilities</b>					
Provision for contingencies	319	96	(41)		374
<b>Total included under non-current liabilities</b>	<b>319</b>	<b>96</b>	<b>(41)</b>		<b>374</b>
<b>Total included under liabilities</b>	<b>355</b>	<b>(e) 122</b>		<b>(30)</b>	<b>447</b>

- (d) Includes \$131 in selling expenses, \$51 in other expenses, net and \$2 in income tax.
- (e) Includes \$(36) and \$158 in other expenses, net.
- (f) Includes \$(14) corresponding to legal fees for compliance with the Tax Regularization Regime, reclassified to Other liabilities.

**Table of Contents****TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Consolidated Financial Statements**

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

**15. Other financial statement information (continued)****(f) Cost of services**

	<b>Years ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Inventory balance at the beginning of the year	\$ 264	\$ 267	\$ 175
Plus:			
Purchases	1,740	1,134	1,101
Holding results on inventories	(15)	(7)	2
Deductions from allowance for obsolescence of inventories	(28)	(20)	(14)
Mobile handsets lent to customers at no cost (a)	(5)	(16)	(3)
Replacements	(3)	(5)	(5)
Foreign currency translation adjustments in inventory	1	2	(1)
Cost of services (Note 15.h)	5,859	5,002	4,724
Less:			
Inventory balance at year end	(458)	(264)	(267)
<b>COST OF SERVICES</b>	<b>\$ 7,355</b>	<b>\$ 6,093</b>	<b>\$ 5,712</b>

- (a) Under certain circumstances, the Company lends handsets to customers at no cost pursuant to term agreements. Handsets remain the property of the Company and customers are generally obligated to return them at the end of the respective agreements.

	<b>Years ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Services</b>			
Net sales	\$ 13,597	\$ 11,381	\$ 9,847
Cost of sales	(5,814)	(4,956)	(4,684)
<b>Gross profit from services</b>	<b>\$ 7,783</b>	<b>\$ 6,425</b>	<b>\$ 5,163</b>
<b>Handsets</b>			
Net sales	\$ 1,026	\$ 802	\$ 720
Cost of sales	(1,496)	(1,091)	(988)
<b>Gross loss from handsets</b>	<b>\$ (470)</b>	<b>\$ (289)</b>	<b>\$ (268)</b>

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<b>Fixed telephony equipment</b>				
Net sales	\$	56	\$	43
Cost of sales		(45)		(46)
				(40)
<b>Gross profit (loss) from Fixed telephony equipment</b>	<b>\$</b>	<b>11</b>	<b>\$</b>	<b>(3)</b>
				<b>\$ 1</b>
<b>TOTAL GROSS PROFIT</b>	<b>\$</b>	<b>7,324</b>	<b>\$</b>	<b>6,133</b>
				<b>\$ 4,896</b>

(g) Foreign currency assets and liabilities

Items	As of December 31, 2010			As of December 31, 2009	
	Amount of foreign currency (i)	Current exchange rate	Amount in local currency	Amount in local currency	
Current assets					
Cash and banks					
Cash	US\$	1	3.936	\$	2
	EURO		5.219		1
	G				4
Bank accounts	US\$	5	3.936	21	18
	G	10,659	0.000868	9	13
	\$U	9	0.197781	2	2
Investments					
Time deposits	US\$	135	3.936	533	418
Related parties	US\$				16
Accounts receivable					
Fixed telephony	US\$	13	3.936	53	78
	SDR	1	6.062	8	9
Mobile services	US\$	8	3.936	33	32
	G	26,168	0.000868	20	16
	EURO	1	5.219	6	
	GBP				1
Related parties	US\$	2	3.936	8	5
Other receivables					
Prepaid expenses	US\$	9	3.936	37	17
	EURO				1
	G	5,182	0.000868	5	3
Fiscal credits	G	9,368	0.000868	8	
Others	US\$	5	3.936	18	16
	G	696	0.000868	1	3
Non-current assets					
Other receivables					
Prepaid expenses	US\$	2	3.936	9	
Others	US\$				3
	G				1
Total assets				\$	774
				\$	659

**Table of Contents****TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Consolidated Financial Statements**

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

**15. Other financial statement information (continued)****(g) Foreign currency assets and liabilities (continued)**

Items	As of December 31, 2010			As of December 31, 2009	
	Amount of foreign currency (i)	Current exchange rate	Amount in local currency	Amount in local currency	
<b>Current liabilities</b>					
<b>Accounts payable</b>					
Suppliers	US\$ 342	3.976	\$ 1,358	\$ 982	
	G 54,593	0.000868	48	24	
	EURO 11	5.273	59	59	
Deferred revenues	G 10,504	0.000868	9	4	
Related parties	US\$ 23	3.976	88	23	
	EURO 2	5.273	12	5	
	SDR			2	
Others	G 2,968	0.000868	3		
<b>Debt</b>					
Notes Principal	US\$			685	
Banks loans and others Principal	G 35,580	0.000868	31	72	
Accrued interest	US\$			1	
	G 2,578	0.000868	2	2	
Bank overdrafts	G 9,933	0.000868	9		
<b>Salaries and social security payable</b>					
Vacation, bonuses and social security payable	G 1,568	0.000868	1	1	
<b>Taxes payable</b>					
Other	G 1,254	0.000868	1	1	
<b>Other liabilities</b>					
Deferred revenue on sale of capacity	US\$ 4	3.976	14	12	
	US\$ 1	3.976	5	8	
Others	G 2,124	0.000868	2	1	
<b>Non-current liabilities</b>					
<b>Accounts payable</b>					
Related parties	US\$			24	
<b>Debt</b>					
Banks loans and others Principal	G 139,750	0.000868	121	58	
<b>Taxes payable</b>					
Deferred tax liabilities (assets)	G 5,398	0.000868	5		
	US\$ 1	3.976	2	2	
<b>Other liabilities</b>					



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Deferred revenue on sale of capacity	US\$	28	3.976	110	112
Subsidy - CONATEL	G	2,770	0.000868	2	
Others	US\$	1	3.976	3	2
<b>Total liabilities</b>				<b>\$ 1,885</b>	<b>\$ 2,080</b>

- (i) US\$ = United States dollar; G= Guaraníes; ¥ = Japanese Yen; SDR= Special Drawing Rights; \$U= Uruguayan peso; GBP= Great Britain Pound.

	12.31.10		12.31.09	
	Amount of foreign currency (1)	Amount in local currency	Amount of foreign currency	Amount in local currency
<b>Net positions</b>	US\$ (220)	(866)	(327)	(1,246)
<b>Net assets (liabilities)</b>	G (216,947)	(191)	(151,002)	(123)
	EURO (12)	(64)	(12)	(62)
	SDR 1	8	2	7
	\$U 9	2	11	2
	GBP			1
		<b>(1,111)</b>		<b>(1,421)</b>

- (1) US\$ = United States dollar; G= Guaraníes; SDR= Special Drawing Rights; \$U= Uruguayan peso; GBP= Great Britain Pound.

**Table of Contents****TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Consolidated Financial Statements**

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

**15. Other financial statement information (continued)****(h) Expenses**

	Cost of services	Expenses General and administrative	Selling	Year ended December 31, 2010
Salaries and social security	\$ 806	\$ 314	\$ 760	\$ 1,880
Depreciation of fixed assets	1,126	49	156	1,331
Amortization of intangible assets	21		2	23
Turnover tax	657			657
Taxes with the Regulatory Authority	331			331
Other taxes	264	3	6	273
Maintenance, materials and supplies	562	43	103	708
Bad debt expense			119	119
Interconnection costs	197			197
Cost of international outbound calls	134			134
Lease of circuits	147			147
Fees for services (a)	137	75	451	663
Advertising			451	451
Agent commissions and distribution of prepaid cards commissions			1,049	1,049
Other commissions			237	237
Roaming	200			200
Charges for TLRD	712			712
Cost of voice, Internet and data equipment sales	45			45
Transportation, freight and travel expenses	28	10	201	239
Energy, water and others	119	5	7	131
Rental expense	92	26	30	148
International and satellite connectivity	97			97
Others	184	5	21	210
<b>Total</b>	<b>\$ 5,859</b>	<b>\$ 530</b>	<b>\$ 3,593</b>	<b>\$ 9,982</b>

	Cost of services	Expenses General and administrative	Selling	Year ended December 31, 2009
Salaries and social security	\$ 668	\$ 247	\$ 589	\$ 1,504
Depreciation of fixed assets	957	40	122	1,119
Amortization of intangible assets	16		3	19
Turnover tax	519			519

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Taxes with the Regulatory Authority	260			<b>260</b>
Other taxes	211	2	7	<b>220</b>
Maintenance, materials and supplies	479	35	83	<b>597</b>
Bad debt expense			131	<b>131</b>
Interconnection costs	180			<b>180</b>
Cost of international outbound calls	152			<b>152</b>
Lease of circuits	142			<b>142</b>
Fees for services (a)	96	82	322	<b>500</b>
Advertising			360	<b>360</b>
Agent commissions and distribution of prepaid cards commissions			878	<b>878</b>
Other commissions			190	<b>190</b>
Roaming	168			<b>168</b>
Charges for TLRD	730			<b>730</b>
Cost of voice, Internet and data equipment sales	46			<b>46</b>
Transportation, freight and travel expenses	22	8	184	<b>214</b>
Energy, water and others	91	8	12	<b>111</b>
Rental expense	57	22	32	<b>111</b>
International and satellite connectivity	81			<b>81</b>
Others	127	4	10	<b>141</b>
<b>Total</b>	<b>\$ 5,002</b>	<b>\$ 448</b>	<b>\$ 2,923</b>	<b>\$ 8,373</b>

- (a) Includes \$10 and \$8 in General and administrative expenses corresponding to Directors and Supervisory Committee s fees, as of December 31, 2010 and 2009, respectively.

**Table of Contents****TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Notes to the Consolidated Financial Statements**

(In millions of Argentine pesos, except as otherwise indicated See Note 3.c)

**15. Other financial statement information (continued)**

	Cost of services	Expenses General and administrative	Selling	Year ended December 31, 2008
Salaries and social security	\$ 538	\$ 196	\$ 483	\$ 1,217
Depreciation of fixed assets	1,129	32	106	1,267
Amortization of intangible assets	16	1	5	22
Turnover tax	435			435
Taxes with the Regulatory Authority	217			217
Other taxes	170	5	5	180
Maintenance, materials and supplies	436	17	75	528
Bad debt expense			67	67
Interconnection costs	156			156
Cost of international outbound calls	145			145
Lease of circuits	124			124
Fees for services (a)	81	70	249	400
Advertising			388	388
Agent commissions and distribution of prepaid cards commissions			769	769
Other commissions			159	159
Roaming	177			177
Charges for TLRD	764			764
Cost of voice, Internet and data equipment sales	40			40
Transportation, freight and travel expenses	22	15	138	175
Energy, water and others	59	7	13	79
Rental expense	44	16	24	84
International and satellite connectivity	48			48
Others	123	5	10	138
<b>Total</b>	<b>\$ 4,724</b>	<b>\$ 364</b>	<b>\$ 2,491</b>	<b>\$ 7,579</b>

(a) Includes \$5 in General and administrative expenses corresponding to Directors and Supervisory Committee's fees.

**(i) Aging of assets and liabilities**

Date due	Investments	Accounts receivable	Other receivables	Accounts payable	Debt	Salaries and social security payable	Taxes payable	Other liabilities
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<b>Total due</b>	<b>385</b>	<b>(a) 195</b>						
<b>Not due</b>								
First quarter 2011	1,267	1,062	276	2,686	27	273	525	29
Second quarter 2011		2	29	4	7	60	495	11
Third quarter 2011			15	23	5	48	1	7
Fourth quarter 2011	1		14		3	9	1	7
January 2012 thru December 2012			85		15	31	3	29
January 2013 thru December 2013			2		42	25	3	14
January 2014 and thereafter			11		64	54	8	113
Not date due established							140	44
<b>Total not due</b>	<b>1,268</b>	<b>1,064</b>	<b>432</b>	<b>2,713</b>	<b>163</b>	<b>500</b>	<b>1,176</b>	<b>254</b>
<b>Total</b>	<b>1,268</b>	<b>1,449</b>	<b>432</b>	<b>2,908</b>	<b>163</b>	<b>500</b>	<b>1,176</b>	<b>254</b>
<b>Balances bearing interest</b>	1,267	385			163		30	13
<b>Balances not bearing interest</b>	1	1,064	432	2,908		500	1,146	241
<b>Total</b>	<b>1,268</b>	<b>1,449</b>	<b>432</b>	<b>2,908</b>	<b>163</b>	<b>500</b>	<b>1,176</b>	<b>254</b>
<b>Average annual interest rate (%)</b>	<b>7.00</b>	<b>(b)</b>			<b>(c)</b>		<b>9.00</b>	<b>6.00</b>

(a) At the date of issuance of these consolidated financial statements, \$143 has been cancelled.

(b) \$47 bear 50% over the Banco de la Nación Argentina 30-day interest rate paid by banks, \$138 bear 50% over the Banco de la Nación Argentina notes payable discount rate and \$200 bear 28.48%.

(c) See Note 8.

**Adrián Calaza**  
**Chief Financial Officer**

**Enrique Garrido**  
**Chairman of the Board of Directors**

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### **Report of Independent Accountants**

To the Board of Directors and Shareholders of

Telecom Argentina S.A.

1. We have audited the accompanying consolidated balance sheets of Telecom Argentina S.A. ( Telecom or the Company ) and its subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with generally accepted auditing standards in Argentina. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements and form an opinion as to the reasonableness of the relevant information contained in the financial statements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Telecom Argentina S.A. and its subsidiaries at December 31, 2010 and 2009, and the results of their operations, their changes in shareholders' equity and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in Argentina.
4. Accounting principles generally accepted in Argentina vary in certain significant respects from International Financial Reporting Standards ( IFRS ) issued by the IASB. Information relating to the nature and effect of such differences is presented in Note 14 to the consolidated financial statements.
5. In compliance with current regulations, we report that:
  - a) the consolidated financial statements of Telecom as of December 31, 2010 and 2009, described in paragraph 1., have been transcribed to the Inventory and Balance Sheet book and comply, as regards those matters that are within our competence, in conformity with relevant rules and regulations of the Commercial Corporations Law and the *Comisión Nacional de Valores*;
  - b) the financial statements of Telecom at December 31, 2010 arise from accounting records carried in all formal respects in accordance with current legal regulations;
  - c) we have read the Operating and Financial Review and Prospects on the financial statements on which, as regards those matters that are within our competence, we have no observations to make;
  - d) at December 31, 2010, the debt corresponding to withholdings and contributions to the Argentine Integrated Social Security System according to the Company's accounting records amounts to \$42,048,969.24, none of which was due at that date;

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e) we have applied the procedures for the prevention of money laundering and terrorist activities financing provided by the professional standards issued by the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires*.  
Autonomous City of Buenos Aires

February 21, 2011

PRICE WATERHOUSE & CO. S.R.L.

by  
(Partner)

Alejandro P. Frechou

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### **Management's Report on Internal Control Over Financial Reporting**

Telecom Group's management is responsible for establishing and maintaining adequate internal control over financial reporting for Telecom Group as defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Our internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Argentine generally accepted accounting principles (Argentine GAAP) and reconciling the Argentine GAAP figures to IFRS. Internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Telecom Argentina;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Argentine GAAP and reconciled to IFRS and that receipts and expenditures of Telecom Argentina are being made only in accordance with authorizations of management and directors of Telecom Argentina; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Telecom Argentina's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of Telecom Group's internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on our evaluation, management concluded that the Telecom Group's internal control over financial reporting was effective as of December 31, 2010.

Franco Bertone  
Chief Executive Officer

Buenos Aires, Argentina

Adrián Calaza  
Chief Financial Officer

February 21st, 2010



**Table of Contents****TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***OPERATING AND FINANCIAL REVIEW AND PROSPECTS****AS OF DECEMBER 31, 2010**

(In millions of Argentine pesos or as expressly indicated)

**1. General considerations**

Telecom Argentina reached a net income of \$1,821 for the fiscal year ended December 31, 2010 ( FY10 ), \$416 or +30% when compared to the fiscal year ended December 31, 2009 ( FY09 ).

Operating income before depreciation and amortization reached \$4,555 (+\$655 or 17% vs. FY09), 31% of Net sales. This growth was mainly fueled by the Mobile business and higher net sales in Internet in the Fixed telephony segment.

Operating income increased by 16% (+\$439 vs. FY09) to \$3,201, 22% of Net sales.

	<b>Years ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>%</b>
Net sales	14,679	12,226	20
Operating cost	(10,124)	(8,326)	22
<b>Operating income before depreciation and amortization</b>	<b>4,555</b>	<b>3,900</b>	<b>17</b>
Depreciation and amortization	(1,354)	(1,138)	19
<b>Operating income</b>	<b>3,201</b>	<b>2,762</b>	<b>16</b>
Gain on equity investees		13	n/a
Financial results, net	(34)	(329)	(90)
Other expenses, net	(317)	(229)	38
<b>Net income before income tax and noncontrolling interest</b>	<b>2,850</b>	<b>2,217</b>	<b>29</b>
Income tax expense, net	(1,010)	(797)	27
Noncontrolling interest	(19)	(15)	27
<b>Net income</b>	<b>1,821</b>	<b>1,405</b>	<b>30</b>
<b>Net income per share (in pesos)</b>	<b>1.85</b>	<b>1.43</b>	<b>30</b>

**2. Company activities****Net sales**

During FY10, consolidated net sales increased by 20% (+\$2,453 vs. FY09) to \$14,679, mainly fueled by the Broadband, data transmission and mobile businesses.

		Years ended December 31,		
		2010	2009	%
Voice		2,928	2,825	4
Internet		1,374	1,058	30
Data transmission		338	274	23
<b>Fixed telephony</b>		<b>4,640</b>	<b>4,157</b>	<b>12</b>
Mobile services	Personal	9,501	7,628	25
Mobile services	Núcleo	538	441	22
<b>Mobile services</b>		<b>10,039</b>	<b>8,069</b>	<b>24</b>
<b>Total net sales</b>		<b>14,679</b>	<b>12,226</b>	<b>20</b>

The evolution in Net sales by reportable segment was as follows:

#### **Fixed Telephony**

During FY10, revenues generated by these services amounted to \$4,640, +12% vs. FY09, where in relative terms Internet revenues have grown the most (+30% vs. FY09), followed by data transmission (+23% vs. FY09), while voice services remain stable (+4% vs. FY09).

#### **Voice**

Total revenues for this service reached \$2,928 in FY10 (+4% vs. FY09). The results of this line of business are still affected by frozen tariffs of regulated services. Revenues from regulated services reached approximately 44% of net sales of the segment in 9M10 (vs. 48% in 9M09).

Monthly Charges and Supplementary Services increased by \$42 or 5% vs. FY09, to \$884, as a consequence of a higher number of lines in service (+1%), which reached more than 4.1 million, and a 17% increase in supplementary services (mainly due to rising prices).

Revenues generated by measured services (Local Measured Service, Domestic Long Distance and International Telephony together with the revenues generated by the subsidiary Telecom Argentina USA -) totaled \$1,341, +\$66 or 5% vs. FY09, mainly fueled by the effect of the flat rate packs. In relative terms, revenues from local measured service increased the most with 9% vs. FY09; DLD revenues slightly increased +5% vs. FY09 and international telephony remained constant vs. FY09.

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**TELECOM ARGENTINA S.A.**

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Interconnection revenues amounted to \$435 (-3% vs. FY09), mainly due to a lower traffic between fixed telephony operators.

Other revenues reached \$268 (+\$8 or 3% vs. FY09), mainly due to higher billing and collecting services and fixed telephony equipment sales (the Aladino model).

**Data transmission and Internet**

Data transmission revenues amounted to \$338 (+23% vs. FY09), where the focus was to strengthen Telecom Argentina's position as an integrated TICs provider for wholesale and government segments. The increase was mainly due to the growth of VPN IP services (private data networks services that replaces the point to point services) and Datacenter services.

Revenues related to Internet reached \$1,374 (+\$316 or 30% vs. FY09), mainly due to the substantial expansion of the Broadband service (+14% of clients vs. FY09) and an increase in average prices. In addition, ADSL ARPU improved 14% when compared to FY09.

As of December 31, 2010, Telecom Argentina reached 1,380,000 ADSL customers. These connections represent approximately 34% of Telecom Argentina's fixed lines in service.

Data Transmission and Internet together have significantly increased their contribution to net consolidated sales reaching 12% participation and representing 37% of fixed telephony segment revenues (vs. 32% in FY09).

**Mobile Services**

In this quarter, consolidated clients have significantly increased reaching 18.2 million as of the end of December 2010, representing an increase of 1.9 million since December 2009. During FY10, net sales reached \$10,039 (+24% vs. FY09).

**Personal in Argentina**

As of December 2010, Personal reached 16.3 million subscribers in Argentina (+1.9 million or +13% vs. FY09) which allowed Personal to enhance its market position and strengthens its potential for future revenue growth.

Approximately 70% of the overall subscriber base is prepaid and 30% is postpaid (including Cuentas claras plans and Mobile Internet subscribers).

Personal continued with sustained growth in revenues (including handset sales) reaching \$9,501 (+25% vs. FY09), supported by the increase in the overall voice traffic minutes by 14% vs. FY09 and in value-added services (VAS) revenues by 46% vs. FY09. Service revenues reached \$8,483 (+24% vs. FY09) where 40% of them corresponds to VAS revenues. Also noteworthy is SMS traffic performance, which climbed from a monthly average of 3,034 million messages in FY09 to 4,614 million in FY10 (+52%).

As a consequence of the traffic increase and higher usage of VAS, Average Monthly Revenue per User (ARPU) increased to \$44 pesos in FY10 (+9% vs. FY09).

**Personal in Paraguay**

As of December 2010, Núcleo's subscriber base reached 1.9 million customers (+4% vs. FY09). Prepaid and postpaid customers represented 86% and 14%, respectively in FY10 (compared to 89% and 11%, respectively in FY09).

Personal's subsidiary in Paraguay generated revenues equivalent to \$538 during FY10 (+22% vs. FY09). ARPU reached to \$22 pesos per month in FY10 (+10% vs. FY09).

**Operating costs**

Consolidated operating costs totaled \$11,478 in FY10, which represents an increase of \$2,014 or +21% vs. FY09. The increase in costs is principally a consequence of a higher volume of revenues, greater expenses related to competition in mobile and Internet businesses and inflationary effects on the cost structure of the Group.

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**II**

**Table of Contents****TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer*

	Years ended December 31,		
	2010	2009	%
Salaries and social security	(1,880)	(1,504)	25
Taxes	(1,261)	(999)	26
Maintenance, materials and supplies	(708)	(597)	19
Bad debt expense	(119)	(131)	(9)
Interconnection costs	(197)	(180)	9
Cost of international outbound calls	(134)	(152)	(12)
Lease of circuits	(147)	(142)	4
Fees for services	(663)	(500)	33
Advertising	(451)	(360)	25
Agent commissions and distribution of prepaid cards commissions	(1,049)	(878)	20
Other commissions	(237)	(190)	25
Roaming	(200)	(168)	19
Charges for TLRD	(712)	(730)	(3)
Cost of voice and data equipment sales and mobile handsets	(1,541)	(1,137)	36
Others	(825)	(658)	25
<b>Subtotal</b>	<b>(10,124)</b>	<b>(8,326)</b>	<b>22</b>
Depreciation of fixed assets	(1,331)	(1,119)	19
Amortization of intangibles assets	(23)	(19)	21
<b>Operating costs</b>	<b>(11,478)</b>	<b>(9,464)</b>	<b>21</b>

The cost breakdown is as follows:

Salaries and Social Security Contributions totaled \$1,880 (+25% vs. FY09), affected by increases in salaries agreed by Telecom Argentina with various telephony trade unions for the unionized employees and also to non-unionized employees, together with related social security charges. Regarding personnel, the net incorporation of 563 employees in the mobile segment was offset by a decrease in the fixed telephony segment (-234 employees vs. FY09). With a total headcount of 15,629 at the end of FY10 (+2% vs. FY09), lines in service per employee reached 379 in the Fixed telephony segment (+4% vs. FY09) and 3,805 in the mobile segment (-1% vs. FY09).

Taxes (including fees with the Regulatory Authority) reached \$1,261 (+26% vs. FY09), influenced mainly by higher average rates in turnover taxes and higher bank debits and credits taxes amounting to \$166. The rates and fees paid to the Regulatory Authority increased in \$71, mainly due to the increase in revenues and mobile subscribers.

Network access costs (includes charges for TLRD, Roaming, Interconnection costs, cost of international outbound calls and lease of circuits) amounted to \$1,390, similar levels as those obtained in FY09 (+\$18).

Agents, distribution of prepaid cards and other commissions were \$1,286 (+20% vs. FY09), mainly due to the increase in commissions related to commercial agents associated to higher revenues because of major acquisition and retention costs, higher cards sales, and prepaid recharges.

Fees for services amounted to \$663 (+33% vs. FY09), mainly due to higher costs from the Call Centers in the mobile segment and the renegotiation of several contracts which consider the wage increases faced by suppliers.

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Advertising amounted to \$451 (+25% vs. FY09), oriented towards supporting the commercial activity in mobile services (\$309, +\$67 or 28% vs. FY09) and Fixed Telephony (\$142, +\$24 or 20% vs. FY09) and to strengthening the brand position of the Telecom Group.

Cost of handsets totaled \$1,541 (+36% vs. FY09) due to an increase in the number of handsets sold (+12% vs. FY09), specially high-end handsets to boost VAS and higher average unit cost of sales (+21% vs. FY09) mainly due to the effect of the Internal Taxes not charged to the customers amounting to \$75 (better known as the Technological Tax).

Bad debt expense reached \$119 (-\$12 vs. FY09), representing less than 1% of the consolidated net revenues. The improvement occurred in the Fixed Telephony segment.

Depreciation of Fixed and Intangible Assets reached \$1,354 (+19% vs. FY09). Fixed telephony totaled \$719 (+8% vs. FY09) and Mobile telephony totaled \$635 (+34% vs. FY09), mainly due to higher investment in fixed assets in Mobile network access, Switching Equipment and Computer Equipment in both segments.

Other costs totaled \$1,533 (+22% vs. FY09). The increase was due to the inflationary effect on related services.

### **Operating income before depreciation and amortization**

Operating income before depreciation and amortization reached \$4,555 (+\$655 or 17% vs. FY09). Despite the increase in consolidated net sales, the margin decreased, representing 31% of consolidated net sales in FY10 (vs. 32% in FY09).

### **Operating income**

Operating income increased 16% (+\$439 vs. FY09), amounting to \$3,201, representing 22% and 23% of the consolidated net revenues in FY10 and FY09, respectively.

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### III

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**TELECOM ARGENTINA S.A.**

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**Financial results, net**

Financial results, net resulted in a net loss of \$34, an improvement of \$295 vs. FY09. This was mainly due to minor losses registered in net foreign currency exchange differences (+\$211 vs. FY09) and lower net interest (+\$84 vs. FY09), due to the return on the Telecom Group's net financial assets during FY10.

**Net financial asset**

As of December 31, 2010, Net financial assets (Loans minus Cash and Cash Equivalents) amounted to \$1,224, an improvement of \$755 as compared to December 2009 (totalized \$469) due to the strong cash flow generation that offset the cash dividends paid by Telecom Argentina amounting to \$1,053. The Fixed Telephony segment has net financial assets of \$874 and the Mobile segment has net financial assets of \$350 (despite the cash dividends paid to Telecom Argentina and Nortel amounting to \$575 in May 2010).

**Capital expenditures**

During FY10, the Telecom Group invested \$2,024 in fixed and intangible assets (+11% vs. FY09), of which \$1,048 or 52% were allocated to Fixed Telephony segment (50% in FY09) and \$976 or 48% to the Mobile segment (50% in FY09). In relative terms, capex reached 14% of the consolidated sales of FY10 and were mainly for the Mobile network access and Transmission equipment, Switching equipment and Computer equipment.

Main capex projects are related to the expansion of broadband services to improve transmission and speed available to the clients; deployment of 3G services to support the growth of mobile broadband together with the launch of innovative VAS and the expansion of transmission and transport networks to meet the growing demand of our fixed and mobile clients.

**IFRS Implementation Plan progress**

In accordance with RG 562/09, the Company developed an Implementation Plan for the adoption of IFRS in Telecom Argentina and its subsidiaries. Such Plan was approved by the Board of Directors on March 16, 2010. The Implementation Plan provides for the adoption of IFRS according to the dates established in RG 562/09 and RG 576/10, and addresses the presentation of IFRS financial statements as additional information to the consolidated financial statements in order to facilitate the understanding of the effects of the new standards on Telecom Group's income and equity.

At the date of issuance of these consolidated financial statements, the Company is making progress in the Implementation Plan in accordance with the scheduled dates and the IFRS Project Leader has not identified any circumstances which may require the modification of the Plan or indicate deviations in the fulfillment of its objectives.

Although adoption of IFRS is mandatory for the Company effective January 1, 2012, the management of the Company, with the assistance of its independent auditors, has finalized the diagnostic of the main valuation differences between Argentine GAAP and IFRS for the Telecom Group. A summary of the main qualitative and quantitative impacts on shareholders' equity and net income, resulting from the adoption of IFRS, is included in Note 14 to the consolidated financial statements as of December 31, 2010.

The management of the Company plans to issue the first full financial statements under IFRS on the occasion of submitting Form 20-F to the SEC for the fiscal year ended December 31, 2010. With this presentation, the Company will be released from the duty to submit a reconciliation note on the shareholders' equity and net income under Argentine GAAP and the US GAAP.

**Closing prices of Class B Shares of the Company**

<b>Month</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
January	12.75	12.80	5.86	12.90	21.15
February	13.00	14.50	5.45	12.75	
March	13.05	13.50	5.97	14.60	
April	13.80	11.25	6.80	15.35	
May	17.20	12.15	6.78	13.35	
June	15.25	9.35	10.00	13.00	
July	13.75	8.33	10.45	14.40	
August	16.50	8.24	11.70	15.00	
September	15.65	7.98	12.20	17.00	
October	15.25	4.40	12.90	18.65	
November	16.80	5.80	12.40	19.50	
December	14.30	6.00	12.65	20.00	
Annual increase (decrease)	20%	(58%)	111%	58%	
MERVAL Annual increase (decrease)	3%	(50%)	115%	52%	

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IV



**Table of Contents****TELECOM ARGENTINA S.A.***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***Selected consolidated quarterly information**

Quarter ended	Net sales	Operating income before depreciation and amortization	Operating income	Financial results, net	Net income
<b><u>Year 2010:</u></b>					
March 31,	3,249	1,064	763	(57)	411
June 30,	3,468	1,100	776	11	454
September 30,	3,767	1,118	783	2	444
December 31,	4,195	1,273	879	10	512
	<b>14,679</b>	<b>4,555</b>	<b>3,201</b>	<b>(34)</b>	<b>1,821</b>
<b><u>Year 2009:</u></b>					
March 31,	2,829	917	659	(94)	351
June 30,	2,925	924	652	(57)	352
September 30,	3,107	1,014	724	(166)	303
December 31,	3,365	1,045	727	(12)	399
	<b>12,226</b>	<b>3,900</b>	<b>2,762</b>	<b>(329)</b>	<b>1,405</b>
<b><u>Year 2008:</u></b>					
March 31,	2,480	879	534	(60)	272
June 30,	2,571	808	515	52	341
September 30,	2,738	815	491	(104)	218
December 31,	2,819	828	501	(153)	130
	<b>10,608</b>	<b>3,330</b>	<b>2,041</b>	<b>(265)</b>	<b>961</b>

**3. Summary comparative consolidated balance sheets**

	As of December 31,				
	2010	2009	2008	2007	2006
Current assets	3,614	2,943	2,600	2,384	1,767
Non current assets	8,350	7,690	7,057	6,787	6,953
<b>Total assets</b>	<b>11,964</b>	<b>10,633</b>	<b>9,657</b>	<b>9,171</b>	<b>8,720</b>
Current liabilities	4,480	4,169	4,069	3,643	3,373
Non current liabilities	1,121	936	1,487	2,419	3,146
<b>Total liabilities</b>	<b>5,601</b>	<b>5,105</b>	<b>5,556</b>	<b>6,062</b>	<b>6,519</b>

<b>Noncontrolling interest</b>	<b>126</b>	<b>92</b>	<b>81</b>	<b>79</b>	<b>72</b>
<b>Shareholders equity</b>	<b>6,237</b>	<b>5,436</b>	<b>4,020</b>	<b>3,030</b>	<b>2,129</b>
<b>Total liabilities, noncontrolling interest and Shareholders equity</b>	<b>11,964</b>	<b>10,633</b>	<b>9,657</b>	<b>9,171</b>	<b>8,720</b>

#### 4. Summary comparative consolidated statements of operations

	Years ended December 31,				
	2010	2009	2008	2007	2006
Net sales	14,679	12,226	10,608	9,074	7,372
Operating costs	(11,478)	(9,464)	(8,567)	(7,438)	(6,478)
<b>Operating income</b>	<b>3,201</b>	<b>2,762</b>	<b>2,041</b>	<b>1,636</b>	<b>894</b>
Gain on equity investees		13			5
Financial results, net	(34)	(329)	(265)	(441)	(484)
Other expenses, net	(317)	(229)	(268)	(98)	(184)
<b>Net income before income tax and noncontrolling interest</b>	<b>2,850</b>	<b>2,217</b>	<b>1,508</b>	<b>1,097</b>	<b>231</b>
Income tax benefit (expense), net	(1,010)	(797)	(535)	(292)	22
Noncontrolling interest	(19)	(15)	(12)	(23)	(22)
<b>Net income from continuing operations</b>	<b>1,821</b>	<b>1,405</b>	<b>961</b>	<b>782</b>	<b>231</b>
Gain from discontinued operations				102	13
<b>Net income</b>	<b>1,821</b>	<b>1,405</b>	<b>961</b>	<b>884</b>	<b>244</b>
<b>Net income per share (in pesos)</b>	<b>1.85</b>	<b>1.43</b>	<b>0.98</b>	<b>0.90</b>	<b>0.25</b>

#### 5. Statistical data (in physical units)

##### Fixed Telephony

##### *Voice and data services*

December 31,	2010		2009		2008		2007		2006	
	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter
<b>Equipment lines</b>	3,835,567	132	3,852,159	1,280	3,848,369	(34)	3,878,965	(187)	3,871,471	4,382
<b>NGN lines</b>	853,410	32,528	742,884	64,464	594,260	136,160	359,577	239,277	25,166	12,866
<b>Installed lines (a)</b>	4,688,977	32,660	4,595,043	65,744	4,442,629	136,126	4,238,542	239,090	3,896,637	17,248
<b>Lines in service (b)</b>	4,107,082	20,305	4,060,260	16,263	4,010,056	24,304	3,917,530	31,070	3,821,406	33,471
<b>Customers lines (c)</b>	4,019,059	21,086	3,967,427	17,260	3,915,319	25,525	3,813,874	34,048	3,709,868	34,109
<b>Public phones installed</b>	44,846	(790)	50,275	(1,368)	58,375	(2,866)	70,550	(4,563)	81,568	(674)
<b>Lines in service per 100</b>	20.8	0.1	20.7		20.6	0.1	20.3	0.1	19.9	0.1

**inhabitants****(d)****Lines in****service per**

<b>employee (e)</b>	379	9	366	5	358	11	341	1	332	(1)
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- (a) Reflects total number of lines available in Switches, considered independently of its technology (TDM or NGN).
- (b) Includes customers lines, own lines, public telephones and DDE and ISDN channels. As of December 31, 2010, the Company considers DDE channels as lines in service. Previously it considered the internal numbers assigned to those channels. Therefore, comparative information has been adapted to the new criterion.
- (c) The number of clients is measured in relation to the physical occupation of network resources.
- (d) Corresponding to the Northern Region of Argentina.
- (e) Defined as lines in service / number of actual employees.

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V

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December 31,	2010		2009		2008		2007		2006	
	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter
ADSL subscribers	1,380,000	50,000	1,214,000	44,000	1,032,000	68,000	768,000	104,000	449,000	82,000
Dial Up subscribers	47,000	(2,000)	55,000	(2,000)	65,000	(3,000)	76,000	(4,000)	88,000	(8,000)
Total subscribers	<b>1,427,000</b>	<b>48,000</b>	<b>1,269,000</b>	<b>42,000</b>	<b>1,097,000</b>	<b>65,000</b>	<b>844,000</b>	<b>100,000</b>	<b>537,000</b>	<b>74,000</b>

**Mobile services*****Personal***

December 31,	2010		2009		2008		2007		2006	
	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter
Post-paid subscribers (*)	2,111,000	126,000	1,715,000	74,000	1,454,000	103,000	1,134,000	121,000	759,000	76,000
Cuentas claras plans	2,796,000	29,000	2,709,000	(14,000)	2,807,000	116,000	2,470,000	151,000	2,127,000	140,000
Prepaid subscribers	11,426,000	190,000	10,051,000	421,000	8,303,000	404,000	7,062,000	233,000	5,539,000	534,000
Total subscribers	<b>16,333,000</b>	<b>345,000</b>	<b>14,475,000</b>	<b>481,000</b>	<b>12,564,000</b>	<b>623,000</b>	<b>10,666,000</b>	<b>505,000</b>	<b>8,425,000</b>	<b>750,000</b>
Lines per employee	<b>3,738</b>		<b>3,810</b>		<b>3,411</b>		<b>3,050</b>		<b>2,603</b>	

***Núcleo***

December 31,	2010		2009		2008		2007		2006	
	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter	Accumulated	Quarter
Post-paid subscribers (*)	74,000	13,000	36,000	4,000	24,000	(1,000)	23,000	1,000	22,000	
Plan control plans	190,000	10,000	153,000	4,000	140,000	(6,000)	140,000	7,000	124,000	12,000
Prepaid subscribers	1,604,000		1,605,000	14,000	1,647,000	13,000	1,456,000	112,000	1,018,000	203,000

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Subtotal cellular	1,868,000	23,000	1,794,000	22,000	1,811,000	6,000	1,619,000	120,000	1,164,000	215,000
Internet subscribers	10,000		12,000		15,000	2,000	7,000	2,000		
Total subscribers	1,878,000	23,000	1,806,000	22,000	1,826,000	8,000	1,626,000	122,000	1,164,000	215,000
Lines per employee (**)	4,512		4,251		3,836		2,917		1,828	

(\*) Includes mobile Internet subscribers.

(\*\*) Internet Wimax subscribers are not included.

**6. Consolidated ratios**

December 31,	2010	2009	2008	2007	2006
<b>Liquidity (1)</b>	0.81	0.71	0.64	0.65	0.52
<b>Solvency (2)</b>	1.14	1.08	0.74	0.51	0.34
<b>Locked up capital (3)</b>	0.70	0.72	0.73	0.74	0.80
<b>Pretax return on capital (4)</b>	0.31	0.30	0.27	0.34	0.12

(1) Current assets/Current liabilities.

(2) Shareholders' equity plus noncontrolling interest/Total liabilities.

(3) Non current assets/Total assets.

(4) Net income /Shareholders' equity average.

**7. Outlook**

During FY10, the Telecom Group has strengthened its position in all its business segments and is starting the next fiscal year backed by a solid financial situation as well as a solid market position.

The Group has continued to expand its customer base, to 4.1 million fixed lines in service, 1.4 million Internet subscribers and 18.2 million mobile telephony subscribers. This has been reflected in a 20% increase in the consolidated revenues, corresponding 93% to sales for services that grew 19% with respect to FY09.

Capital expenditures increased by 11% in FY10 with respect to FY09, representing 14% of consolidated net sales. It should be noted that such acquisitions were distributed equally between the Fixed and Mobile Telephony segments.

The economic results and financial indicators have improved with respect to FY09. Progress was made at the level of operating results (+16%) and net income (+30%), which confirms their soundness due to the growth in the main operating and financial variables. The ROE (Return on Equity) was 33.5%.

In relation to the services provided, the Telecom Group's companies continued to work on their objective to be the leaders in innovation, by launching various services and products based upon state-of-art technology.

Capacity to generate operating cash has made it possible to increase the level of capital expenditures, without need to resort to financial indebtedness, even after paying dividends in the amount of \$1,053. During FY11 the Company will continue with its strategy of increasing the subscriber base, the average consumption per customer and, as a consequence, net sales in all the business segments, as a result of strong investments in its network, so as to provide the current and future customers with better and new services.

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### **TELECOM ARGENTINA S.A.**

#### ***Corporation non adhered to the Optional Statutory Regime of Compulsory Public Purchase Offer***

Prospects of growth in fixed telephony will continue in line with the evolution experienced in recent years as a result of market maturity and international industry trends. The expansion of the Broadband business is the main driver of growth, where the Arnet brand is in an excellent position in segments of individual customers and in corporate accounts, including small and medium size enterprises and large accounts. The comprehensive offer of fixed telephony, data transmission, mobile and datacenter services enables Telecom Argentina to be a strategic supplier of telecommunication and associated services for those corporate customers who decide to select it as their operator. Adding new Value Added Services will continue to be a permanent business priority in FY11.

In respect of tariffs in the Fixed Telephony segment, the agreements made in the Letter of Understanding subscribed with the National Government on March 6, 2006, are still to be implemented. This is also the case with the changes in rates of regulated services, so as to readapt the economic and financial equation of Telecom Argentina, in order to permit, among other things, to continue with the technological innovation Telecom Argentina's infrastructure requires. Current pressures on the Fixed Telephony cost structure accentuate such need.

Another issue requiring progress in FY11 is the actual operation of the Universal Service Fund, which financially offsets incumbent operators for losses incurred in the services rendered since 2001, and which enables access to basic services to low-income persons, in areas not currently covered by fixed and mobile telecommunication services.

It is estimated that the Mobile telephony subscriber base will continue to expand in FY11, though at more moderate rates than those of recent years, and in sectors where services such as Mobile Internet continue to gain further presence. However, Personal's presence in the Argentine market enables to anticipate further growth in market share, number of customers and revenue for the mobile industry, as it occurred in FY10. The Company will continue with its strategy of acquiring and promoting loyalty of high value customers, by stimulating consumption with the launching of new products and services, so that it is not only able to make its present customers loyal, but also be the preferred brand in the mobile industry in Argentina, through Personal.

One of the sources of revenue growth will continue to be the greater relative weight of revenue from Value Added Services on total sales in this segment (in FY10 they involved about 40% of Personal's sales of services). It is also expected that Mobile Internet offer will enhance its commercial growth as the deployment of its third generation network enables to increase data transmission speed and the areas where the services are provided. With the addition of Mobile Number Portability since the end of 2011, it will be seen an intense competition, and all operators will carry on loyalty action to keep their best customers. Personal is adapting its technological infrastructure to increase portability, and is not only ready to enhance loyalty of its customers, but also to benefit from the opportunities afforded by the new regulations.

It is also expected the Regulatory Authority to make available to the market the radio-electric spectrum that the new services require, not only to expand the customer base, but also to enrich the portfolio of mobile products and services.

In order to provide the customers with newer and better services, the Telecom Group shall continue with its investment plans that will require expenditures of about 15% of the consolidated net sales estimated for the next fiscal year. Telecom Argentina will use its investments to accompany Broadband growth and new value-added initiatives in the Fixed telephony segment, providing infrastructure to mobile operators, and streamlining its commercial and customer service systems. Personal will enhance its network infrastructure and seek to expand its coverage in 3G technology and bandwidth for mobile data transmission and customer service improvement.

For the second consecutive year, the Company is in an excellent financial position to propose a cash dividend payment to its shareholders. This is due to the constant increase in operating cash flow (+6% vs. 2009) and to its net consolidated financial asset, which amounts to \$1,224 (+161% vs. 2009).

The strategy implemented by the Management of Telecom Argentina introduces the basic necessary foundations that will allow the Telecom Group to take the necessary steps to achieve its objectives of constant service enhancement, strengthening its market position and increasing its efficiency to satisfy the continuous needs of the customers in a dynamic telecommunications market. Its investment plans are based on this vision and on the commitment of the Telecom Group to the country and its people.

**Enrique Garrido**  
**Chairman of the Board of Directors**

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**TELECOM ARGENTINA S.A.**

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**CORPORATE INFORMATION**

**INDEPENDENT AUDITORS** Price Waterhouse & Co S.R.L. (member of PricewaterhouseCoopers)

**STOCK MARKET INFORMATION** (Source: Bloomberg)

BCBA

Quarter	Market quotation (\$/share)		Volume of shares traded (in millions)
	High	Low	
December 09	13.65	11.80	7.7
March 10	14.65	12.55	8.9
June 10	16.45	11.90	13.2
September 10	17.45	13.00	14.6
December 10	20.80	17.05	14.2

NYSE

Quarter	Market quotation (US\$/ADR*)		Volume of ADRs traded (in millions)
	High	Low	
December 09	18.05	15.29	8.1
March 10	18.79	15.87	8.2
June 10	21.22	15.02	11.2
September 10	22.09	16.31	10.6
December 10	25.78	21.58	15.3

\* Calculated at 1 ADR = 5 shares

**INVESTOR RELATIONS** for information about Telecom Argentina S.A., please contact:

**In Argentina**

Telecom Argentina S.A.  
Investor Relations Division  
Alicia Moreau de Justo 50, 10<sup>th</sup> Floor  
(1107) Ciudad Autónoma de Buenos Aires

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### **Outside Argentina**

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Latam ADR Sales & Relationship Mgmt.  
277 Park Avenue, 39<sup>th</sup> Floor  
New York 10172  
USA  
Tel.: 1-212-622-9229

**INTERNET** <http://www.telecom.com.ar>

### **DEPOSIT AND TRANSFER AGENT FOR ADRs**

JP Morgan Chase Bank  
4 New York Plaza, Wall Street  
New York, 1-212-622-9227  
USA

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Telecom Argentina S.A.**

Date: April 8, 2011

By: /s/ Enrique Garrido  
Name: Enrique Garrido  
Title: Chairman