COFFEE HOLDING CO INC
Form 10-K
January 29, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: **October 31, 2008**

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from: _____________ to _____________

COFFEE HOLDING CO., INC.

(Exact name of registrant as specified in its charter)

Nevada	**333-00588-NY**	**11-2238111**
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

4401 First Avenue, Brooklyn, New York 11232-0005

(Address of principal executive offices)(Zip Code)

(718) 832-0800

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $0.001 Per Share	**American Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.Yes¨ No þ

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained in, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company þ
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of the common equity held by non-affiliates of the registrant, computed by reference to the closing price of the registrant s common stock on the American Stock Exchange on December 31, 2008, was $1,864,597.

As of December 31, 2008, the registrant had 5,428,702 shares of common stock, par value $0.001 per share, outstanding.

Documents incorporated by reference

Portions of the registrant s proxy statement for the 2009 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days after registrant s fiscal year ended October 31, 2008, are incorporated by reference in Part III of this Form 10-K.

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PART I

ITEM 1.

BUSINESS

General Overview

Products and Operations. We are an integrated wholesale coffee roaster and dealer in the United States. Our core products can be divided into three categories:

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Wholesale Green Coffee: unroasted raw beans imported from around the world and sold to large and small roasters and coffee shop operators;

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Private Label Coffee: coffee roasted, blended, packaged and sold under the specifications and names of others, including supermarkets that want to have their own brand name on coffee to compete with national brands; and

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Branded Coffee: coffee roasted and blended to our own specifications and packaged and sold under our seven proprietary and licensed brand names in different segments of the market.

Our private label and branded coffee products are sold throughout the United States and Canada to supermarkets, wholesalers, and individually owned and multi-unit retail customers. Our unprocessed green coffee, which includes over 90 specialty coffee offerings, is sold to specialty gourmet roasters.

We conduct our operations in accordance with strict freshness and quality standards. All of our private label and branded coffees are produced from high quality coffee beans that are deep roasted for full flavor using a slow roasting process that has been perfected utilizing our more than thirty years of experience in the coffee industry. In order to ensure freshness, our products are delivered to our customers within 72 hours of roasting. We believe that our long history has enabled us to develop a loyal customer base.

We were founded and incorporated in New York State in 1971 and have been a family operated business for over 35 years. In 1998, we merged with Transpacific International Group Corp. and became a Nevada corporation. In May 2005, we concluded our initial public offering and our common stock began trading on the American Stock Exchange under the symbol JVA. Our fiscal year ends on October 31.

Our corporate offices are located at 4401 First Avenue, Brooklyn, New York 11232. Our telephone number is (718) 832-0800 and our website address is www.coffeeholding.com.

Our Competitive Strengths

To achieve our growth objectives described below, we intend to leverage the following competitive strengths:

National Distribution with Capacity For Growth. From 1991 to 2004, we expanded our distribution to a national platform while operating from only our East Coast location by making capital investments to improve our roasting, packaging and fulfillment infrastructure to support the production and distribution of large quantities of fresh coffee products throughout the United States. In February 2004, we acquired certain assets of Premier Roasters, a roaster-dealer located in La Junta, Colorado, for $825,000. The assets purchased by us include all of the operating equipment located at Premier Roasters La Junta and Rocky Ford, Colorado locations, as well as all labels for all of Premier Roasters coffee products. In connection with the acquisition of these assets, we reached an agreement with the City of La Junta, Colorado on a 20-year lease for a 50,000 square foot facility in La Junta. We are using the assets that we purchased to expand our integrated wholesale coffee roaster and dealer operations in the Western United States. By operating out of two facilities, we have gained new economies of scale in both manufacturing and logistical efficiencies and are confident that we can compete aggressively throughout the United States. These two facilities allow us to reduce our freight and shipping costs to the Western United States, thereby enabling us to be more competitive in bidding for new business. In addition, our presence in Colorado has increased the number of customers we have because of our proximity to the West Coast.

In April 2006, the Company and Caruso's Coffee of Brecksville, Ohio formed Generations Coffee Company, LLC, a Delaware limited liability company, which engages in the roasting, packaging and sale of private label specialty coffee products. We own 60 %of the joint venture and are the exclusive supplier of its coffee inventory. We believe that the Generations Coffee joint venture will allow us to bid on the private label gourmet whole bean business which we have not been equipped to pursue from an operational standpoint in the past. With this specialty roasting facility in place, in many cases right in the backyard of our most important wholesale and retail customers, we believe that we are in an ideal position to combine our current canned private label business with high-end private label specialty whole bean business. High-end specialty whole bean coffee sells for as much as three times more per pound than the canned coffees in which we currently specialize.

Positioned to Profitably Grow Through Varying Cycles of the Coffee Market. We believe that we are one of the few coffee companies to offer a broad array of branded and private label roasted ground coffees and wholesale green coffee across the spectrum of consumer tastes, preferences and price points. While many of our competitors engage in distinct segments of the coffee business, we sell products in each of the following areas:

- Retail branded coffee;
- Mainstream retail private label coffee
- Specialty retail coffees both private label and branded
- Wholesale specialty green and gourmet whole bean coffees;
- Food service;
- Instant coffees; and
- Niche products.

Our branded and private label roasted ground coffees are sold predominantly at competitive and value price levels while some of our other branded and specialty coffees are sold predominantly at the premium price levels. Premium price level coffee is high-quality gourmet coffee, such as AA Arabica coffee, which sells at a substantial premium over traditional retail canned coffee, while competitive and value price level coffee is mainstream or traditional canned coffee. Because of this diversification, we believe that our profitability is not dependent on any one area of the coffee industry and, therefore, is less sensitive than our competition to potential coffee commodity price and overall economic volatility.

Wholesale Green Coffee Market Presence. As a large roaster/dealer of green coffee, we believe that we are favorably positioned to increase our specialty coffee sales. Since 1998, we have increased the number of our wholesale green coffee customers, including coffee houses, single store operators, mall coffee stores and mail order sellers, by 129% from 150 to 344. We are a charter member of the Specialty Coffee Association of America and one of the largest distributors of Swiss Water Processed Decaffeinated Coffees along the East Coast. In addition, although we do not have any formalized, material agreements or long-term contracts with it, we have a 17-year relationship with Green Mountain Coffee Roasters, our largest wholesale green coffee customer. In 2007, we added two green coffee salespersons in Florida and Oregon to enable us to further grow our green coffee business in the southern and western United States. These salespersons are responsible for adding approximately 95 new customers. Our 35-plus years of experience as a roaster and a dealer of green coffee allows us to provide our roasting experience as a value added service to our gourmet roaster customers. The assistance we provide to our customers includes training, coffee blending and market identification. We believe that our relationships with wholesale green coffee customers and our focus on selling green coffee as a wholesaler has enabled us to participate in the growth of the specialty coffee market while mitigating the risks associated with the competitive retail specialty coffee environment.

Diverse Portfolio of Differentiated Branded Coffees. Currently, our highest net profit margin is on our branded coffees. We have amassed a portfolio of five proprietary name brands sold to supermarkets, wholesalers and individually owned stores in the United States, including brands for specialty espresso, Latin espresso, Italian espresso, 100% Colombian coffee and blended coffee. In addition, we have entered into a licensing agreement with Del Monte Corporation for the exclusive right to use the S&W and IL CLASSICO trademarks in the United States and other countries approved by Del Monte Corporation in connection with the production, manufacture and sale of roasted whole bean and ground coffee for distribution to retail customers. We plan to broaden our customer base and increase penetration with existing customers by expanding the S&W label from a well-known brand on the West Coast to a well-known brand throughout the United States. In July 2007, we entered into a three-year licensing agreement with Entenmann s Products, Inc., a subsidiary of Entenmann s, Inc., which is one of the nation s oldest baking companies. The agreement gives us the exclusive rights to manufacture, market and distribute a full line of Entenmann s brand coffee products throughout the United States. We have developed not only mainstream

Entenmann s coffee items, but upscale flavored Entenmann s products in twelve-ounce valve bags as well. These products will give the line a visible upscale image to our retailers and their customers, which we believe will be integral to the long-term success of this arrangement. Our first production run was in February 2008 and our Entenmann s coffee products began appearing in supermarkets in the Northeast during mid-March 2008. Our existing portfolio of differentiated brands combined with our management expertise serve as a platform to add additional name brands through acquisition or licensing agreements which target product niches and segments that do not compete with our existing brands.

Management Has Extensive Experience in the Coffee Industry. We have been a family operated business for three generations. Throughout this time, we have remained profitable through varying cycles in the coffee industry and the economy. Andrew Gordon, our President, Chief Executive Officer and Chief Financial Officer, and David Gordon, our Executive Vice President Operations, have worked with Coffee Holding for 26 and 28 years, respectively. David Gordon is an original member of the Specialty Coffee Association of America. We believe that our employees and management are dedicated to our vision and mission, which is to produce high quality products, as well as to provide quality and responsive service to our customers.

Our Growth Strategy

We believe that significant growth opportunities exist by selectively pursuing strategic acquisitions and alliances, targeting the rapidly growing Hispanic market in the United States, increasing penetration with existing customers by adding new products, and developing our food service business. By capitalizing on this strategy, we hope to continue to grow our business with our commitment to quality and personalized service to our customers. We do not intend to compete on price alone nor do we intend to expand sales at the expense of profitability.

Selectively Pursue Strategic Acquisitions and Alliances. We intend to expand our operations by acquiring coffee companies, seeking strategic alliances and acquiring or licensing brands, which complement our business objectives. Consistent with this strategy, in February 2004, we acquired certain assets of Premier Roasters and entered into a licensing agreement with Del Monte Corporation for the exclusive right to use the S&W and IL CLASSICO trademarks, including Premium, Premium Decaf, French Roast, Colombian, Colombian Decaf, Swiss Water Decaf, Kona, and Mellow'd Roast lines, in the United States and other countries approved by Del Monte Corporation in connection with the production, manufacture and sale of roasted whole bean and ground coffee for distribution at the retail level.

In April 2006, we entered into a joint venture with Caruso s Coffee of Brecksville, Ohio and formed Generations Coffee Company, LLC, which engages in the roasting, packaging and sale of private label specialty coffee products. We believe this joint venture will allow us to successfully bid on and compete for specialty private label coffee opportunities which we were not operationally set up to compete for in the past.

In July 2007, we entered into a licensing agreement with Entenmann s Products, Inc., which gives us the exclusive rights to manufacture, market and distribute a full line of Entenmann s brand coffee products throughout the United States. We have developed not only mainstream Entenmann s coffee items, but upscale flavored Entenmann s products in twelve-ounce valve bags as well. These products will give the line a visible upscale image to our retailers and their customers, which we believe will be integral to the long-term success of this arrangement.

Grow Our Café Caribe and Café Supremo Products. The Hispanic population in the United States is growing at nine times the average rate and now represents the largest minority demographic in the United States. We believe there is significant opportunity for our Café Caribe and Café Supremo brands to gain market share among Hispanic consumers in the United States. Café Caribe, which has historically been our leading brand by revenue, is a specialty espresso coffee that targets espresso coffee drinkers and, in particular, Hispanic consumers. Café Supremo is a specialty espresso coffee which is priced for the more price sensitive Hispanic espresso coffee drinker.

Further Market Penetration of Our Niche Products. We intend to capture additional market share through our existing distribution channels by selectively adding or introducing new brand names and products across multiple price points, including:

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Specialty blends;

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Private label value blends and trial-sized mini-brick packages;

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Specialty instant coffees;

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Instant cappuccinos and hot chocolates; and

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Tea line products.

Develop Our Food Service Business. We plan to expand further into the food service business by developing new distribution channels for our products. Currently, we have a limited presence in the food service market. In 2003, we began marketing our upscale restaurant and Colombian coffee brands to hotels, restaurants, office coffee services companies and other food service retailers. In addition, we have expanded our food service offerings to include instant cappuccinos, tea products and an equipment program for our customers. We attend at least four annual trade shows held by various buying groups, which provide us a national audience to market our food service products.

Our Core Products

Our core products can be divided into three categories:

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Wholesale Green Coffee: unroasted raw beans imported from around the world and sold to large and small roasters and coffee shop operators;

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Private Label Coffee: coffee roasted, blended, packaged and sold under the specifications and names of others, including supermarkets that want to have their own brand name on coffee to compete with national brands; and

.

Branded Coffee**:** coffee roasted and blended to our own specifications and sold under our seven proprietary and licensed brand names in different segments of the market.

Wholesale Green Coffee. The specialty green coffee market represents the fastest growing area of our industry. The number of gourmet coffee houses have been increasing in all areas of the United States. The growth in specialty coffee sales has created a marketplace for higher quality and differentiated products, which can be priced at a premium in the marketplace. As a large roaster/dealer of green coffee, we are favorably positioned to increase our specialty coffee sales. We sell green coffee beans to small roasters and coffee shop operators located throughout the United States and carry over 90 different varieties. Specialty green coffee beans are sold unroasted, direct from warehouses to small roasters and gourmet coffee shop operators, which then roast the beans themselves. We sell from as little as one bag (132 pounds) to a full truckload (44,000 pounds) depending on the size and need of the customer. We believe that we can increase sales of wholesale green coffee without venturing into the highly competitive retail specialty coffee environment and that we can be as profitable or more profitable than our competition in this segment by selling one bag at a time rather than one cup at a time.

Private Label Coffee. We roast, blend, package and sell coffee under private labels for companies throughout the United States and Canada. Our private label coffee is sold in cans, brick packages and instants in a variety of sizes. As of October 31, 2008, we supplied coffee under approximately 422 different labels to wholesalers and retailers, including Supervalu and C&S Wholesale, two of the largest grocery wholesalers in North America according to *Private Label Magazine.* We produce private label coffee for customers who desire to sell coffee under their own name but do not want to engage in the manufacturing process. Our private label customers seek a quality similar to the national brands at a lower cost, which represents a better value for the consumer.

Branded Coffee. We roast and blend our branded coffee according to our own recipes and package the coffee at our facilities in Brooklyn, New York, La Junta, Colorado, and Brecksville, Ohio. We then sell the packaged coffee under our brand labels to supermarkets, wholesalers and individually owned stores throughout the United States.

We hold trademarks for each of our proprietary name brands and have the exclusive right to use the S&W, IL CLASSICO, and Entenmann s trademarks in the United States in connection with the production, manufacture and sale of roasted whole bean and ground coffee for distribution at the retail level. For further information regarding our trademark rights, see *Business-Trademarks*.

Each of our name brands is directed at a particular segment of the coffee market. Our branded coffees are:

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Café Caribe is a specialty espresso coffee that targets espresso coffee drinkers and, in particular, the Hispanic consumer market;

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S&W is an upscale canned coffee established in 1921 and includes Premium, Premium Decaf, French Roast, Colombian, Colombian Decaf, Swiss Water Decaf, Kona, Mellow'd Roast and IL CLASSICO lines;

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Café Supremo is a specialty espresso that targets espresso drinkers of all backgrounds and tastes. It is designed to introduce coffee drinkers to the tastes of dark roasted coffee;

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Don Manuel is produced from the finest 100% Colombian coffee beans. Don Manuel is an upscale quality product which commands a substantial premium compared to the more traditional brown coffee blends. We also use this known trademark in our food service business because of the high brand quality;

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Fifth Avenue is a blended coffee that has become popular as an alternative for consumers who purchase private label or national branded coffee. We also market this brand to wholesalers who do not wish to undertake the expense of developing a private label coffee program under their own name;

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Via Roma is an Italian espresso targeted at the more traditional espresso drinker; and

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Il CLASSICO is an S&W brand espresso product; and

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Our ***Entenmann's*** line of coffee products consists of three canned coffees and six different bagged coffees, each of which is made from superior quality 100% Arabica Specialty Coffee beans that represent less than 10% of all coffee beans grown in the world.

Other Products

We also offer several niche products, including:

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trial-sized mini-brick coffee packages;

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specialty instant coffees;

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instant cappuccinos and hot chocolates; and

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tea line products.

Raw Materials

Coffee is a commodity traded on the Commodities and Futures Exchange subject to price fluctuations. Over the past five years, the average price per pound of coffee beans ranged from approximately $0.43 to $1.73. The price for coffee beans on the commodities market as of October 31, 2008 was $1.13 per pound. Specialty green coffee, unlike most coffee, is not tied directly to the commodities cash markets. Instead, it tends to trade on a negotiated basis at a substantial premium over commodity coffee pricing, depending on the origin, supply and demand at the time of purchase. We are a licensed Fair Trade dealer for Fair Trade certified coffee. Fair Trade certified coffee helps small coffee farmers to increase their incomes and improve the prospects of their communities and families by guaranteeing farmers a minimum price of five cents above the current market price. Although we may purchase Fair Trade certified coffee from time to time, we are not obligated to do so and we do not have any commitments to purchase Fair Trade certified coffee. Our Cleveland Facility operated by Generations Coffee is certified organic by the Organic Crop Improvement Association (OCIA). All of our specialty green coffees, as well as all of the other coffees we import for roasting, are subject to multiple levels of quality control.

We purchase our green coffee from dealers located primarily within the United States. The dealers supply us with coffee beans from many countries, including Colombia, Mexico, Kenya, Indonesia, Brazil and Uganda. In fiscal 2008, approximately 97% all of our green coffee purchases were from ten suppliers. One of these suppliers, Rothfos Corporation, accounted for approximately $24.2 million, or 42% of our total product purchases. An employee of Rothfos Corporation is one of our directors. Another of these suppliers, Atlantic (USA) Inc., accounted for approximately $4.5 million, or 10% of our total product purchases. We do not have any formalized, material agreements or long-term contracts with any of these suppliers. Rather, our purchases are typically made pursuant to individual purchase orders. We do not believe that the loss of any one supplier, including Rothfos, would have a material adverse effect on our operations due to the availability of alternate suppliers.

The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. Supply and price can be affected by factors such as weather, politics and economics in the coffee exporting countries. Increases in the cost of coffee beans can, to a certain extent, be passed on to our customers in the form of higher prices for coffee beans and processed coffee. Drastic or prolonged increases in coffee prices could also adversely impact our business as it could lead to a decline in overall consumption of coffee. Similarly, rapid decreases in the cost of coffee beans could force us to lower our sale prices before realizing cost reductions in our purchases.

We subject all of our private unroasted green coffee to both a pre-shipment sample approval and an additional sample approval upon arrival into the United States. Once the arrival sample is approved, we then bring the coffee to one of our facilities to roast and blend according to our own strict specifications. During the roasting and blending process, samples are pulled off the production line and tested on an hourly basis to ensure that each batch roasted is consistent with the others and meets the strict quality standards demanded by our customers and us.

Our Use of Derivatives

Historically, we have used short-term coffee futures and options contracts primarily for the purpose of partially hedging and minimizing the effects of changing green coffee prices and to reduce our cost of sales. In addition, we acquire futures contracts with longer terms, generally three to four months, primarily for the purpose of guaranteeing an adequate supply of green coffee at favorable prices. Although the use of these derivative financial instruments has enabled us to mitigate the effect of changing prices, no strategy can entirely eliminate pricing risks and we generally remain exposed to loss when prices decline or increase significantly in a very short period of time. In addition, we would generally remain exposed to supply risk in the event of non-performance by the counter-parties to any futures contract. If the hedges that we enter do not adequately offset the risks of coffee bean price volatility or our hedges result in losses, our cost of sales may increase, resulting in a decrease in profitability. See *Quantitative and Qualitative Disclosures About Market Risk Commodity Price Risks.*

Trademarks

We hold trademarks, registered with the United States Office of Patent and Trademark, for all five of our proprietary coffee brands and an exclusive license for S&W, IL CLASSICO, and Entenmann s brands for sale in the United States. Trademark registrations are subject to periodic renewal and we anticipate maintaining our registrations. We believe that our brands are recognizable in the marketplace and that brand recognition is important to the success of our branded coffee business.

Customers

We sell our private label and our branded coffee to some of the largest retail and wholesale customers in the United States (according to Supermarket News). We sell wholesale green coffee to Green Mountain Coffee Roasters. Sales to Green Mountain Coffee Roasters accounted for approximately $23.6 million, or 32% of our net sales for the fiscal year ended October 31, 2008 and $14.4 million, or 25%, for the fiscal year ended October 31, 2007, respectively.

Although our agreements with wholesale customers generally contain only pricing terms, our contracts with certain customers also contain minimum and maximum purchase obligations at fixed prices. Because our profits on a fixed-price contract could decline if coffee prices increased, we acquire futures contracts with longer terms (generally three to four months) primarily for the purpose of guaranteeing an adequate supply of green coffee at favorable prices. Although the use of these derivative financial instruments has enabled us to mitigate the effect of changing prices, no strategy is effective to eliminate the pricing risks and we would remain exposed to loss when prices change significantly in a short period of time, and we would remain exposed to supply risk in the event of non-performance by the counter-parties to any futures contracts.

Marketing

We market our private label and wholesale coffee through trade shows, industry publications, face-to-face contact and through the use of our internal sales force and non-exclusive independent food and beverage sales brokers. We also use our web site (www.coffeeholding.com) as a method of marketing our coffee products and ourselves.

For our private label and branded coffees, we will, from time to time in conjunction with retailers and with wholesalers, conduct in-store promotions, such as product demonstrations, coupons, price reductions, two-for-one sales and new product launches to capture changing consumer taste preference for upscale canned coffees.

We evaluate opportunities for growth consistent with our business objectives. We have established relationships with independent sales brokers to market our products in the Western United States, an area of the country where we have not had a high penetration of sales. In addition, we employ a West Coast Brand Manager who markets our S&W and IL CLASSICO brands, as well as our other branded and private label coffee products. We intend to capture additional market share in our existing distribution channels by selectively adding or introducing new brand names and products across multiple price points, including niche specialty blends, private label value blends and mini-brick, filter packages, instant cappuccinos and tea line products. We also intend to add specialty instant coffees to our extensive line of instant coffee products.

Charitable Activities

We are also a supporter of several coffee-oriented charitable organizations.

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For over 14 years, we have been members of Coffee Kids, an international non-profit organization that helps to improve the quality of life of children and their families in coffee growing communities in Mexico, Guatemala, Nicaragua and Costa Rica.

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We are members of Grounds for Health, an organization that educates, screens, and arranges treatment for women who have cancer and live in the rural coffee growing communities of Mexico.

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We are a licensed Fair Trade dealer of Fair Trade certified coffee. Fair Trade helps small coffee farmers to increase their incomes and improve the prospects of their communities and families. It guarantees farmers a minimum price of $1.25 per pound or twelve cents above the current market price.

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Most recently, we are the administrative benefactors to a new non-profit organization called Cup for Education. After discovering the lack of schools, teachers, and basic fundamental learning supplies in the poor coffee growing communities of Central and Latin America, Cup was established by our employee, Karen Gordon, to help build schools, sponsor teachers, and purchase basic supplies such as books, chalk and other necessities for a proper education.

Competition

The coffee market is highly competitive. We compete in the following areas:

Wholesale Green Coffee. There are many green coffee dealers throughout the United States. Many of these dealers have greater financial resources than we do. However, we believe that we have both the knowledge and the capability to assist small specialty gourmet coffee roasters with developing and growing their business. Our 35-plus years of experience as a roaster and a dealer of green coffee allows us to provide our roasting experience as a value added service to our gourmet roaster customers. While other coffee merchants may be able to offer lower prices for coffee beans, we market ourselves as a value-added supplier to small roasters, with the ability to help them market their specialty coffee products and develop a customer base. The assistance we provide our customers includes training, coffee blending and market identification. Because specialty green coffee beans are sold unroasted to small coffee shops and roasters that market their products to local gourmet customers, we do not believe that our specialty green coffee customers compete with our private label or branded coffee lines of business. We believe that the addition of our two green coffee salespersons in Florida and Oregon will allow us to compete more effectively throughout the country.

Private Label Competition. There are several major producers of coffee for private label sale in the United States. Many other companies produce coffee for sale on a regional basis. Our main competitors are The Kroger Co.

and the former retail coffee division of Sara Lee Corporation, which was recently purchased by Segafredo Zanetti Group. Both The Kroger Co. and the former retail coffee Sara Lee division are larger and have more financial and other resources than we do and therefore are able to devote more resources to product development and marketing. We believe that we remain competitive by providing a high level of quality and customer service. This service includes ensuring that the coffee produced for each label maintains a consistent taste and is delivered on time and in the proper quantities. In addition, we provide our private label customers with information on the coffee market on a regular basis.

Branded Competition. Our proprietary brand coffees compete with many other brands that are sold in supermarkets and specialty stores, primarily in the Northeastern United States. The branded coffee market in both the Northeast and elsewhere is dominated by three large companies: Kraft General Foods, Inc. (owner of the Maxwell House brand), Smuckers (owner of the Folgers brand) and the former retail coffee division of Sara Lee Corporation, which was recently purchased by Segafredo Zanetti Group, who also market specialty coffee in addition to non-specialty coffee. Our large competitors have greater access to capital and a greater ability to conduct marketing and promotions. We believe that, while our competitors brands may be more nationally recognizable, our Café Caribe brand is competitive in the fast growing Hispanic demographic and our S&W brand has been a popular and recognizable brand on the West Coast for over 80 years. In addition, our relationship with Entenmann s resulted in Entenmanns s entry into the coffee business being voted as the second best brand extension of 2007 by Brandweek.com.

Government Regulation

Our coffee roasting operations are subject to various governmental laws and regulations, which require us to obtain licenses, relating to customs, health and safety, building and land use, and environmental protection. Our roasting facility is subject to state and local air-quality and emissions regulation. If we encounter difficulties in obtaining any necessary licenses or if we have difficulty complying with these laws and regulations, then we could be subject to fines and penalties, which could have a material adverse effect on our profitability. In addition, our product offerings could be limited, thereby reducing our revenues.

We believe that we are in compliance in all material respects with all such laws and regulations and that we have obtained all material licenses and permits that are required for the operation of our business. We are not aware of any environmental regulations that have or that we believe will have a material adverse effect on our operations.

Employees

We have 87 full-time employees. None of our employees are represented by unions or collective bargaining agreements. Our management believes that we maintain a good working relationship with our employees. To supplement our internal sales staff, we sometimes use independent national and regional sales brokers who work on a commission basis.

ITEM 1A.

RISK FACTORS

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all of your investment.

Risk Factors Affecting Our Company

Because our business is highly dependent upon a single commodity, coffee, any decrease in demand for coffee could materially adversely affect our revenues and profitability. Our business is centered on essentially one commodity: coffee. Our operations have primarily focused on the following areas of the coffee industry:

- the roasting, blending, packaging and distribution of private label coffee;
- the roasting, blending, packaging and distribution of proprietary branded coffee; and
- the sale of wholesale specialty green coffee.

Demand for our products is affected by:

- consumer tastes and preferences;
- global economic conditions;
- demographic trends; and
- the type, number and location of competing products.

Because we rely on a single commodity, any decrease in demand for coffee would harm our business more than if we had more diversified product offerings and could materially adversely affect our revenues and operating results.

If we are unable to geographically expand our branded and private label products, our growth will be impeded which could result in reduced sales and profitability. Our business strategy emphasizes, among other things, geographic expansion of our branded and private label products as opportunities arise. We may not be able to implement successfully this portion of our business strategy. Our ability to implement this portion of our business strategy is dependent on our ability to:

- market our products on a national scale;
-

increase our brand recognition on a national scale;

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enter into distribution and other strategic arrangements with third party retailers; and

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manage growth in administrative overhead and distribution costs likely to result from the planned expansion of our distribution channels.

Our sales and profitability may be adversely affected if we fail to successfully expand the geographic distribution of our branded and private label products. In addition, our expenses could increase and our profits could decrease as we implement our growth strategy.

If our hedging policy is not effective, we may not be able to control our coffee costs, we may be forced to pay greater than market value for green coffee and our profitability may be reduced. The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. Historically, we have used short-term coffee futures and options contracts for the purpose of hedging the effects of changing green coffee prices. In addition, during the latter half of fiscal 2000, we began to acquire futures contracts with longer terms, generally three to four months, for the purpose of guaranteeing an adequate supply of green coffee. Realized and unrealized gains or losses on futures contracts are accounted for in cost of sales. Gains on futures contracts reduce cost of sales and losses on futures contracts increase cost of sales. Although we had net gains on futures contracts for the year ended October 31, 2007, we have incurred losses on futures contracts during some past reporting periods, including fiscal year 2008. Such losses could materially increase our cost of sales and materially decrease our profitability and adversely affect our stock price.

Although the use of these derivative financial instruments has generally enabled us to mitigate the effect of changing prices, no strategy is effective to eliminate the pricing risks and we generally remain exposed to loss on futures contracts when prices decline significantly in a short period of time, and we generally remain exposed to supply risk in the event of non-performance by the counter-parties to any futures contracts. Although, historically, we generally have been able to pass green coffee price increases through to customers, thereby maintaining our gross profits, we may not be able to pass price increases through to our customers in the future. Our hedging strategy and the hedges that we enter into may not adequately offset the risks of coffee bean price volatility and our hedges may result in losses. Failure to properly design and implement an effective hedging strategy may materially adversely affect our business and operating results. In this case, our costs of sales may increase, resulting in a decrease in profitability.

Our revenues and profitability could be adversely affected if our joint ventures are not successful. In March 2006, we entered into a joint venture with Coffee Bean Trading-Roasting LLC and formed Café La Rica, LLC. The joint venture engaged in the roasting, packaging and sale of the Café La Rica brand coffee and other branded and food service coffee products in Miami, Florida. In April 2006, we entered into a joint venture with Caruso's Coffee of Brecksville, Ohio and formed Generations Coffee Company, LLC, which engages in the roasting, packaging and sale of private label specialty coffee products. To date, Generations Coffee Company has engaged in limited operations. During 2007, Café La Rica incurred a loss of $182,680. The joint venture was dissolved in October of 2007, resulting in an aggregate loss to Coffee Holding since inception of $494,112 on our investment and outstanding trade receivables and advances. While we believe that the Generations Coffee Company joint venture will be successful, losses in this joint venture would hurt our profitability.

In addition, we generally will not be in a position to exercise sole decision-making authority regarding our joint ventures. Investments in joint ventures may under certain circumstances, involve risks not present when a third-party is not involved, including the possibility that joint venture partners might become bankrupt or fail to fund their share of the required capital contributions. Joint venture partners may have business interests, strategies or goals that are inconsistent with our business interests, strategies or goals and may be in cases where we have a minority interest will be, in a position to take actions contrary to our policies, strategies or objectives. Joint venture investments also entail a risk of impasse on decisions, because neither we nor our joint venture partner would have full control over the joint venture. Any disputes that may arise between us and our joint venture partners may result in litigation or arbitration that could increase our expenses and could prevent our officers and/or directors from focusing their time and effort exclusively on our business strategies. In addition, we may in certain circumstances be liable for the actions of our third-party joint venture partners.

Any inability to successfully implement our strategy of growth through selective acquisitions, licensing arrangements and other strategic alliances could materially affect our revenues and profitability. Our strategy of growth through the selective acquisition of coffee companies, the selective acquisition or licensing of additional coffee brands and other strategic alliances presents risks that could result in increased expenditures and could materially adversely affect our revenues and profitability, including:

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such acquisitions, licensing arrangements or other strategic alliances may divert our management s attention from our existing operations;

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we may not be able to successfully integrate any acquired coffee companies or new coffee brands into our existing business;

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we may not be able to manage the contingent risks associated with the past operations of, and other unanticipated problems arising in, any acquired coffee company; and

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we may not be able to control unanticipated costs associated with such acquisitions, licensing arrangements or strategic alliances.

In addition, any such acquisitions, licensing arrangements or strategic alliances may result in:

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potentially dilutive issuances of our equity securities; and

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the incurrence of additional debt.

As has been our practice in the past, we will continuously evaluate any such acquisitions, licensing opportunities or strategic alliances as they arise. However, we have not reached any agreement or arrangement with respect to any such acquisition, licensing opportunity or strategic alliance at this time and we may not be able to consummate any acquisitions, licensing arrangements or strategic alliances on terms favorable to us or at all. The failure to consummate any such acquisitions, licensing arrangements or strategic alliances may reduce our growth and expansion.

The loss of any of our key customers could negatively affect our revenues and decrease our earnings. We are highly dependant upon sales of our private label and branded coffee to two wholesalers and one retailer and upon sales of wholesale green coffee to one customer, Green Mountain Coffee Roasters. Sales to Green Mountain Coffee Roasters accounted for approximately 32% of our net sales for the year ended October 31, 2008.

Although no other customer accounted for greater than 10% of our net sales during this period, other customers may account for more than 10% of our net sales in future periods. We do not have long-term contracts with these or any of our customers. Accordingly, our customers can stop purchasing our products at any time without penalty and are free to purchase products from our competitors. The loss of, or reduction in sales to, customers such as Green Mountain Coffee Roasters or any of our other customers to which we sell a significant amount of our products or any material adverse change in the financial condition of such customers would negatively affect our revenues and decrease our earnings.

If we lose our key personnel, including Andrew Gordon and David Gordon, our revenues and profitability could suffer. Our success depends to a large degree upon the services of Andrew Gordon, our President, Chief Executive Officer, Chief Financial Officer and Treasurer, and David Gordon, our Executive Vice President-Operations and Secretary. We also depend to a large degree on the expertise of our coffee roasters. We do not have employment contracts with our coffee roasters. Our ability to source and purchase a sufficient supply of high quality coffee beans and to roast coffee beans consistent with our quality standards could suffer if we lose the services of any of these individuals. As a result, our business and operating results would be adversely affected. We may not be successful in obtaining and retaining a replacement for either Andrew Gordon or David Gordon if they elect to stop working for us. In addition, we do not have key-man insurance on the lives of Andrew Gordon or David Gordon.

If our planned increase in marketing expenditures fails to promote and enhance our brands, the value of our brands could decrease and our revenues and profitability could be adversely affected. We believe that promoting and enhancing our brands is critical to our success. We intend to increase our marketing expenditures to increase awareness of our brands, which we expect will create and maintain brand loyalty. If our brand-building strategy is unsuccessful, these expenses may never be recovered, and we may be unable to increase awareness of our brands or protect the value of our brands. If we are unable to achieve these goals, our revenues and ability to implement our business strategy could be adversely affected.

Our success in promoting and enhancing our brands will also depend on our ability to provide customers with high quality products and service. Although we take measures to ensure that we sell only fresh roasted coffee, we have no control over our coffee products once they are purchased by our wholesale customers. Accordingly, wholesale customers may store our coffee for longer periods of time or resell our coffee without our consent, in each case, potentially affecting the quality of the coffee prepared from our products. Although we believe we are less susceptible to quality control problems than many of our competitors because a majority of our products are sold in cans or brick packs unlike whole bean coffees, if consumers do not perceive our products and service to be of high quality, then the value of our brands may be diminished and, consequently, our operating results and ability to implement our business strategy may be adversely affected.

Our roasting methods are not proprietary, so competitors may be able to duplicate them, which could harm our competitive position. If our competitive position is weakened, our revenues and profitability could be materially adversely affected. We consider our roasting methods essential to the flavor and richness of our roasted coffee and, therefore, essential to our brands of coffee. Because we do not hold any patents for our roasting methods, it may be difficult for us to prevent competitors from copying our roasting methods if such methods become known. If our competitors copy our roasting methods, the value of our coffee brands may be diminished, and we may lose customers to our competitors. In addition, competitors may be able to develop roasting methods that are more advanced than our roasting methods, which may also harm our competitive position.

Our operating results may fluctuate significantly, which makes our results of operations difficult to predict and could cause our results of operations to fall short of expectations. Our operating results may fluctuate from quarter to quarter and year to year as a result of a number of factors, many of which are outside of our control. These fluctuations could be caused by a number of factors including:

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fluctuations in purchase prices and supply of green coffee;

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fluctuations in the selling prices of our products;

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the level of marketing and pricing competition from existing or new competitors in the coffee industry;

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the success of our hedging strategy;

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our ability to retain existing customers and attract new customers; and

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our ability to manage inventory and fulfillment operations and maintain gross margins.

As a result of the foregoing, period-to-period comparisons of our operating results may not necessarily be meaningful and those comparisons should not be relied upon as indicators of future performance. Accordingly, our operating results in future quarters may be below market expectations. In this event, the price of our common stock may decline.

Since we rely heavily on common carriers to ship our coffee on a daily basis, any disruption in their services or increase in shipping costs could adversely affect our relationship with our customers, which could result in reduced revenues, increased operating expenses, a loss of customers or reduced profitability. We rely on a number of common carriers to deliver coffee to our customers and to deliver coffee beans to us. We have no control over these common carriers and the services provided by them may be interrupted as a result of labor shortages, contract disputes and other factors. If we experience an interruption in these services, we may be unable to ship our coffee in a timely manner, which could reduce our revenues and adversely affect our relationship with our customers. In addition, a delay in shipping could require us to contract with alternative, and possibly more expensive, common carriers and could cause orders to be cancelled or receipt of goods to be refused. Any significant increase in shipping costs could lower our profit margins or force us to raise prices, which could cause our revenue and profits to suffer.

If there was a significant interruption in the operation of either one of our facilities, we may not have the capacity to service all of our customers and we may not be able to service our customers in a timely manner, thereby reducing our revenues and earnings. A significant interruption in the operation of either of our coffee roasting and distribution facilities, whether as a result of a natural disaster or other causes, could significantly impair our ability to operate our business. Due to manufacturing and logistical efficiencies, our New York facility generally services customers in the Northeastern United States and the Midwest United States and our La Junta, Colorado facility services customers in the Western United States. If there was a significant interruption in the operation of either one of our facilities, we may not have the capacity to service all of our customers out of the lone operating facility and we may not be able to service our customers in a timely manner. As a result, our revenues and earnings would be materially adversely affected.

A worsening of the United States economy could materially adversely affect our business. Our revenues and performance depend significantly on consumer confidence and spending, which have recently deteriorated due to current worldwide economic downturn. This economic downturn and decrease in consumer spending may adversely impact our revenues, ability to market our products, or otherwise implement our business strategy. For example, we are highly dependent on consumer demand for specialty coffee and a shift in consumer demand away from specialty coffee due to economic or other consumer preferences would harm our business. If the current economic situation deteriorates significantly, our business could be negatively impacted.

If we are unable to obtain additional financing, we may not be able to fund and grow our operations. We anticipate, but cannot assure you, that we will be able to expand our operations and implement our growth strategy through cash provided by operating activities and borrowings under the credit facility with Sterling National Bank. Our line of credit with Merrill Lynch expires on February 28, 2009. We currently have a commitment from Sterling National Bank to replace our existing credit facility. The credit facility will be a revolving line of credit for a maximum of $5 million with the company able to draw on the line at an amount up to 85% of eligible accounts receivable and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed $1,000,000. The credit facility will be payable monthly in arrears on the average unpaid balance of the line of credit at an interest rate equal to a per annum reference rate (currently 4.25%) plus 1.0%. The initial term of the credit facility would be three years and shall be automatically extended for successive periods of one (1) year each unless one party shall have provided the other party with a written notice of termination, at least ninety (90) days prior to the expiration of the initial contract term or any renewal term. The credit facility will be secured by all tangible and intangible assets of the company and will be personally guaranteed by Andrew Gordon and David Gordon.

In the event that our new line of credit is not finalized or that our financial performance is not sufficient to permit advances under our line of credit facility, we may be required to seek additional financing. We cannot assure you that additional financing will be available to us on commercially reasonable terms, or at all. If we are not successful in obtaining additional financing, we might not be able to fund our operations or implement our expansion plans.

The credit facility with Sterling National Bank will contain covenants that place restrictions on our operations, including covenants relating to mergers, debt restrictions, capital expenditures, tangible net worth, leverage, fixed charge coverage, dividend restrictions, restrictions on lease payments to affiliates, restrictions on changes in business, asset sale restrictions, restrictions on acquisitions, restrictions on fundamental changes, and such other covenants as are typically contained in documents relating to similar transactions. These restrictions could adversely impact our ability to implement our business plan, or raise additional capital, if needed. In addition, if we default under the credit facility or if our lender demands payment of a portion or all of our indebtedness, we may not have sufficient funds to make such payments.

Risk Factors Related to the Coffee Industry

Increases in the cost of high quality Arabica or Robusta coffee beans could reduce our gross margin and profit. Green coffee is our largest single cost of sales. Coffee is a traded commodity and, in general, its price can fluctuate depending on:

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weather patterns in coffee-producing countries;

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economic and political conditions affecting coffee-producing countries, including acts of terrorism in such countries;

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foreign currency fluctuations; and

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trade regulations and restrictions between coffee-producing countries and the United States.

If the cost of wholesale green coffee increases due to any of these factors, our margins could decrease and our profitability could suffer accordingly. Cyclical swings in commodity markets are common and 2008 was an especially volatile year, with the price of coffee climbing to record levels until mid-year, then declining with most other commodity markets in the second half of calendar 2008. It is expected that coffee prices will remain volatile in the coming years. Although we have historically attempted to raise the selling prices of our products in response to increases in the price of wholesale green coffee, when wholesale green coffee prices increase rapidly or to significantly higher than normal levels, we are not always able to pass the price increases through to our customers on a timely basis, if at all, which adversely affects our operating margins and cash flow. We may not be able to recover any future increases in the cost of wholesale green coffee. Even if we are able to recover future increases, our operating margins and results of operations may still be materially and adversely affected by time delays in the implementation of price increases.

Disruptions in the supply of green coffee could result in a deterioration of our relationship with our customers, decreased revenues or could impair our ability to grow our business. Green coffee is a commodity and its supply is subject to volatility beyond our control. Supply is affected by many factors in the coffee growing countries including weather, political and economic conditions, acts of terrorism, as well as efforts by coffee growers to expand or form cartels or associations. If we are unable to procure a sufficient supply of green coffee, our sales would suffer.

Some of the Arabica coffee beans of the quality we purchase do not trade directly on the commodity markets. Rather, we purchase the high-end Arabica coffee beans that we use on a negotiated basis. We depend on our relationships with coffee brokers, exporters and growers for the supply of our primary raw material, high quality Arabica coffee beans. If any of our relationships with coffee brokers, exporters or growers deteriorate, we may be unable to procure a sufficient quantity of high quality coffee beans at prices acceptable to us or at all. In such case, we may not be able to fulfill the demand of our existing customers, supply new retail stores or expand other channels of distribution. A raw material shortage could result in a deterioration of our relationship with our customers, decreased revenues or could impair our ability to expand our business.

The coffee industry is highly competitive and if we cannot compete successfully, we may lose our customers or experience reduced sales and profitability. The coffee markets in which we do business are highly competitive and competition in these markets is likely to become increasingly more intense due to the relatively low barriers to entry. The industry in which we compete is particularly sensitive to price pressure, as well as quality, reputation and viability for wholesale and brand loyalty for retail. To the extent that one or more of our competitors becomes more successful with respect to any key competitive factor, our ability to attract and retain customers could be materially adversely affected. Our private label and branded coffee products compete with other manufacturers of private label coffee and branded coffees. These competitors, such as Kraft General Foods, Inc. (owner of the Maxwell House brand), The Kroger Co., and Smuckers (owner of the Folgers brand), have much greater financial, marketing, distribution, management and other resources than we do for marketing, promotions and geographic and market expansion. In addition, there are a growing number of specialty coffee companies who provide specialty green coffee and roasted coffee for retail sale. If we are unable to compete successfully against existing and new competitors, we may lose our customers or experience reduced sales and profitability.

ITEM 1B.

UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2.

PROPERTIES

We are headquartered at 4401 First Avenue, Brooklyn, New York, where we own the land and an approximately 15,000 square foot building. The building houses our executive offices, as well as our plant where we roast, blend and package our coffee.

We lease a 50,000 square foot facility located at 27700 Frontage Road in La Junta, Colorado from the City of La Junta. We pay annual rent of $100,093 through January of 2024.

We lease a 7,500 square foot warehouse located at 4425A First Avenue in Brooklyn from T & O Management. T & O Management is not affiliated with us or any of our officers, directors or stockholders. We pay annual rent of $180,000 under the terms of the lease, which expires on December 31, 2011.

In October 2008, the Company entered into a lease for office and warehouse space in Staten Island, New York. We pay annual rent of $114,000 under the terms of the lease, which expires on October 31, 2023.

We also use a variety of independent, bonded commercial warehouses to store our green coffee beans. Our management believes that our facilities are adequate for our current operations and for our contemplated operations in the foreseeable future.

ITEM 3.

LEGAL PROCEEDINGS

We are not a party to, and none of our property is the subject of, any pending legal proceedings other than routine litigation that is incidental to our business. To our knowledge, no governmental authority is contemplating initiating any such proceedings.

ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year covered by this report on Form 10-K, no matters were submitted to a vote of security holders.

PART II

ITEM 5.

MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the American Stock Exchange under the symbol JVA. On February 28, 2008, we paid a special dividend in the amount of $0.28 per share. We have not declared or paid any other dividends on our common stock during the last two fiscal years. We do not intend to pay dividends for the foreseeable future. At December 31, 2008, there were 372 holders of record of an aggregate of 5,428,702 shares of our common stock issued and outstanding.

The following table provides information regarding repurchases of our common stock in each month of the quarter ended October 31, 2008:

Period	**Total number Of shares repurchased**	**Average Price paid per share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)**	**Maximum Number of Shares that may yet be Purchased under the Plans or Programs(1)**
August 1, 2008 August 31, 2008	600	$2.11	600	198,777
September 1, 2008 September 30, 2008				
October 1, 2008 October 31, 2008	6,600	$1.69	6,600	192,177
Total	7,200	$1.73	7,200	192,177

(1)

On April 13, 2007, our Board of Directors authorized a stock repurchase plan pursuant to which we could repurchase up to 276,491 shares (5% of our common stock outstanding as of April 12, 2007) in either open market or private transactions. The stock repurchase plan is not subject to an expiration date.

The following table sets forth the high and low sales prices of our common stock for each quarter of the last two fiscal years.

	High	Low
	2007	
1st Quarter	$5.00	$3.80
2nd Quarter	$4.25	$3.50
3rd Quarter	$5.94	$3.85
4th Quarter	$5.45	$4.30
	2008	
1st Quarter	$5.25	$3.83
2nd Quarter	$4.60	$2.36
3rd Quarter	$2.58	$1.98
4th Quarter	$3.09	$1.23

ITEM 6.

SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the last five years from the consolidated financial statements of Coffee Holding Co., Inc. The following information is only a summary, and you should read it in conjunction with our consolidated financial statements and notes beginning on page F-1.

	For the Years Ended October 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands, except per share data)				
Income Statement Data					
Net sales	$ 71,186	$ 57,365	$ 51,171	$ 41,545	$ 28,030
Cost of sales	68,762	49,071	43,576	33,876	20,928
Gross profit	2,424	8,294	7,595	7,669	7,102
Operating expenses	6,363	6,842	6,231	5,698	5,400
Income (loss) from operations	(3,939)	1,452	1,364	1,971	1,702
Other income (expense)	(86)	(90)	(68)	(60)	(134)
Income (loss) before income taxes	(4,025)	1,362	1,296	1,911	1,568
Provision (benefit) for income taxes	(1,430)	418	602	726	693
Minority interest	(2)	(7)	(6)		
Net income (loss)	$ (2,597)	$ 937	$ 700	$ 1,185	$ 875
Net income (loss) per share					
Basic and diluted	$ (0.47)	$ 0.17	$ 0.13	$ 0.25	$ 0.22

	At October 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands, except per share data)				
Balance Sheet Data:					
Total assets	$ 21,002	$ 20,397	$ 18,982	$ 16,545	$ 10,914
Short-term debt	3,522	897	2,543	1,064	3,048
Long-term debt					6
Total liabilities	13,151	8,194	7,640	5,904	7,918
Shareholders equity	7,847	12,202	11,342	10,642	2,996
Book value per share	$ 1.44	$ 2.05	$ 2.05	$ 1.92	$ 0.75

ITEM 7.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Cautionary Note on Forward Looking Statements

Some of the matters discussed under the caption Management s Discussion and Analysis or Plan of Operation, Business, Risk Factors and elsewhere in this annual report include forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events, including, among other things:

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the impact of rapid or persistent fluctuations in the price of coffee beans;

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fluctuations in the supply of coffee beans;

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general economic conditions and conditions which affect the market for coffee;

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the macro global economic environment;

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our success in implementing our business strategy or introducing new products;

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our ability to attract and retain customers;

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our success in expanding our market presence in new geographic regions;

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the effects of competition from other coffee manufacturers and other beverage alternatives;

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changes in tastes and preferences for, or the consumption of, coffee;

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our ability to obtain additional financing; and

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other risks which we identify in future filings with the Securities and Exchange Commission.

In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, pred potential, continue, expect, anticipate, future, intend, plan, believe, estimate and similar expressions such expressions). Any or all of our forward looking statements in this annual report and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Consequently, no forward looking statement can be guaranteed. In addition, we undertake no responsibility to update any forward-looking statement to reflect events or circumstances, which occur after the date of this annual report.

Overview

We are an integrated wholesale coffee roaster and dealer in the United States and one of the few coffee companies that offers a broad array of coffee products across the entire spectrum of consumer tastes, preferences and price points. As a result, we believe that we are well positioned to increase our profitability and endure potential coffee price volatility throughout varying cycles of the coffee market and economic conditions.

Our operations have primarily focused on the following areas of the coffee industry:

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the sale of wholesale specialty green coffee;

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the roasting, blending, packaging and sale of private label coffee; and

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the roasting, blending, packaging and sale of our seven brands of coffee.

Our operating results are affected by a number of factors including:

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the level of marketing and pricing competition from existing or new competitors in the coffee industry;

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our ability to retain existing customers and attract new customers;

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fluctuations in purchase prices and supply of green coffee and in the selling prices of our products; and

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our ability to manage inventory and fulfillment operations and maintain gross margins.

Our net sales are driven primarily by the success of our sales and marketing efforts and our ability to retain existing customers and attract new customers. For this reason, we have made the strategic decision to invest in measures that will increase net sales. In February 2004, we acquired certain assets of Premier Roasters, including equipment and a roasting facility in La Junta, Colorado. We also hired a West Coast Brand Manager to market our S&W brand and to increase sales of S&W coffee to new customers. In April 2006, we entered into a joint venture with Caruso's Coffee of Brecksville, Ohio and formed Generations Coffee Company, LLC, a Delaware limited liability company, which engages in the roasting, packaging and sale of private label specialty coffee products. We own 60% of the joint venture and are the exclusive supplier of its coffee inventory. We believe that the Generations Coffee joint venture will allow us to bid on the private label gourmet whole bean business which we have not been equipped to pursue from an operational standpoint in the past. With this specialty roasting facility in place, in many cases right in the backyard of our most important wholesale and retail customers, we believe that we are in an ideal position to combine our current canned private label business with high-end private label specialty whole bean business. High-end specialty whole bean coffee sells for as much as three times more per pound than the canned coffees in which we currently specialize. As a result of these efforts, net sales increased in our specialty green coffee, private label and branded coffee business lines in both dollars and pounds sold. In addition, we increased the number of our customers in all three areas.

In July 2007, we entered into a three-year licensing agreement with Entenmann s Products, Inc., a subsidiary of Entenmann s, Inc., which is one of the nation s oldest baking companies. The agreement gives us the exclusive rights to manufacture, market and distribute a full line of Entenmann s brand coffee products throughout the United States. We expect to develop not only mainstream Entenmann s coffee items, but upscale flavored Entenmann s products in twelve-ounce valve bags as well. These products will give the line a visible upscale image to our retailers and their customers, which we believe will be integral to the long term success of this arrangement.

Our net sales are affected by the price of green coffee. We import green coffee from Colombia, Mexico, Kenya, Brazil and Uganda. The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. For example, coffee crops in Brazil, which produces one-third of the world s green coffee, are susceptible to frost in June and July and drought in September, October and November. However, because we purchase coffee from a number of countries and are able to freely substitute one country s coffee for another in our products, price fluctuations in one country generally have not had a material impact on the price we pay for coffee. Accordingly, price fluctuations in one country generally have not had a material effect on our results of operations, liquidity and capital resources. Historically, because we generally have been able to pass green coffee price increases through to customers, increased prices of green coffee generally result in increased net sales. However, the average indicator price for Robusta coffee, the main component for our leading espresso brands (Café Caribe and Café Supremo), is still at a historically high level.

Historically, we have used short-term coffee futures and options contracts primarily for the purpose of partially hedging and minimizing the effects of changing green coffee prices and to reduce our cost of sales. In addition, we acquire futures contracts with longer terms, generally three to four months, primarily for the purpose of guaranteeing an adequate supply of green coffee at favorable prices. Although the use of these derivative financial instruments has enabled us to mitigate the effect of changing prices, no strategy can entirely eliminate pricing risks and we generally remain exposed to loss when prices decline significantly in a short period of time. In addition, we would remain exposed to supply risk in the event of non-performance by the counter-parties to any futures contracts. If the hedges that we enter do not adequately offset the risks of coffee bean price volatility or our hedges result in losses, our cost of sales may increase, resulting in a decrease in profitability.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventories, income taxes and loss contingencies. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies, among others, may be impacted significantly by judgment, assumptions and estimates used in the preparation of the financial statements:

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We recognize revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104). Under SAB 104, revenue is recognized at the point of passage to the customer of title and risk of loss, when there is persuasive evidence of an arrangement, the sales price is determinable, and collection of the resulting receivable is reasonably assured. We recognize revenue at the time of shipment. Sales are reflected net of discounts and returns.

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Our allowance for doubtful accounts is maintained to provide for losses arising from customers inability to make required payments. If there is deterioration of our customers credit worthiness and/or there is an increase in the length of time that the receivables are past due greater than the historical assumptions used, additional allowances may be required. For example, every additional one percent of our accounts receivable that becomes uncollectible, would increase our operating loss by approximately $91,000 for the year ended October 31, 2008.

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Inventories are stated at cost (determined on a first-in, first-out basis). Based on our assumptions about future demand and market conditions, inventories are subject to be written-down to market value. If our assumptions about future demand change and/or actual market conditions are less favorable than those projected, additional write-downs of inventories may be required. Each additional one percent of potential inventory writedown would have increased operating loss by approximately $50,000 for the year ended October 31, 2008.

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We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS No. 109). Under SFAS No. 109, deferred tax assets and liabilities are determined based on the liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the balance sheet when it is determined that it is more likely than not that the asset will be realized. Accordingly, our net deferred tax asset as of October 31, 2008 of $837,877 may require a valuation allowance if we do not generate taxable income.

Year Ended October 31, 2008 (Fiscal 2008) Compared to the Year Ended October 31, 2007 (Fiscal 2007)

Net Loss. We had a net loss of ($2,597,294), or ($0.47) per share (basic and diluted) for the year ended October 31, 2008 compared to net income of $937,316 or $.17 per share (basic and diluted) for the year ended October 31, 2007. The decrease in net income primarily reflects hedging losses when the price of coffee surged to a ten year high and subsequently collapsed during February and October 2008.

Net Sales. Net sales totaled $71,186,312 for the year ended October 31, 2008, an increase of $13,820,472 or 24.1% from $57,365,840 for the year ended October 31, 2007. The increase in net sales reflects a 7.5% increase in coffee pounds sold from 36.5 million pounds in 2007 to 39.2 **million** pounds in 2008. The increase in pounds of coffee sold is the result of increased sales of our branded, private label and specialty green coffees. Sales of our flagship Hispanic espresso brands, Café Caribe and Café Supremo, increased once again. The number of our customers in the specialty green coffee area grew approximately 22.4% to 344 customers. These customers are predominately independent gourmet/specialty roasters, some of whom own their own retail outlets. Sales to new customers in this area historically start slowly because many of these companies are start up ventures. Because the specialty green coffee area is the fastest growing segment of the coffee market, we believe that our customer base and sales will grow in this area. Higher coffee prices during 2008 also contributed to the increase in net sales.

Cost of Sales. Cost of sales for the year ended October 31, 2008 was $68,762,310 or 96.6% of net sales, as compared to $49,071,384 or 85.5% of net sales for the year ended October 31, 2007. Cost of sales consists primarily of the cost of green coffee and packaging materials and realized and unrealized gains or losses on hedging activity. The increase in cost of sales reflects higher green coffee prices and losses on options and futures contracts. Green coffee purchases increased $13,740,062 from $43,301,605 to $57,041,667 due to the increase in green coffee prices and private label and green coffee sales volumes. Fiscal 2008 was a year of increased prices and volatility in the green coffee markets, especially the London Robusta market which accounts for approximately one-third of our coffee purchases. Net losses on options and futures contracts, a component of cost of sales, totaled $3,068,450 for the year ended October 31, 2008 compared to net gains of $2,692,020 for the year ended October 31, 2007. We believe these losses resulted from a surge in commodities prices due to the U.S. weaker dollar and a significant increase in market speculation. According to Commodities Futures Trading Commission data, index funds almost doubled their positions in agricultural contracts from January 2006 though April 2008. As a result, fundamental players in the commodities markets lacked the liquidity necessary to maintain their positions due to margin calls. We believe that increased regulatory scrutiny as well as risk aversion has begun to drive speculators out of the market. We do not expect future trading losses going forward. The increase in cost of sales as a percentage of net sales also reflects higher green coffee prices which could not fully be passed along to customers through sales price increases.

Gross Profit. Gross profit for the year ended October 31, 2008 was $2,424,002, a decrease of $5,870,454 from $8,294,456 for the year ended October 31, 2007. Gross profit as a percentage of net sales decreased to 3.41% for the year ended October 31, 2008 from 14.45% for the year ended October 31, 2007. The decrease in our margins is attributable to higher green coffee prices that we were unable to pass on to our customers as well as net losses on options and futures contracts.

Operating Expenses. Total operating expenses decreased $479,828 or 7% to $6,362,534 for the year ended October 31, 2008 from $6,842,362 for the fiscal year ended October 31, 2007 due to decreases in selling and administrative expenses and a decrease of $192,860 in a write-down in amounts due from our Café La Rica joint venture (which was dissolved in October 2007 after settlement of the litigation). In consideration for the dismissal with prejudice of all defendants to the litigation and the release of all claims and counterclaims, Café La Rica paid $269,000 in cash to Coffee Holding and returned to Coffee Holding the brick pack machine originally contributed to Café La Rica by Coffee Holding. Selling and administrative expenses decreased $312,329 or 5.2% to $5,714,032 for the year ended October 31, 2008 from $6,026,361 for 2007. The decrease in selling and administrative expenses reflects several factors, including decreases of approximately $66,000 in shipping costs, $94,000 in office salaries,

$106,000 in repairs and maintenance, and $259,000 in professional fees, partially offset by increases of $57,000 in insurance, $68,000 in utilities, $30,000 in office expenses and $37,000 of travel and entertainment.

Shipping costs decreased due to increased sales to our large green coffee customers who pay the shipping expenses for product they purchase from us. The decrease in office salaries was due to the streamlining of our support staff. Coffee Holding continued to invest in upgrading its equipment, thereby reducing the costs of repairs and maintenance. The decrease in professional services expense reflects litigation costs associated with Café La Rica during the first quarter of fiscal 2007. Insurance costs increased due to an increase to the cost of workers compensation coverage. The increase in utilities reflected higher roasting output and the increased cost of natural gas. The increase in office expenses is a result of the larger volume of sales activity. The increase in travel expenses reflected increased travel to promote our Entenmann s coffee products outside of the New York market.

Other Expense. Other expense decreased $3,490 or 3.9% from $90,037 for the year ended October 31, 2007 to $86,547 for the year ended October 31, 2008. The decrease was attributable to a $75,460 decrease in interest and other income, a decrease of $33,000 in a write-down of our investment and a decrease of $91,340 in the loss from the Café La Rica joint venture, a decrease of $12,000 in management fee income earned from providing administrative services to Café La Rica and an increase in interest expense of $32,827.

Loss Before Taxes and Minority Interest in Subsidiary. We had a loss of ($4,025,079) before income taxes and minority interest in subsidiary for the year ended October 31, 2008 compared to income of $1,362,057 for the year ended October 31, 2007. The decrease was primarily attributable to increased prices of green coffee and our losses on option and futures contracts.

Income Taxes**.** Our benefit for income taxes for the year ended October 31, 2008 totaled $1,430,110 compared to a provision of $418,175 for the year ended October 31, 2007. The change was attributable to a loss from operations for the year ended October 31, 2008 compared to income from operations during the same period in 2007. Net operating losses aggregating $3,316,000 are available for carryback to the two preceding fiscal years and any unused loss may be carried forward for twenty years expiring in fiscal year ending October 31, 2028. Included in prepaid and refundable taxes is $703,123, which represents the amount of the refund receivable due to the carryback of the net operating loss to fiscal years ended October 31, 2007 and 2006.

Liquidity and Capital Resources

As of October 31, 2008, we had working capital of $5,012,299, which represented a $4,343,595 decrease from our working capital of $9,355,894 as of October 31, 2007, and total stockholders equity of $7,847,423 which decreased by $4,354,920 from our total stockholders equity of $12,202,343 as of October 31, 2007. Our working capital decreased primarily due to a decrease of $3,126,261 in commodities held at broker, a $2,625,016 increase in line of credit borrowings, a $2,402,981 increase in accounts payable, partially offset by a $1,937,330 increase in net accounts receivable, a $574,457 increase in inventories and an increase in our deferred, refundable and prepaid taxes of $1,434,406. At October 31, 2008, the outstanding balance on our line of credit was $3,522,207 compared to $897,191 at October 31, 2007. Total stockholders equity decreased due to a decrease in retained earnings as a result of our net loss for the fiscal year and the payment of a cash dividend $0.28 per share in February 2008 and the repurchase of 69,414 shares of our outstanding common stock this fiscal year at a cost of $213,058.

As of October 31, 2008, we had a financing agreement with Merrill Lynch Business Financial Services Inc. This line of credit is for a maximum $4,500,000, expires on January 31, 2009 and requires monthly interest payments at a rate of LIBOR plus 1.95%. This loan is secured by a blanket lien on all of our assets. The credit facility contains covenants that place restrictions on our operations. Among other things, these covenants: require us to maintain certain financial ratios; require us to maintain a minimum net worth; and prohibit us from merging with or into other companies, acquiring all or substantially all of the assets of other companies, or selling all or substantially all of our assets without the consent of the lender.

On January 28, 2009, we entered into a financing commitment letter with Sterling National Bank. Under the terms of the letter, Sterling National Bank has committed to establish a credit facility to refinance our existing credit facility with Merrill Lynch Business Financial Services, Inc. and to provide for our working capital requirements. The credit facility will be a revolving line of credit for a maximum of $5 million with the company able to draw on the line at an amount up to 85% of eligible accounts receivable and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed $1,000,000. The credit facility will be payable monthly in arrears on the average unpaid balance of the line of credit at an interest rate equal to a per annum reference rate (currently 4.25%) plus 1.0%. The initial term of the credit facility would be three years and shall be automatically extended for successive periods of one (1) year each unless one party shall have provided the other party with a written notice of termination, at least ninety (90) days prior to the expiration of the initial contract term or any renewal term. The credit facility will be secured by all tangible and intangible assets of the company and will be personally guaranteed by Andrew Gordon and David Gordon.

The credit facility with Sterling National Bank will contain covenants that place restrictions on our operations, including covenants relating to mergers, debt restrictions, capital expenditures, tangible net worth, leverage, fixed charge coverage, dividend restrictions, restrictions on lease payments to affiliates, restrictions on changes in business, asset sale restrictions, restrictions on acquisitions, restrictions on fundamental changes, and such other covenants as are typically contained in documents relating to similar transactions. These restrictions could adversely impact our ability to implement our business plan, or raise additional capital, if needed. In addition, if we default under the credit facility or if our lender demands payment of a portion or all of our indebtedness, we may not have sufficient funds to make such payments.

Sterling National Bank's obligation to close the credit facility will be conditioned upon, among other things, the absence of any material adverse change in the business, assets, liabilities, operations, financial condition or prospects of the company between October 31, 2008 and the closing date, the absence of any material default by the company of its obligations or its compliance with any applicable legal requirements at the time of closing, receipt of opinions of counsel to the lender that the loan documents are legal, binding and enforceable in accordance with their terms and that the lender has a perfected security interest in all assets of the company, completion of a pre-closing audit of the company by the lender and the receipt by the lender of all applicable governmental waivers and consents and landlord waivers and consents. If the credit facility is not finalized, we may not have the ability to implement our business plan or fund our operations.

For the year ended October 31, 2008 our operating activities used net cash of $443,259 as compared to the year ended October 31, 2007 when net cash provided by operating activities was $2,153,667. The decreased cash flow from operations for the year ended October 31, 2008 was primarily due to our net loss of $2,597,294, a $1,974,905 increase in accounts receivable and an increase in inventories of $574,457, partially offset by an increase in accounts payable of $2,402,981 and a reduction in prepaid expenses of $239,144.

For the year ended October 31, 2008, our investing activities used net cash of $351,482 as compared to the year October 31, 2007 when net cash used by investing activities was $659,382. The decrease in net cash used by investing activities for fiscal 2008 was due to the decrease in purchases of property and equipment.

For the year ended October 31, 2008, our financing activities provided net cash of $867,390, compared to net cash used in financing activities of $1,722,367 for the year ended October 31, 2007. The change in cash flow from financing activities for the year ended October 31, 2008 was primarily due to increased advances under our line of credit partially offset by the repurchase of outstanding common stock during the year, payment of dividends to our shareholders and partially offset by increased principal payments under the line of credit.

We expect to fund our operations, including paying our liabilities, funding capital expenditures and making required payments on our debts, through October 31, 2009 with cash provided by operating activities and the use of our credit facility. In addition, an increase in eligible accounts receivable and inventory would permit us to make additional borrowings under our line of credit. We also believe we could, if necessary, obtain additional loans by mortgaging our headquarters.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

ITEM 7A.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in interest rates and commodity prices as further described below.

Interest Rate Risks. We are subject to market risk from exposure to fluctuations in interest rates. At October 31, 2008, our debt consisted of $3,522,007 of variable rate debt under our revolving line of credit. Our line of credit which was amended in October 2007 and currently provides for a maximum of $4,500,000, expires on

January 31, 2009 and requires monthly interest payments at a rate of LIBOR plus 1.95%. This loan is secured by a blanket lien on all of our assets.

Commodity Price Risks. The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. Historically, we have used short-term coffee futures and options contracts (generally with terms of two months or less) primarily for the purpose of partially hedging and minimizing the effects of changing green coffee prices, as further explained in Note 2 of the notes to financial statements in this report. In addition, during the latter half of fiscal 2000, we began to acquire futures contracts with longer terms (generally three to four months) primarily for the purpose of guaranteeing an adequate supply of green coffee. The use of these derivative financial instruments has enabled us to mitigate the effect of changing prices although we generally remain exposed to loss when prices decline significantly in a short period of time or remain at higher levels, preventing us from obtaining inventory at favorable prices. We generally have been able to pass green coffee price increases through to customers, thereby maintaining our gross profits. However, we cannot predict whether we will be able to pass inventory price increases through to our customers in the future. We believe our hedging policies remain a vital element to our business model not only in controlling our cost of sales, but also giving us the flexibility to obtain the inventory necessary to continue to grow our sales while minimizing margin compression during a time of historically high coffee prices.

At October 31, 2008, we did not hold any futures contracts. At October 31, 2007, we held 172 futures contracts for the purchase of 6,450,000 pounds of coffee at an average price of $1.23 per pound. The market price of coffee applicable to such contracts was $1.21 per pound at October 31, 2007.

ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See pages F-1 through F-16 following the Exhibit Index of this Annual Report on Form 10-K.

ITEM 9.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Management, which includes the Company s President, Treasurer and Chief Executive Officer (who is the Company s principal executive officer and principal accounting officer), has evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Company s President, Chief Executive Officer and Treasurer concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to the Company s management, including its principal executive officer and financial officer, as appropriate to allow timely decisions regarding disclosure.

There have been no changes in the Company s internal control over financial reporting identified in connection with the evaluation that occurred during the Company s last fiscal quarter that has materially affected, or that is reasonably likely to materially affect, the Company s internal control over financial reporting.

Management Report on Internal Control Over Financial Reporting. The management of Coffee Holding Co. is responsible for establishing and maintaining adequate internal control over financial reporting. Coffee Holding Co.'s internal control system is a process designed to provide reasonable assurance to Coffee Holding Co.'s management and board of directors regarding the preparation and fair presentation of published financial statements.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of Coffee Holding Co.'s; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Coffee Holding Co.'s assets that could have a material effect on our 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.

Coffee Holding Co., Inc.'s management assessed the effectiveness of Coffee Holding Co.'s internal control over financial reporting as of October 31, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on our assessment we believe that, as of October 31, 2008, Coffee Holding Co.'s internal control over financial reporting is effective based on those criteria.

Attestation Report of the Registered Public Accounting Firm. This annual report does not include an attestation report from our registered independent public accounting firm, regarding internal control over financial reporting. Management s report was not subject to attestation pursuant to temporary rules of the SEC that permits the Company to provide only management s report.

ITEM 9B.

OTHER INFORMATION

On January 28, 2009, we entered into a financing commitment letter with Sterling National Bank. Under the terms of the letter, Sterling National Bank has committed to establish a credit facility to refinance our existing credit facility with Merrill Lynch Business Financial Services, Inc. and to provide for our working capital requirements. The credit facility will be a revolving line of credit for a maximum of $5 million with the company able to draw on the line at an amount up to 85% of eligible accounts receivable and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed $1,000,000. The credit facility will be payable monthly in arrears on the average unpaid balance of the line of credit at an interest rate equal to a per annum reference rate (currently 4.25%) plus 1.0%. The initial term of the credit facility would be three years and shall be automatically extended for successive periods of one (1) year each unless one party shall have provided the other party with a written notice of termination, at least ninety (90) days prior to the expiration of the initial contract term or any renewal term. The credit facility will be secured by all tangible and intangible assets of the company and will be personally guaranteed by Andrew Gordon and David Gordon.

The credit facility with Sterling National Bank will contain covenants that place restrictions on our operations, including covenants relating to mergers, debt restrictions, capital expenditures, tangible net worth, leverage, fixed charge coverage, dividend restrictions, restrictions on lease payments to affiliates, restrictions on changes in business, asset sale restrictions, restrictions on acquisitions, restrictions on fundamental changes, and such other covenants as are typically contained in documents relating to similar transactions. These restrictions could adversely impact our ability to implement our business plan, or raise additional capital, if needed. In addition, if we default under the credit facility or if our lender demands payment of a portion or all of our indebtedness, we may not have sufficient funds to make such payments.

Sterling National Bank's obligation to close the credit facility will be conditioned upon, among other things, the absence of any material adverse change in the business, assets, liabilities, operations, financial condition or prospects of the company between October 31, 2008 and the closing date, the absence of any material default by the company of its obligations or its compliance with any applicable legal requirements at the time of closing, receipt of opinions of counsel to the lender that the loan documents are legal, binding and enforceable in accordance with their terms and that the lender has a perfected security interest in all assets of the company, completion of a pre-closing audit of the company by the lender and the receipt by the lender of all applicable governmental waivers and consents and landlord waivers and consents. If the credit facility is not finalized, we may not have the ability to implement our business plan or fund our operations.

PART III

ITEM 10.

DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item is incorporated by reference to the Company s Proxy Statement for the 2009 Annual Meeting of Stockholders.

ITEM 11.

EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference to the Company s Proxy Statement for the 2009 Annual Meeting of Stockholders.

ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item is incorporated by reference to the Company s Proxy Statement for the 2009 Annual Meeting of Stockholders.

ITEM 13.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference to the Company s Proxy Statement for the 2009 Annual Meeting of Stockholders.

ITEM 14.

PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item is incorporated by reference to the Company s Proxy Statement for the 2009 Annual Meeting of Stockholders.

PART IV

ITEM 15.

EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The financial statements listed below are filed as a part of this report. See Index to Financial Statements beginning on Page F-1.

Consolidated Financial Statements:

- Index to Consolidated Financial Statements.
- Report of Independent Registered Public Accountants.
- Consolidated Balance Sheets as of October 31, 2008 and 2007.
- Consolidated Statements of Operations - Years Ended October 31, 2008 and 2007.
- Consolidated Statements of Changes in Stockholders   Equity - Years Ended October 31, 2008 and 2007.
- Statements of Cash Flows - Years Ended October 31, 2008 and 2007.
- Notes to Consolidated Financial Statements.

See Exhibit Index following the signature page to this report.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on January 29, 2009.

COFFEE HOLDING CO., INC.

By: /s/ ANDREW GORDON
Andrew Gordon

President and Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	**Title**	**Date**
/s/ ANDREW GORDON Andrew Gordon	President, Chief Executive Officer, Chief Financial Officer, Treasurer and Director (principal executive officer and principal financial and accounting officer)	January 28, 2009
/s/ DAVID GORDON David Gordon	Executive Vice President Operations, Secretary and Director	January 28, 2009
/s/ GERARD DECAPUA Gerard DeCapua	Director	January 28, 2009
/s/ DANIEL DWYER Daniel Dwyer	Director	January 28, 2009

FINANCIALS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

To the Board of Directors

Coffee Holding Co., Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Coffee Holding Co., Inc. and Subsidiary as of October 31, 2008 and 2007 and the related consolidated statements of operations, changes in stockholders equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Coffee Holding Co., Inc. and Subsidiary as of October 31, 2008 and 2007 and the results of their operations and cash flows for each of the two years in the period ended October 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/ LAZAR LEVINE & FELIX, LLP
LAZAR LEVINE & FELIX, LLP

New York, New York

January 28, 2009

COFFEE HOLDING CO., INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

OCTOBER 31, 2008 AND 2007

		2008		2007
- ASSETS -				
CURRENT ASSETS:				
Cash and cash equivalents	**$**	**963,298**	$	890,649
Commodities held at broker		**342,269**		3,468,530
Accounts receivable, net of allowances of $141,915 and $136,781 for 2008 and 2007, respectively		**9,067,797**		7,130,467
Inventories		**5,046,554**		4,472,097
Prepaid expenses and other current assets		**284,900**		502,240
Prepaid and refundable income taxes		**1,025,935**		236,406
Deferred income tax assets		**923,877**		279,000
TOTAL CURRENT ASSETS		**17,654,630**		16,979,389
Property and equipment, at cost, net of accumulated depreciation of $5,020,573 and $4,542,490 for 2008 and 2007, respectively		**2,804,053**		2,651,960
Deposits and other assets		**542,893**		766,268
TOTAL ASSETS	**$**	**21,001,576**	$	20,397,617
- LIABILITIES AND STOCKHOLDERS' EQUITY -				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	**$**	**9,120,124**	$	6,717,143
Line of credit borrowings		**3,522,207**		897,191
Income taxes payable				9,161
TOTAL CURRENT LIABILITIES		**12,642,331**		7,623,495
Deferred income tax liabilities		**86,000**		145,000
Deferred rent payable		**69,959**		74,547
Deferred compensation payable		**352,637**		351,332

TOTAL LIABILITIES		**13,150,927**		8,194,374
MINORITY INTEREST		**3,226**		900
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' EQUITY:				
Preferred stock, par value $.001 per share; 10,000,000 shares authorized; none issued				
Common stock, par value $.001 per share; 30,000,000 shares authorized, 5,529,830 shares issued; 5,445,516 shares outstanding for 2008 and 5,514,930 shares outstanding in 2007		**5,530**		5,530
Additional paid-in capital		**7,327,023**		7,327,023
Retained earnings		**804,605**		4,946,467
Less: Treasury stock, 84,314 and 14,900 common shares, at cost in 2008 and 2007		**(289,735)**		(76,677)
TOTAL STOCKHOLDERS' EQUITY		**7,847,423**		12,202,343
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$**	**21,001,576**	$	20,397,617

The accompanying notes are an integral part of these consolidated financial statements.

COFFEE HOLDING CO., INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED OCTOBER 31, 2008 AND 2007

	2008	2007
NET SALES	**$ 71,186,312**	$ 57,365,840
COST OF SALES	**68,762,310**	49,071,384
GROSS PROFIT	**2,424,002**	8,294,456
OPERATING EXPENSES:		
Selling and administrative	**5,714,032**	6,026,361
Writedown of amount due from dissolved joint venture		192,860
Bad debt expense	**37,575**	38,990
Officers' salaries	**610,927**	584,151
TOTALS	**6,362,534**	6,842,362
INCOME (LOSS) FROM OPERATIONS	**(3,938,532)**	1,452,094
OTHER INCOME (EXPENSE)		
Interest income	**46,209**	131,537
Other income	**9,331**	
Equity in loss from dissolved joint venture		(91,340)
Management fee income		12,026
Writedown of investment in dissolved joint venture		(33,000)
Interest expense	**(142,087)**	(109,260)
TOTALS	**(86,547)**	(90,037)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST IN SUBSIDIARY	**(4,025,079)**	1,362,057
Benefit (provision) for income taxes	**1,430,110**	(418,175)

INCOME (LOSS) BEFORE MINORITY INTEREST		**(2,594,969)**		943,882
Minority interest in loss of subsidiary		**(2,325)**	$	(6,566)
NET INCOME (LOSS)	**$**	**(2,597,294)**	$	937,316
Basic and diluted earnings (loss) per share	**$**	**(.47)**	$	.17
Weighted average common shares outstanding:				
Basic		**5,476,173**		5,525,408
Diluted		**5,476,173**		5,595,408

The accompanying notes are an integral part of these consolidated financial statements.

COFFEE HOLDING CO., INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

YEARS ENDED OCTOBER 31, 2008 AND 2007

	Common Stock $.001 Par Value		Treasury Stock		Additional Paid - in Capital	Retained Earnings	Total
	Number of Shares	Amount	Number of Shares	Amount			
Balance, 10/31/06	5,529,830	$ 5,530		$	$ 7,327,023	$ 4,009,151	$ 11,341,704
Treasury stock at cost	(14,900)		14,900	(76,677)			(76,677)
Net income						937,316	937,316
Balance, 10/31/07	5,514,930	5,530	14,900	(76,677)	7,327,023	4,946,467	12,202,343
Treasury stock at cost	**(69,414)**		**69,414**	**(213,058)**			**(213,058)**
Dividend						**(1,544,568)**	**(1,544,568)**
Net loss						**(2,597,294)**	**(2,597,294)**
Balance, 10/31/08	**5,445,516**	**$ 5,530**	**84,314**	**$ (289,735)**	**$ 7,327,023**	**$ 804,605**	**$ 7,847,423**

The accompanying notes are an integral part of these consolidated financial statements.

COFFEE HOLDING CO., INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED OCTOBER 31, 2008 AND 2007

	2008	2007
OPERATING ACTIVITIES:		
Net income (loss)	$ (2,597,294)	$ 937,316
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	541,204	383,216
Writeoff of leasehold improvements		38,918
Bad debt expense	37,575	38,990
Deferred rent	(4,588)	(4,588)
Deferred income taxes	(703,877)	74,700
Loss from dissolved joint venture		91,340
Writedown of investment in dissolved joint venture		33,000
Writedown of amount due from dissolved joint venture		192,860
Minority interest	2,326	6,566
Changes in operating assets and liabilities:		
Commodities held at broker	3,126,261	861,959
Accounts receivable	(1,974,905)	(634,609)
Inventories	(574,457)	(1,572,554)
Prepaid expenses and other current assets	239,144	(173,696)
Prepaid and refundable income taxes	(789,529)	65,597
Due from dissolved joint venture		(110,505)
Deposits, other assets and other	(138,939)	(45,027)
Accounts payable and accrued expenses	2,402,981	1,967,589
Income tax payable	(9,161)	9,161
Net cash provided by (used in) operating activities	(443,259)	2,160,233
INVESTING ACTIVITIES:		
Purchases of property and equipment including equipment deposit	(341,982)	(659,382)
Security deposits	(9,500)	
Net cash used in investing activities	(351,482)	(659,382)

FINANCING ACTIVITIES:				
Advances under bank line of credit		**60,576,960**		49,127,817
Principal payments under bank line of credit		**(57,951,944)**		(50,773,507)
Payment of dividend		**(1,544,568)**		
Purchase of treasury stock		**(213,058)**		(76,677)
Net cash provided by (used in) financing activities		**867,390**		(1,722,367)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**72,649**		(221,516)
Cash and cash equivalents, beginning of year		**890,649**		1,112,165
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**963,298**	$	890,649
SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:				
Interest paid	**$**	**127,082**	$	117,758
Income taxes paid	**$**	**33,477**	$	287,480

The accompanying notes are an integral part of these consolidated financial statements.

NONCASH INVESTING AND FINANCING ACTIVITIES:

During 2007, the Company received equipment valued at#999999" WIDTH="100%" ALIGN="CENTER">

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6. Supplementary cash flow information

The cash flow statement has been prepared using the indirect method.

The following table reconciles the balances included as cash and banks and current investments in the balance sheet to the total amounts of cash and cash equivalents at the beginning and end of the period shown in the statements of cash flows:

	As of September 30,		As of December 31,	
	2004	2003	2003	2002
Cash and banks	$ 36	$ 77	$ 26	$ 53
Current investments	3,588	1,825	2,441	1,362
Total as per balance sheet	**$ 3,624**	**$ 1,902**	**$ 2,467**	**$ 1,415**
Less:				
Items not considered cash and cash equivalents				
- Currency-like bonds (i)		(11)		(36)
- Time deposits with maturities of more than three months (ii)	(58)	(222)	(193)	
- Government bonds	(iii) (8)	(iii) (23)	(58)	(iii) (65)
Total cash and cash equivalents as shown in the statement of cash flows	**$ 3,558**	**$ 1,646**	**$ 2,216**	**$ 1,314**

(i) Corresponds to national and provincial government bonds restricted as to their use for paying commercial and tax obligations in the respective jurisdictions of issuance.
(ii) Includes $31 related to Nucleo s escrow account. See Note 5.b for details.
(iii) Corresponds to the current portion of held-to-maturity investments.

Changes in assets/liabilities components (including the effects of inflation on monetary accounts):

	Nine-month periods ended September 30,	
	2004	2003
Decrease (increase) in assets		
Investments not considered as cash or cash equivalents	$ (3)	$ 6
Trade accounts receivable	(20)	(293)
Other receivables	(60)	(9)
Inventories	(75)	5
Other assets	(9)	(6)
	$ (167)	**$ (297)**
Increase (decrease) in liabilities		
Accounts payable	$ 70	$ 71
Compensation and social benefits payable	(2)	3
Taxes payable	(36)	179
Other liabilities	(1)	(5)
Contingencies	(12)	(15)
	$ 19	**$ 233**

Income tax paid during the nine-month periods ended September 30, 2004 and 2003, amounted to $nil. Interest paid during the nine-month periods ended September 30, 2004 and 2003, amounted to $12 and $332, respectively.

Non-cash investing and financing activities:

	Nine-month periods ended September 30,	
	2004	2003
Acquisition of fixed assets through incurrence of accounts payable	$ 71	$ 1
Capitalized interest on fixed assets	3	6
Wireless handsets lent to customers at no cost (i)	2	2
Government bonds exchanged for tax certificates	(35)	(25)
Collection of receivables with government bonds		348
Payment of taxes with government bonds		(220)
Payment of accounts payable with government bonds		(119)

(i) 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.

The following table presents the cash flows from purchases, sales and maturities of securities which were not considered as cash equivalents in the statement of cash flows:

	Nine-month periods ended September 30,	
	2004	2003
Government bonds	$ 52	$ 40
Time deposits with maturities of more than three months	137	(222)
Total cash flows from investments not considered as cash equivalents	**$ 189**	**$ (182)**

Financing activities components:

	Nine-month periods ended September 30,	
	2004	2003
Payment of Notes	$	$ (277)
Payment of bank loans	(6)	(152)
Payment of interest on Notes an		(231)
Payment of interest on bank loans an	(12)	(49)
Payment of interest on fixed assets and inventory financing an		(52)
Total financing activities components	**$ (18)**	**$ (761)**

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7. Related party transactions

(a) Controlling group

As of September 30, 2004, Nortel is the controlling shareholder of Telecom Argentina. Nortel owns all of the outstanding Class A shares and 36,832,408 Class B shares of Telecom Argentina. Nortel s ordinary shares were owned equally by the Telecom Italia Group and the France Telecom Group.

On September 9, 2003, Nortel was notified of the agreement entered into by the France Telecom Group and W de Argentina Inversiones S.L., pursuant to which the France Telecom Group sold its stake in Nortel to W de Argentina Inversiones S.L.

On December 19, 2003, the Telecom Italia Group and the France Telecom Group contributed their respective interests in Nortel to a newly created company, Sofora Telecomunicaciones S.A. (Sofora) in exchange for shares of Sofora. At that time, the Telecom Italia Group and the France Telecom Group had the same shareholding interests in Sofora. Following the approval obtained from the regulatory authorities, the Company was informed that the France Telecom Group sold its 48% interest in Sofora plus a put option for the remaining 2% to W de Argentina Inversiones S.L. for a total purchase price of US$125 million. The put option will be exercisable from January 31, 2008 through December 31, 2013. As of September 30, 2004, the shareholders of Sofora are the Telecom Italia Group representing 50%, W de Argentina Inversiones S.L. representing 48% and the France Telecom Group representing 2% of Sofora s capital stock. W de Argentina - Inversiones S.L. has granted two call options to the Telecom Italia Group to purchase its equity interest in Sofora for an aggregate purchase price of US$ 60 million. The first call option to acquire 48% of the equity interest of Sofora can be exercised within 15 days after December 31, 2008. The second call option to acquire the remaining 2% of the equity interest of Sofora can be exercised at any time between December 31, 2008 and December 31, 2013.

(b) Balances and transactions with related parties

The Company has had transactions in the normal course of business with certain related parties. The following is a summary of the balances and transactions with related parties:

	As of September 30, 2004	As of December 31, 2003
Accounts payable:		
Nahuelsat (d)	1	
Tel3 S.A. (a)	2	
Pirelli Energía Cables y Sistemas de Argentina S.A. (a)	1	1
Teco Soft Argentina S.A. (a)		1
	$ 4	**$ 2**

	Transaction description	Nine-month periods ended September 30, 2004	Nine-month periods ended September 30, 2003
Services received:			
Nahuelsat (d)	Rental expenses	$ 6	$ 5
Intelsat Ltd. (d)	Rental expenses	2	4
Latin American Nautilus (e)	Lease of circuits	1	3
Telecom Italia S.p.A. Argentine branch (a)	Fees for services	3	3
Teco Soft Argentina S.A. (a)	Fees for services	3	9
Tel3 S.A. (a)	Fees for services	8	1
La Caja ART S.A. (b)	Insurance	2	
Caja de Seguros S.A. (b)	Insurance	1	
Multibrand (e)	Advertising		1
FCR Argentine branch (c)	Fees for services		2
Sofrecom Argentina S.A. (c)	Fees for services		7
Total operating costs		**$ 26**	**$ 35**

	Nine-month periods ended September 30, 2004	Nine-month periods ended September 30, 2003
Purchases of fixed assets/intangible assets:		
Pirelli Energía Cables y Sistemas de Argentina S.A. (a)	$ 4	$
Pirelli Telecomunicaciones Cables y Sistemas de Argentina S.A. (a)	$ 4	$
Tel3 S.A. (a)	2	
Sofrecom Argentina S.A. (c)		1
Total fixed assets and intangible assets	**$ 10**	**$ 1**

(a) Such companies form part of Telecom Italia Group.
(b) Such companies form part of W de Argentina - Inversiones S.L.
(c) Such companies form part of France Telecom Group and were related parties up to December 19, 2003.
(d) The Company has between 0.15% and 5.75% of the capital stock in such companies.
(e) The Company had between 10% and 25% of the capital stock in such companies.

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7. Related party transactions (continued)

The Company believes that the transactions discussed above were made on terms no less favorable to the Company than would have been obtained from unaffiliated third parties.

As of September 30, 2004, Telecom Argentina had loans outstanding to two officers of Telecom Argentina, totaling $0.4 that corresponded to loans granted pursuant to retention plans. The annual interest rate for these loans is 6%.

(c) Management agreement

On the Transfer Date, Telecom Argentina and the Operators entered into a management agreement (the Management Agreement) under which the Operators undertook the management and operation of the Company and facilitated their expertise and technical assistance. The Management Agreement initially expired in October 1999, but was renewable automatically while the Company continued rendering services on an exclusive basis.

In August 1999, the parties entered into an amended agreement (the Amended Agreement), with substantially similar terms and conditions, pursuant to which the Management Agreement was extended through October 9, 2004. The Amended Agreement is renewable for an additional 5-year period upon written agreement of the parties.

The management fee payable by Telecom Argentina is based on 3% of net sales. In October 2001, due to the economic situation prevailing in Argentina, the Operators, as requested by the Company, agreed to reduce the fee to 1.25%. Telecom Argentina paid this reduced fee from October 1, 2001 through March 31, 2002. In 2002, and due to the impact of the crisis on the Company s financial position and results of operations, the Operators, as requested by the Company s Board of Directors, agreed to suspend temporarily the provisions of Article II of the Management Agreement (which includes the provisions relating to the payment of the management fee) from April 1, 2002 through December 31, 2002, except for the provision of qualified management personnel, as necessary. Furthermore, the Operators notified the Company that they would continue rendering management services as required by the Company on an as-needed basis. Subsequently, Telecom Argentina and the Operators agreed to suspend the Article II provisions until its expiration date in October 2004, except for the provision of qualified management personnel.

As a result of the sell of the France Telecom Group s interest in Nortel, on December 19, 2003, the Company and FCR terminated their relationship under the Management Agreement. However, the Management Agreement continues to be effective and binding without modifications between Telecom Argentina and Telecom Italia, as the exclusive operator of Telecom Argentina, authorized by Resolution No. 111/03 of the Department of Communications.

8. Debt

Short-term and long-term debt comprises the following:

	As of September 30, 2004	As of December 31, 2003
Short-term debt:		
- Principal:		
Notes	$ 4,943	$ 4,912
Bank loans	1,737	1,638
Fixed assets financing	2,198	2,169
Inventory financing	444	426
Subtotal	9,322	9,145
- Accrued interest	1,194	747
- Penalty interest	210	104
Total short-term debt	**$ 10,726**	**$ 9,996**
Long-term debt:		
- Principal:		
Bank loans	$ 25	$ 86
Total long-term debt	25	86
Total debt	**$ 10,751**	**$ 10,082**

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8 Debt (continued)

(a) Short-term and Medium-term Notes Programs:

The Company has issued various series of notes under its short-term and medium-term global programs. The Programs were approved by shareholders general meetings which in turn authorized the Board of Directors to determine the terms and conditions, including amount, price, interest rate and currency. The Global Programs and the notes issued thereunder were ranked by Argentine ratings agencies.

The terms and conditions of the various series of notes contained customary affirmative and negative covenants, including, but not limited to, creation of liens on assets and/or revenues of the Company, mergers and others.

The detail of the outstanding series under the programs as of September 30, 2004 is as follows:

Global program		Date of issue	Nominal value (in millions)		Term, in years	Maturity date	Annual interest rate (i)	Book value at September 30, 2004	Market value at September 30, 2004
Program B:									
Series C		11.15.95	US$	200	7	11.15.02	12.00	347	319
Series E	**(a)**	5.5.97	US$	100	8	5.5.05	4.51	298	254
Series F	**(c)**	5.30.97	Euro	207	10	5.30.07	8.87	703	590
Series H	**(b)(c)**	3.18.98	Euro	207	10	3.18.08	3.71	696	564
Series I		4.8.99	Euro	200	5	4.8.04	8.37	691	577
Series K		7.1.99	Euro	250	3	7.1.02	7.25	761	685
Program D:									
Series 1		4.7.00	Euro	250	3	4.7.03	7.62	833	674
Series 2		7.2.01	Euro	190	3	7.2.04	9.50	614	520

Principal	**4,943**	**4,183**
Accrued interest	807	
Penalty interest	69	
	5,819	

(i) Percentages have been rounded.
(a) Accrue interest at 6-month LIBOR plus 3.125%. At September 30, 2004, LIBOR was 2,20%.
(b) Accrue interest at 6-month LIBOR plus 1.5%.
(c) Originally issued in Italian Lira.

- Global Program B:

The Company has six series of bonds outstanding under the Global Program B, which expired on August 10, 1999. As of September 30, 2004, an amount of $4,093 is outstanding under the program. The net proceeds of the notes were used to refinance debt and meet working capital needs.

- Global Programs C and D

The Company was authorized to create a short-term note program and a medium-term note program, C and D, respectively, for the issuance and re-issuance of unsecured non-convertible notes for up to US$ 200 million and US$ 1,500 million, respectively. As of September 30, 2004, two series (1 and 2) are outstanding under the Global Program D for an aggregate amount of $1,726. The net proceeds of the notes were used to refinance debt and meet working capital needs.

(b) Debt restructuring

In December 2002, as part of its debt restructuring program, Telecom Personal issued the BofA Promissory Notes and the Holders Promissory Note for an aggregate amount of US$54 million. Under Argentine GAAP, the restructured debt was classified as non-current liabilities and discounted to its present value.

As part of the Company s cash tender offer, Telecom Personal redeemed 100% of the BofA Promissory Notes and 8% of the Holders Promissory Note for an aggregate amount of approximately US$ 30 million. Telecom Personal did not paid the interest on the Holders Promissory Note due March 2004. Accordingly, Telecom Personal received notices of acceleration for the full amount of the restructured debt. Telecom Personal recorded a loss of $20 to carry the debt at fair value. As of September 30, 2004, the total outstanding debt amounts to $82 including principal plus accrued interest. Due to the notice of acceleration, such debt has been reclassified to current liabilities.

(c) Bank loans

These include term loans payable to various banks, bearing an annual weighted average rate of 4.86%, due at various dates through April 2009.

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8. Debt (continued)

(d) Fixed assets financing

These include term loans payable to various banks and other financial institutions, bearing an annual weighted average rate of 4.70%, due at various dates through May 2016. The most significant are:

Mediocredito Centrale:

Prior to the privatization of ENTel, the Argentine government was granted a credit line from the *Instituto Centrale Per il Credito a Medio Termine* (the Mediocredito Centrale) for an aggregate amount of Euro 103 million, the proceeds of which were to be used to finance the digitalization of the telephone network in Argentina. Subsequently, under this credit line, the Argentine government ceded to the Company the rights to an Euro 50-million loan payable semi-annually in 30 equal consecutive installments and bearing interest at a rate of 1.75% per year.

The Argentine government remains the debtor to the Mediocredito Centrale; however, the Company assumed the obligation to service the debt according to the terms and conditions of the agreement. In the event the Company fails to pay the corresponding installments, and the Argentine government settles the obligations, the Company s debt towards the government may be offset by the corresponding receivables for services rendered to certain governmental agencies. As of September 30, 2004, an amount of approximately $151 (principal plus accrued and penalty interests) or Euro 41 million is outstanding under the agreement.

Japan Bank for International Cooperation:

On June 29, 1998, the Company entered into a credit line agreement with the Japan Bank for International Cooperation (JBIC) for up to Japanese yen 12,000 million loan due June 15, 2010. The Company used Japanese yen 11,652 million under this credit line. As of September 30, 2004, an amount of approximately $336 (principal plus accrued and penalty interests) is outstanding under the agreement.

(e) Inventory financing

These include term loans payable to various banks and other financial institutions, bearing an annual weighted average rate of 4.24%.

9. Shareholders equity

(a) Common stock

At September 30, 2004, the Company has 502,034,299 authorized, issued and outstanding shares of $1 par value Class A Common Stock, 436,323,992 shares of $1 par value Class B Common Stock and 46,022,687 shares of $1 par value Class C Common Stock. 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 Buenos Aires Stock Exchange (BCBA) and the New York Stock Exchange (NYSE) for public trading. Only Class B shares are traded. Nortel owns all of the outstanding Class A shares and Class C shares are dedicated to the employee stock ownership program, as described below.

Class B shares began trading on the BCBA on March 30, 1992. On December 9, 1994, these shares began trading on the NYSE under the ticker symbol TEO upon approval of the Exchange Offer by the SEC. Pursuant to the Exchange Offer, holders of ADRs or ADS which were restricted under Rule 144-A and holders of GDR issued under Regulation S exchanged their securities for unrestricted ADS, each ADS representing 5 Class B shares. Class B also began trading on the Mexican Stock Exchange on July 15, 1997.

(b) Restrictions on distribution of profits

The Company is subject to certain restrictions on the distribution of profits. Under the Argentine Commercial 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 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 accounts). This legal reserve may be used only to absorb deficits.

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9. Shareholders equity (continued)

(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 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, a decree of the Argentine government eliminated the restrictions on some of the Class C shares held by the Trust, although it excluded 45,932,738 Class C shares subject to an injunction against their use. On March 14, 2000, a shareholders meeting of the Company approved the conversion of up to unrestricted 52,505,360 Class C shares into Class B shares, of which 52,415,411 were converted. In May 2000, the employees sold 50,663,377 shares through an international and national bid.

In September 2002, the Trustor requested the Company to take all necessary actions in order to effect the conversion to Class B shares of up to 15,000,000 Class C shares out of the 45,932,738 shares held in the Trust, which had been released from the injunction. Subsequently, the Trustor informed the Company that unrestricted Class C shares amounted to 10,334,176, of which 8,361,012 are still held in the Trust.

The Company requested the Trustor to obtain judicial approval to permit the shareholders meeting to effect the conversion of the total amount of Class C shares to Class B shares in order to avoid calling for successive shareholders meetings every time restrictions on the shares are released for conversion. The Trustor informed the Company that a judicial resolution in favor of the total conversion had not been granted. The Company has also indicated that it is necessary to reach an agreement with the PPP for a timely and orderly sale of the converted Class B shares, because the sale of an inappropriate number of Class B shares could affect the price of the Class B shares. In November 2003, the PPP lacked a legal representative. In March 2004, a judicial resolution nullified the intervention of the PPP and notified the Ministry of Labor and Social Security to call for elections in order to establish the Executive Committee of the PPP. As of the date of these financial statements, these elections have not yet been called.

(d) ***Rueda Reducida*** **trading**

As a result of the default situation described in Note 13, the BCBA decided to transfer the trading of the Company s notes to the so-called *Rueda Reducida* status, a special trading status of the BCBA for companies experiencing certain adverse financial conditions. In addition, since the Company s accumulated losses have absorbed its reserves and at least 50% of the Company s share capital, the BCBA has also decided to transfer the trading of the Company s common stock to the Rueda Reducida status.

(e) Mandatory reduction of capital

Under section 206 of the Argentine Companies Law, if at the annual shareholders meeting, a company s losses have absorbed its reserves and at least 50% of the share capital, a company is required to reduce its capital stock. Further, under paragraph 5 of section 94, if a company shareholders equity is negative, a company is required to commence dissolution proceedings unless its shareholders take action (either by making a capital contribution or authorizing the issuance of additional shares of the company) resulting in positive shareholders equity within 90 days of such annual shareholders meeting. Since the Company reported a loss for the year ended December 31, 2002, which absorbed the Company s reserves and significantly reduced its shareholders equity, the Company qualifies for mandatory reduction of capital. This situation is maintained as of September 30, 2004.

However, the requirements of section 206 and paragraph 5 of section 94 were suspended temporarily by a decree of the Argentine government until December 10, 2004. The Company s Board of Directors monitors this situation very closely at each meeting where the financial statements of the Company are approved. The Shareholders meetings are also notified appropriately. The Board will take appropriate actions as needed.

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10. Income tax

No income tax provision has been recorded for any period presented as the Company has experienced net operating losses for income tax purposes.

Income tax (expense) benefit for the nine-month periods ended September 30, 2004 and 2003 consists of the following:

	Nine-month periods ended September 30,	
	2004	**2003**
Current tax expense	$ (4)	$
Deferred tax (expense) benefit	(5)	
Income tax (expense) benefit	**$ (9)**	**$**

The Company accounts for income taxes in accordance with the guidelines of RT 17. RT 17 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax based assets and liabilities and are measured using the enacted tax rates.

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 September 30, 2004	**As of December 31, 2003**
Deferred tax assets:		
- Tax loss carryforwards	$ 1,503	$ 1,778
- Allowance for doubtful accounts	85	90

- Provision for contingencies	88	81
- Foreign exchange gains and losses	181	241
- Other	278	64
Total deferred tax assets	**$ 2,135**	**$ 2,254**
Deferred tax liabilities:		
- Fixed assets	42	80
- Inflation adjustment (i)	1,210	1,428
- Foreign currency gains/losses (ii)	237	279
- Other	6	
Total deferred tax liabilities	**$ 1,495**	**$ 1,787**
- Valuation allowance	625	447
Net deferred income tax assets	**$ 15**	**$ 20**

(i) Mainly relate to inflation adjustment on fixed assets, intangibles and other assets for financial reporting purposes
(ii) Mainly relate to capitalized interest and foreign currency exchange gains and losses in fixed assets

Income tax (expense) benefit for the nine-month periods ended September 30, 2004 and 2003 differed from the amounts computed by applying the Company s statutory income tax rate to pre-tax income (loss) as a result of the following:

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
Income tax (expense) benefit at statutory income tax rate on pretax income (loss)	$ 169	$ (277)
Permanent differences:		
Non taxable items		3
Inflation adjustment of permanent differences		(2)
Change in valuation allowance	(178)	275
Equity gain from related companies		1
Income tax (expense) benefit	**$ (9)**	**$**

As of September 30, 2004, the Company had accumulated operating tax loss carryforwards of approximately $1,503. The following table details the operating tax loss carryforwards segregated by company and expiration date:

Expiration year	**Telecom Argentina**	**Publicom**	**Telecom Personal**	**Total consolidated**
2007	1,288	2	208	1,498
2008		3		3
2009		2		2

Total	**1,288**	**7**	**208**	**1,503**

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10. Income tax (continued)

Decree No. 2,568/02 of the Argentine government prescribed that foreign currency exchange losses arising from holding foreign-currency denominated assets and liabilities existing as of January 6, 2002, had to be determined using an exchange rate of $1.40 to US$1. The resulting net foreign currency exchange loss from this calculation procedure was to be considered deductible for income tax purposes at a rate of 20% per year commencing in fiscal year 2002. As of December 31, 2002, the exchange rate was $3.37 to US$1. Therefore, pursuant to the terms of the Decree, the difference between $1.4 and $3.37 was to be deducted entirely for income tax purposes in fiscal year 2002. On the contrary, the Company and its tax advisors had interpreted the Decree to require the entire amount ($3.37 minus $1) to be deduced for income tax purposes at a rate of 20% per year commencing in fiscal year 2002 through fiscal year 2006.

The Company provides a valuation allowance for deferred tax assets when it is more likely than not that some portion or all of the net deferred tax assets will not be realized. Based on a number of factors, including the Argentine government s interpretation of the Decree as described above, the current expiration period of tax loss carryforwards (5 years) and the fact that the Company anticipates insufficient future taxable income over the periods in which tax assets can be applied, management believes that there is sufficient uncertainty regarding the realization of a significant portion of its net deferred tax assets that a valuation allowance has been provided. The Company will continue to monitor the need for a change in the valuation allowance that has been provided.

(a) Impact of Resolution MD No. 11/03 of the CPCECABA

Under Argentine GAAP, there are currently two approaches to the accounting treatment of differences between the tax basis and book basis of non-monetary items for deferred income tax calculation purposes when companies prepare price-level restated financial statements.

In one approach, the FACPCE, in line with IAS and US GAAP, reached a consensus that when preparing financial statements restated for general price-level changes, temporary differences under RT 17 are determined based on the difference between the price-level restated amount of assets and liabilities reported in the financial statements and the related tax basis amounts. Accordingly, following the guidelines of RT 17 and related interpretations, the Company has treated the differences between the tax basis and indexed book basis of non-monetary items as temporary from year 2002.

However, in April 2003, the CPCECABA issued Resolution MD No. 11/2003, which was intended to clarify certain concepts in connection with the accounting treatment of deferred tax assets and liabilities when companies prepare price-level restated financial statements. The CPCECABA reached a consensus that differences between the tax basis and the related indexed amounts of fixed assets would be permanent differences rather than being considered temporary.

In the opinion of management, this alternative approach departs from the liability method prescribed by RT 17. In order to comply with applicable rules and regulations, in May 2003, the Company consulted with the CNV and requested the regulatory authority to issue a statement on the subject, so as to permit the Company to give proper accounting effect in these financial statements. As of the date of these financial statements, the CNV has not yet addressed the issue.

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10. Income tax (continued)

Based on the foregoing, the Company has decided to continue treating the differences between the tax basis and price-level restated amounts of non-monetary assets and liabilities as temporary. Further, and considering that the Company has provided for a substantial portion of its net deferred tax assets, the CPCECABA resolution, if applied to the Company s financial statements as of September 30, 2004, would not have a significant impact on the Company s financial position and results of operations. Rather, the application of the resolution would have an effect on the disclosed amounts of net deferred tax assets and the components of the income tax expense for the nine-month period ended September 30, 2004, as follows:

Effect on net deferred tax assets:

	Net deferred tax assets	Valuation allowance	Net of valuation allowance
Balances as per books	$ 640	$ (625)	$ 15
Plus (less):			
Tax effect of inflation adjustment on fixed assets, intangible assets and other assets	1,210		1,210
Increase in valuation allowance		(1,210)	(1,210)
Balances as adjusted	**$ 1,850**	**$ (1,835)**	**$ 15**

Effect on income tax:

(Loss)/ Gain	**Balances as per books**	**Adjustments**	**Balances as adjusted**
Current tax (expense)	$ (4)	$	$ (4)
Deferred tax (expense)	(45)		(45)
Tax effect of inflation adjustment on fixed assets, intangible assets and other assets	218	(218)	

Subtotal	169	(218)	(49)
Decrease in valuation allowance	(178)	218	40
Income tax	**$ (9)**	**$**	**$ (9)**

In the event the Company decreases the level of the valuation allowance provided, the application of the resolution would have a material effect on the Company s financial position and results of operations.

11. Modification of the terms of issuance of certain Argentine Treasury Bonds Argentina 2004 Bonds

In May 2001, pursuant to Decree No. 424/01, Telecom Argentina purchased an aggregate amount of US$ 30 million of Argentine treasury bonds (Argentina 2004 bonds or Patriotic bonds). Telecom Argentina s intention was to hold the investment to its maturity in May 2004.

According to the conditions of issuance, companies were allowed to convert the bonds into tax certificates which could then be used to pay tax obligations at the federal level. Following the country s default, Telecom Argentina exercised the option and converted a portion of the outstanding amount of the investment into tax certificates or CEOI its acronym in Spanish.

However, pursuant to Decree No. 1657/02, the Argentine government temporarily suspended the provisions of Decree No. 424/01, thus precluding companies from settling tax obligations through the use of the tax certificates. In addition, the government introduced certain modifications to the regime.

A subsequent decree extended the suspension period and established limits to the use of the tax certificates. The government established a bidding process regime pursuant to which participating companies were allowed to use up to a monthly amount of $80 million of tax certificates to cancel tax liabilities. Telecom Argentina participated in this process which ended in October 2003.

After successive interruptions to the bidding process, the Argentine government issued Decree No. 493/04 in April 2004, which further precluded companies to make use of the option to pay federal tax obligations with tax certificates until the government completes the renegotiation of the Argentine sovereign debt.

As of September 30, 2004, Telecom Argentina has Argentina 2004 bonds outstanding for an aggregate amount of $79 (US$ 27 million) which could have been converted into a like amount of tax certificates.

Based on the foregoing, management has recorded an impairment loss of $57 to carry these investments at fair value. Management estimated the fair value based on similar treasury bonds issued by the Argentine government and being renegotiated under the sovereign debt renegotiation process. However, Telecom Argentina has not waived its rights to collect the full amount of the investment.

On September 24, 2004, the Company filed an administrative claim with the Dirección General de Asuntos Jurídicos del Ministerio de Economía (Legal Affairs Department of the Ministry of Economy) seeking Decree No. 493/04 be declared null and void. The claim was rejected and the Company notified on October 21, 2004. Accordingly, the Company may initiate judicial proceedings against the National Government in this regard.

As of the date of the financial statements, management of the Company is currently analyzing possible courses of action.

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12. Commitments and contingencies

(a) Purchase commitments

The Company has entered into various purchase commitments aggregating approximately $201 as of September 30, 2004, primarily related to the supply of switching equipment, maintenance and repair of public phones, infrastructure agreements and other service agreements.

(b) Investment commitments

In August 2003, Telecom Argentina has been notified by the Department of Communications of a proposal for the creation of a $70-million financial trust (the *Complejo Industrial de las Telecomunicaciones 2003* or 2003 Telecommunications Fund) to be funded by the major telecommunication companies aimed at developing the telecommunications sector in Argentina. Banco de Inversion y Comercio Exterior (BICE) was designated as Trustee of the Fund. The Fund is aimed at, among others:

- Creating alternative mechanisms for financing;
- Completing projects if they prove to be long-standing, profitable and relate to the telecommunications system;
- Developing and consolidating the 2003 Telecommunications Fund; and
- Being the nexus between the major telecommunication companies and small and medium-sized companies and individual entrepreneurs within the sector, and harmonizing their interests with those of the State.

In November 2003, the Company has contributed $1.5 at the inception of the Fund. The Company also committed further contributions of up to $3.5, payable on the first anniversary of the Fund, provided that the Company completed its financial restructuring successfully. In addition, management announced that it is the Company s intention to promote agreements with local suppliers for an estimated amount of $10 - which would facilitate their access to financing.

(c) Contingencies

The Company is a party to several civil, tax, commercial and labor proceedings and claims that have arisen in the ordinary course of its business. The Company has established reserves for an aggregate amount of $251 to cover potential losses under these claims.

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 Company s management based upon the information available at this time and consultation with external 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 litigations.

Following 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 government may settle any amounts payable to the Company for these claims through the issuance of treasury bonds. As of September 30, 2004, labor lawsuits in this connection amounted to $16.

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12. Commitments and contingencies (continued)

Other claims

In November 1995, Telecom Argentina, Telefonica de Argentina (Telefonica), Telintar and the Argentine government were served notice of a legal action brought by a consumer group called *Consumidores Libres Cooperativa Limitada de Provision de Servicios Comunitarios* (Consumidores). The purpose of the action sought to declare null and void all regulations and rate agreements in force since the Transfer Agreement, the effect being to have the fixed telephone rates charged by licensees reduced, the amounts supposedly collected in excess refunded to customers and the licensees rate of return on the Company s fixed assets, as determined by Decree No. 2,585/91, limited to an annual 16%. The Court of Appeals has rejected some claims but deferred decisions on others until final judgement is made.

In December 2000, the Argentine Tax Authority (the AFIP) assessed Telecom Argentina approximately $38.2 in additional income tax for the fiscal years 1993 through 1999 resulting from an income tax audit for that period. The AFIP has asserted that Telecom Argentina improperly calculated its tax depreciation for its optic fiber network. In addition, in December 2001, the AFIP assessed an additional $2.1 in income tax for the fiscal years 1993 through 1999. The AFIP asserted a tax deficiency related to Telecom Argentina s equity interest in Telintar. Telecom Argentina disagrees with these assessments and is vigorously contesting them. Management believes the ultimate outcome of the AFIP audits will not have a material adverse impact on the Company s financial position or results of operations.

In October 2001, the Court of Appeals awarded the plaintiffs an injunction ordering the Argentine government, Telefonica and Telecom Argentina to refrain from applying any indexing provisions to the tariffs pending final resolution in the case. Accordingly, Telecom Argentina was not able to adjust tariffs by the application of the United States Consumer Price Index (USCPI), as permitted by the Transfer Agreement, when calculating the price cap formula therein established. The Company appealed the decision before the Argentine Supreme Court rejecting the arguments stated therein. Furthermore, Law No. 25,561 also prohibited the application of any indexing provisions in the contracts entered into with the Argentine government, including the contracts related to telecommunication services.

In August 2003, Telecom Argentina, Telefonica and the Department of Communications were served notice of another legal action brought by Consumidores alleging that certain amounts in connection with the provision of certain special equipment were included in monthly fees and that the amounts paid be reimbursed to customers. The Company contested the allegations on the grounds that the fees collected are permitted under the current applicable rules and regulations.

Certain amounts deposited in the Company s bank accounts have been restricted as to their use due to some judicial proceedings. As of September 30, 2004, these restricted funds totaled $11. The Company has reclassified these balances to other receivables on the Company s balance sheet.

13. Financial restructuring

(a) Background

As a result of the devaluation of the Argentine peso and subsequent pesification of Telecom Argentina s tariffs, the uncertainties of the economic situation and the regulatory environment in which the Company operates, on March 27, 2002 and June 24, 2002, the Board of Directors of Telecom Argentina and its subsidiaries in Argentina defaulted on their principal and interest payment obligations under their debt agreements. Notwithstanding the defaults, the Company continues to conduct business as usual.

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13. Financial restructuring (continued)

The terms and conditions of the Notes and loan agreements issued by the Company contain certain clauses, which provided for events of default, as follows:

- Failure to pay principal or interest at maturity;
- Cross-default provisions, such as failure to pay principal or interest on any other outstanding indebtedness of the Company or its material subsidiaries, which equals or exceeds an aggregate amount of US$20 million;
- The Company s written notice of default on its debt;
- Any final judgment providing for the payment of an aggregate amount equal to or exceeding US$20 million; and
- The Company s or its material subsidiaries voluntary petition for bankruptcy, special bankruptcy proceedings (*Concurso Preventivo*) or out-of-court reorganization agreements.

As a result of the defaults, the bondholders and lenders under the agreements were entitled, at their option, to request the acceleration of all principal and accrued interest outstanding as of the date of the defaults. As of the date of these financial statements, the Company has received notices of acceleration from certain lenders representing loan amounts exceeding US$ 20 million. In addition, the indentures and loan agreements provide for a penalty interest rate in the event that payments are not made when due. Such penalty interest ranged from an average 2% to 5% per year.

The Company s board of directors is currently taking all necessary actions aimed at preserving the Company s value and maximizing the Company s cash flows. The Company reached an agreement with certain financial creditors on the repurchasing of a portion of its debt (see Note 13 b) and has developed a comprehensive plan to restructure the remaining indebtedness of Telecom Argentina, Telecom Personal and Nucleo (see Note 13 d).

While the Company is optimistic that these transactions will be completed successfully, the Company cannot give assurance that these transactions will be completed on terms that are acceptable to it or its operating subsidiaries or at all.

(b) Cash tender offer

In April 2003, the Company announced that Telecom Argentina, Telecom Personal and Publicom were commencing a Modified Dutch Auction tender offer for a portion of the consolidated debt. The Company offered to buy back debt using cash up to US$310 million relating to Telecom Argentina, US$55 million relating to Telecom Personal and US$2 million relating to Publicom.

As a result of the tender offer, the Company purchased debt with a face value of approximately US$ 292 million, for a total purchase price of approximately US$ 161 million. This repurchase generated a net gain of US$ 131 million on discount on principal, which in addition to the gain of US$ 17 million obtained by the reversal of accrued interests, totaled a gain of US$ 148 million on repurchase of debt.

The following table summarizes that portion of the gain on repurchase of debt corresponding to the reduction of principal and interest amounts:

	Principal amount purchased (book value)				Purchase price paid				Gain on repurchase of debt		
Name of company	**US$**	**Euro**	**Peso**	**I US$ (a)**	**US$**	**Euro**	**Peso**	**II US$ (a)**	**III=I-II Discount on principal**	**IV Discount on interest**	**V=III+IV Cash tender offer**
Telecom Argentina	44	142		208	24	78		115	93	13	106
Telecom Personal	69		30	80	37		17	44	36	4	40
Publicom	4			4	2			2	2		2
Total	**117**	**142**	**30**	**292**	**63**	**78**	**17**	**161**	**131**	**17**	**148**

(a) Represent equivalent amounts in US$

The Company also paid 100% of accrued interest through June 24, 2002, on all indebtedness, regardless of creditor participation in the tender offer and 30% of accrued interest from June 25, 2002 through December 31, 2002. Interest payments were made at contractual rates and did not consider penalty interest or other default interest provisions.

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13. Financial restructuring (continued)

The following table presents the interest amounts paid by the Company as part of the tender offer:

Name of company	US$	Euro	Yen	Peso	US$ Equivalent
Telecom Argentina	22	63	85	2	98
Telecom Personal	11		17	9	14
Publicom (ii)					
Total interest paid (i)	**33**	**63**	**102**	**11**	**112**

(i) Includes US$ 2 million and US$ 1 million of withholding taxes paid for Telecom Argentina and Telecom Personal, respectively.
(ii) Publicom paid US$48,000.

As discussed further in c) below, Telecom Argentina and Telecom Personal satisfied the payments of principal and interest under the cash tender offer with the funds previously segregated into time deposits with foreign financial institutions.

On October 27, 2003, Publicom satisfactorily completed the restructuring of its remaining indebtedness. As a result, Publicom purchased debt with a face value of approximately $1.5, for a total purchase price of approximately $0.8. The net gain on the repurchase, including transaction costs, foreign currency gains and unamortized debt issuance costs, was approximately $0.7 and was included in gain on repurchase of debt in the consolidated statement of income.

As a result of the Company s restructuring decisions and the repurchase, the Company has an aggregate amount of indebtedness of $10,751 as of September 30, 2004. Of the total amount of the outstanding debt, $7,763 is due (including principal amounts for US$ 1,253 million, Euro 790 million, Japanese yen 9,949 million and $162; and interest amounts for US$ 66 million, Euro 113 million, Japanese yen 599 million and $29), $2,960 is payable on demand and $28 is not due (corresponding to Nucleo).

(c) Segregated funds

Prior to the commencement of the tender offer, in March 2003, the Company had segregated certain amounts into time deposits with foreign financial institutions in order to have sufficient funds to satisfy the payments of principal and interest under the cash tender offer. The Company previously obtained all necessary approvals from the regulatory authorities to remit and maintain these funds abroad. As of September 30, 2004, the Company has an aggregate remaining amount of $2,490 on deposit.

	Telecom Argentina		Telecom Personal	Total Consolidated	
	US$	Euro	US$	US$	Euro
Amounts in foreign currency	298	325	133	431	325
Amounts in Argentine pesos (i)	889	1,203	398	1,287	1,203

(i) Equivalent amount in Argentine Pesos at 2.981 per US$ and 3.7051 per Euro. This amount is included in current investments as of September 30, 2004.

(d) Restructuring plan

The cash tender offer described above was the first stage of the comprehensive restructuring plan designed by the Company to strengthen the Company s financial position.

On June 22, 2004, the Company filed a Registration Statement with the SEC in connection with the solicitation to grant powers of attorney or commitments to approve and execute an *Acuerdo Preventivo Extrajudicial* , an out-of-court restructuring agreement governed by Argentine law (the APE). Like documents were also filed with the CNV and the *Commissione Nazionale per le Societá e la Borsa* (CONSOB) (the Italian Securities Commission). The registration statements were partially amended on July 9, 2004.

An APE is a private restructuring agreement between a debtor and a certain percentage of its unsecured creditors affected by the restructuring that is submitted to the reviewing court for approval pursuant to the Argentine Bankruptcy Law. The Argentine Bankruptcy Law requires the debtor to have the support of the requisite holders in order to obtain court approval. Upon approval by the reviewing court, an APE becomes binding on all debtor s unsecured creditors affected by the restructuring proposal contained in the APE, whether or not those creditors have participated in the negotiation and execution of the APE.

Pursuant to the APE solicitation process, Telecom Argentina proposed to restructure all of its outstanding indebtedness through different options including the issuance of new unsecured notes and the payment of cash consideration. The new notes will mature at various dates and will not be convertible into common shares of Telecom Argentina.

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13. Financial restructuring (continued)

d.1) Telecom: filing of the APE with the Argentine courts

On October 21, 2004, after reaching a level of consent of 82.35% of the total creditors representing 94.47% of the total financial indebtedness of the Company, the executed APE was filed with the reviewing court for approval.

The debt to be restructured pursuant to the terms of the APE comprises the unsecured creditors of the Company as of August 31, 2004. The total unsecured indebtedness of the Company as of August 31, 2004 amounted to $8,868 million (equivalent to US$ 2,959 million translated at the applicable exchange rate as of August 31, 2004). An amount of US$ 2,880 million out of the total US$ 2,959 million represents unsecured financial indebtedness while the remaining US$ 79 million represents unsecured commercial indebtedness. Under the terms of the executed APE consented by the requisite majorities, the unsecured financial indebtedness of the Company will be restructured through the issuance of new unsecured non-convertible notes and/or through cash payment options as described in the Solicitation Statement. Otherwise, the unsecured commercial indebtedness of the Company will be restructured pursuant to the terms of the respective debts without modification of the original contractual obligations.

The consenting noteholders to the APE Solicitation Statement will receive, for each 1,058 US dollars amount of outstanding debt (including a capitalized interest coefficient factor), the following option restructuring payments included in the table below. Noteholders who selected Option B below will have up to 37.5% of their outstanding debt allocated to Option C.

	Participating holder selecting Option A (in US$, Euro, Peso or Yen)	**Participating holder selecting Option B (in equivalent US$)**	**Participating holder selecting Option C (in equivalent US$)**
Series A Notes	1,058		
Series B Notes		625	
Cash		319	850
Total	**1,058**	**944**	**850**

The terms and conditions of the new Series A and B Notes are described in the Solicitation Statement. The equivalent dollar amounts were determined based on (1) the applicable exchange rate in force as of the reference date (August 4, 2004) and (2) the corresponding adjustment based on the CER Index, as more fully explained in the Solicitation Statement.

There can be no assurance that the APE will be approved by the reviewing court on the schedule the Company anticipated in the Solicitation Statement. However, the Company expects that the process will be finalized during the first six months of 2005.

The following table summarizes the total outstanding debt which will be allocated to each consenting noteholder and the option selected pursuant to the terms of the Solicitation Statement:

in millions of US$	**Option A**	**Option B**	**Option C**	**Total**
Principal amount of Notes selecting option	568.3	904.3	48.8	1,521.4
Principal amount of loans selecting option	119.3	687.0	16.5	822.8
Total debt amount selecting option	**687.6**	**1,591.3**	**65.3**	**2,344.2**
Principal face amount adjustment factor	1.058	1.058	1.058	1.058
Total debt amount selecting option plus adjustment factor	**727.5**	**1,683.5**	**69.1**	**2,480.1**
Factor to allocate loans from Option B to Option C		37.5%		
Allocation of loans from Option B to Option C		(631.3)	631.3	
Total debt amount plus adjustment factor allocated to participating holders under option	**727.5**	**1,052.2**	**700.4**	**2,480.1**
Cash to purchase loans in Option C			562,7	562,7
Principal face amount of new loans to be issued to participating holders	**727,5**	**994,5**		**1.722,0**

On November 2, 2004, the Shareholders Meeting of the Company approved the issuance of the new unsecured non-convertible notes for up to a maximum amount of US$ 1,872 million or its equivalent in other currencies subject to the fulfillment of the conditions stipulated in the APE Solicitation Statement and the approval of the regulatory authorities. These notes will be issued under the terms of Law No. 23,576, as amended. The Company will use these notes to restructure its outstanding debt as further explained above. The Company also called for a new shareholder meeting to be held on November 26, 2004, which will ratify the filing of the APE with the reviewing court for approval.

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13. Financial restructuring (continued)

d.2) Personal: an out-of-court restructuring

Under the terms of the Telecom Personal APE Solicitation Statement, if the level of creditor consent were higher than 95%, Telecom Personal would not have to file the APE with a reviewing court for approval. Since the level of creditor consent reached was 100% of the Telecom Personal unsecured financial indebtedness, Telecom Personal intends to pursue a private debt restructuring (without court approval).

The following table summarizes the total outstanding debt which will be allocated to each consenting noteholder and the option selected pursuant to the terms of the Solicitation Statement:

in millions of US$	**Option A**	**Option B**	**Option C**	**Total**
Principal amount of loans selecting option	**43.1**	**505.5**	**13.3**	**561.9**
Principal face amount adjustment factor	1.063	1.063	1.063	1.063
Total debt amount selecting option plus adjustment factor	**45.8**	**537.4**	**14.1**	**597.3**
Factor to allocate loans from Option B to Option C		27.5%		
Allocation of loans from Option B to Option C		(147.8)	147.8	
Principal amount of loans plus adjustment factor allocated to participating holders under option	**45.8**	**389.6**	**161.9**	**597.3**
Cash to purchase loans in Option C			129.4	129.4
Principal face amount of new loans to be issued to participating holders	**45.8**	**366.5**		**412.3**

The equivalent dollar amounts were determined based on (1) the applicable exchange rate in force as of the reference date (August 18, 2004) and (2) the corresponding adjustment based on the CER Index, as more fully explained in the Telecom Personal APE Solicitation Statement.

Provided the restructuring of the outstanding debt of Nucleo is completed (as described in item d.3. below), Telecom Personal expects to finalize the formalities related to the agreements with its noteholders and therefore to complete the restructuring of its outstanding debt without court approval before December 2004.

d.3) Núcleo: restructuring plan

In April 2003, Nucleo refinanced its outstanding debt with local financial institutions amounting to US$ 14 million of principal amount. The terms of the restructuring included only the extension of maturity dates but not a reduction of the face amount of the debt or the payment of penalty interest. Pursuant to certain clauses included in the agreements between Nucleo and the local financial institutions, Nucleo was obligated to offer more favorable restructuring conditions to them since the same conditions were granted to other creditors.

On November 10, 2004, Nucleo refinanced its outstanding indebtedness with foreign creditors amounting to US$ 59 million of principal amount. The terms of the restructuring included the extension of maturity date (December 27, 2008). The restructured debt will accrue either variable interest at three-month Libor plus 4.5% or fixed interest at an annual rate of 7.125%, at the election of the noteholder at the time the respective contract is executed.

Under the terms of the restructurings, Nucleo will have to repay a portion of the principal amount of the debt and the total accrued interest at the time certain formalities are fulfilled. Any penalty interest accrued was forgiven under the restructuring. As of September 30, 2004, penalty interest amounts to $10 and is included in the line Debt on the balance sheet.

The terms of the restructured agreements include certain customary negative covenants, including but not limited to, restrictions to the incurrence of new indebtedness, the sale of assets and/or the incurrence of liens and encumbrances, and change of control provisions. The new agreements also contain certain event-of-default provisions such as mandatory prepayment clauses and the establishment of a guarantee trust, whereby a portion of the net cash flows of Nucleo has to be transferred to this trust and used to repay the debt upon the occurrence of an event of default.

The agreements with the local and foreign financial institutions are subject to the fulfillment of certain conditions such as the completion of initial payments, guarantees granted, and others. Management expects these conditions are to be fulfilled before December 31, 2004.

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13. Financial restructuring (continued)

(e) Legal actions brought against the Company

Telecom Argentina has been served notice of claims brought by holders of the Company s notes seeking enforcement of their rights under the respective indentures. The claims amounted to US$0.8 million as of the date of issuance of these financial statements, representing less than 1% of the total consolidated indebtedness of the Company. Due to certain judicial regulations, an amount equivalent to US$1.2 million held in bank accounts has been restricted for use as of the date of issuance of these financial statements.

Telecom Argentina was served notice of three involuntary bankruptcy petitions.

In the opinion of the Company s management and its legal counsel, the Company has meritorious defenses to each of these proceedings and does not expect that such proceedings will result in the Company being declared bankrupt. The Company s legal counsel estimates that the Company will be able to take all necessary measures to protect its normal course of business before other claims are brought against it.

Three out of the eight summary attachment proceedings have been settled through the use of the restricted funds described in Note 12(c) under other claims. The outcome of these proceedings did not have a material adverse effect on the Company s financial position or results of operations.

Once the APE approval process begins, the reviewing court would rule the suspension of the abovementioned claims.

(f) Measurement and classification of liabilities

As of September 30, 2004, the Company has estimated an amount of $210 corresponding to penalties and post default interest increases for the default situation described in a) above. This balance is included in consolidated debt in these financial statements. As discussed in d) above, the manner and time of payment of the Company s outstanding principal and interest payment obligations are addressed in its proposed APE restructuring plan. The Company s legal counsel believes that based on the facts and circumstances which caused the Company to default on its principal and interest payment obligations, it is more likely than not that the Company will not have to pay the penalties and post default interest increases contemplated by the indentures and loan agreements governing its outstanding debt if the APE restructuring is completed successfully.

As discussed above, as of September 30, 2004 and December 31, 2003, a substantial portion of the Company s outstanding debt is foreign-currency denominated and governed by foreign law. Notwithstanding the economic crisis in Argentina and subsequent devaluation and pesification, the Company recorded its outstanding debt at their respective original foreign currencies since the Company expects to complete the debt restructuring successfully.

If the APE restructuring plan is not completed on terms favorable to the Company or not completed at all, management would have to analyze different courses of action which may include the pesification of foreign-currency denominated debts governed by foreign law. In this event, management would legally argue the unconstitutionality and/or inapplicability of Decree No. 410/02 as further described below, and accordingly, would sustain the pesification of its foreign-currency denominated debt at a rate of $1 to US$1 or its equivalent in other foreign currencies. As pesified, this indebtedness would be adjusted based on a reference index (Coeficiente de Estabilización de Referencia or CER) as from February 3, 2002. The Company would take these actions among others in order to preserve the continuity of the services and operations of Telecom Argentina and Telecom Personal under Argentine law and regulations.

On January 6, 2002, the National Congress passed the Law No. 25,561 of Public Emergency and Reform of the Exchange Rate Regime (Law No. 25,561). Under Article 11 of Law No. 25,561, foreign-currency denominated debt arising from agreements between consenting parties governed by rules and regulations of private law were converted into pesos at 1 peso per dollar. Further, Article 11 states that creditors would receive these amounts on account of the total debt and that both parties would have to negotiate the restructuring of the obligations to equally share the cost of the peso devaluation .

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13. Financial restructuring (continued)

Subsequently, Decree No. 214/02 forced the conversion into pesos of all foreign-currency denominated liabilities existing as of January 6, 2002, and established the indexing of the pesified amounts by the application of the CER index. Law No. 25,713 ratified, with few exceptions, the constitutionality of the application of the CER index to pesified debts. Management believes that those exceptions are not applicable to the Company s situation.

However, Decree No. 410/02 which codified Law No. 25,561 and extended Decree No. 214/02, provided that foreign-currency denominated debt governed by foreign law fell outside the scope of the provisions of Decree No. 214/02 which required the pesification of liabilities. By introducing this language into the decree provisions, the government tried to narrow the meaning of rules and regulations of private law as mentioned in Article 11 of Law No. 25,561. Further, on December 4, 2003, Law No. 25,820 amended Article 11 of Law No. 25,561 as follows:

The main differences introduced to the text of Article 11 by Law No. 25,820 are:

(a) The language referring to debt obligations existing as of the enactment date was replaced by debt obligations existing as of January 6, 2002

(b) The language referring to rules and regulations of private law was eliminated as a preexisting condition to the pesification of foreign-currency denominated liabilities, and it may thus be argued that it would not be relevant whether or not these liabilities are governed by foreign law

(c) The pesification is not temporary, meaning that creditors will not receive the pesified amounts on account of the total debt as previously stated; however

(d) Any party may request an adjustment within the context of the law, thus permitting renegotiation between willing parties to share the cost of the devaluation of the peso as previously stated in Decree No. 214/02 and,

(e) The pesified liabilities are adjusted based on a reference index, i.e. CER, as appropriate.

Notwithstanding the foregoing, and taking into account the restructuring proposals made to the Company s creditors in June 2004 and the APE solicitation statement discussed in d) above, management has decided to honor the original currencies of its foreign-currency denominated liabilities.

14. 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 is divided into three main lines of business: Voice, data and Internet services, wireless telecommunication services and directory publishing services. The Company manages its segments to the net income (loss) level of reporting.

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

For the nine-month periods ended September 30, 2004 and 2003, more than 90 percent of the Company s revenues were from services provided within Argentina.

More than 95% of the Company s fixed assets are in Argentina.

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14. Segment information (continued)

Segment financial information was as follows:

For the nine-month period ended September 30, 2004

q ***Income statement information***

	Voice, data and Internet	Wireless	Directories publishing	Total
Net sales	**1,998**	**1,205**	**8**	**3,211**
Salaries and social security	(363)	(64)	(7)	**(434)**
Turnover tax	(63)	(54)		**(117)**
Materials and supplies	(131)	(23)	(2)	**(156)**
Bad debt expense	8	(9)		**(1)**
Interconnection costs	(101)			**(101)**
Cost of international outbound calls	(60)			**(60)**
Lease of circuits	(25)	(2)		**(27)**
Fees for debt restructuring	(26)	(5)		**(31)**
Fees for services	(41)	(13)	(1)	**(55)**
Advertising	(19)	(43)	(2)	**(64)**
Cost of cellular handsets		(150)		**(150)**
Commissions	(40)	(125)	(1)	**(166)**
Others	(121)	(246)		**(367)**
Operating income (loss) before depreciation and amortization	**1,016**	**471**	**(5)**	**1,482**
Depreciation of fixed assets	(958)	(234)	(2)	**(1,194)**
Amortization of intangible assets	(46)	(33)	(1)	**(80)**
Operating income (loss)	**12**	**204**	**(8)**	**208**
Equity gain from related companies			(1)	**(1)**

Financial results, net	(485)	(138)	1	**(622)**
Other expenses, net	(57)	(11)	(1)	**(69)**
Net income (loss) before income tax and minority interest	**(530)**	**55**	**(9)**	**(484)**
Income tax		(12)	3	**(9)**
Minority interest		2		**2**
Net (loss) income	**(530)**	**45**	**(6)**	**(491)**

q ***Balance sheet information***

Fixed assets, net	5,563	1,514	2	**7,079**
Intangible assets, net	62	697	3	**762**
Capital expenditures without materials	73	177		**250**
Investment in intangible assets				
Depreciation of fixed assets	(958)	(239)	(2)	**(1,199)**
Amortization of intangible assets	(48)	(39)	(1)	**(88)**

q ***Cash flow information***

Cash flows provided by operating activities	**1,185**	**288**	**(1)**	**1,472**
Cash flows from investing activities:				
Acquisition of fixed assets and intangible assets	(111)	(190)		**(301)**
Decrease in investments not considered as cash and cash equivalents	133	56		**189**
Total cash flows provided by (used in) investing activities	**22**	**(134)**		**(112)**
Cash flows from financing activities:				
Payment of debt		(6)		**(6)**
Payment of interest and debt-related expenses		(12)		**(12)**
Total cash flows used in financing activities		**(18)**		**(18)**
Increase (decrease) in cash and cash equivalents	1,207	136	(1)	**1,342**
Cash and cash equivalents at the beginning of period	1,786	428	2	**2,216**
Cash and cash equivalents at period end	**2,993**	**564**	**1**	**3,558**

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14. Segment information (continued)

For the nine-month period ended September 30, 2003

q ***Income statement information***

	Voice, data and Internet	Wireless	Directories publishing	Total
Net sales	**1,890**	**817**	**4**	**2,711**
Salaries and social security	(304)	(54)	(5)	**(363)**
Turnover tax	(64)	(36)		**(100)**
Materials and supplies	(83)	(23)	(2)	**(108)**
Bad debt expense	(4)	(11)	(4)	**(19)**
Interconnection costs	(100)			**(100)**
Cost of international outbound calls	(57)			**(57)**
Lease of circuits	(22)	(6)		**(28)**
Fees for debt restructuring	(11)	(3)		**(14)**
Fees for services	(54)	(6)	(1)	**(61)**
Advertising	(9)	(7)		**(16)**
Cost of cellular handsets		(5)		**(5)**
Commissions	(39)	(64)		**(103)**
Others	(129)	(160)	(1)	**(290)**
Operating income (loss) before depreciation and amortization	**1,014**	**442**	**(9)**	**1,447**
Depreciation of fixed assets	(1,094)	(245)	(3)	**(1,342)**
Amortization of intangible assets	(47)	(34)		**(81)**
Operating (loss) income	**(127)**	**163**	**(12)**	**24**
Equity gain from related companies			2	**2**
Financial results, net	323	194	12	**529**
Other expenses, net	(88)	(40)	(10)	**(138)**
Gain on repurchase of debt	280	90	5	**375**

Net income (loss) before income tax and minority interest	**388**	**407**	**(3)**	**792**
Minority interest		(13)		**(13)**
Net income (loss)	**388**	**394**	**(3)**	**779**

q ***Balance sheet information***

Fixed assets, net	6,751	1,544	5	**8,300**
Intangible assets, net	127	738	4	**869**
Capital expenditures without materials	30	24		**54**
Investment in intangible assets		5		**5**
Depreciation of fixed assets	(1,094)	(251)	(3)	**(1,348)**
Amortization of intangible assets	(50)	(39)		**(89)**

q ***Cash flow information***

Cash flows provided by operating activities	**1,018**	**354**	**6**	**1,378**
Cash flows from investing activities:				
Acquisition of fixed assets and intangible assets	(45)	(58)		**(103)**
Increase in investments not considered as cash and cash equivalents	(115)	(67)		**(182)**
Total cash flows used in investing activities	**(160)**	**(125)**		**(285)**
Cash flows from financing activities:				
Decrease in debt		(8)		**(8)**
Repurchase of debt	(328)	(87)	(6)	**(421)**
Payment of interest and debt-related expenses	(283)	(49)		**(332)**
Inter-segment transfers of cash	5	(5)		
Total cash flows used in financing activities	**(606)**	**(149)**	**(6)**	**(761)**
Increase in cash and cash equivalents	252	80		**332**
Cash and cash equivalents at the beginning of period	1,059	253	2	**1,314**
Cash and cash equivalents at period end	**1,311**	**333**	**2**	**1,646**

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15. Selected consolidated quarterly information (unaudited)

Quarter ended	Net sales	Operating income before depreciation and amortization	Operating income (loss)	Financial results, net	Net income (loss)
Year 2004:					
March 31,	1,017	494	65	95	124
June 30,	1,053	489	67	(393)	(354)
September 30,	1,141	499	76	(324)	(261)
	3,211	**1,482**	**208**	**(622)**	**(491)**
Year 2003:					
March 31,	851	453	(24)	961	907
June 30,	899	490	17	58	381
September 30,	961	504	31	(490)	(509)
December 31,	1.042	537	83	(481)	(428)
	3,753	**1,984**	**107**	**48**	**351**

16. 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 to the individual financial statements. 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 September 30, 2004	As of December 31, 2003
ASSETS		
Current Assets		
Cash and banks	$ 21	$ 17
Investments	3,105	2,011
Accounts receivable, net	337	317
Other receivables, net	48	119
Total current assets	**3,511**	**2,464**
Non-Current Assets		
Other receivables, net	148	106
Investments	769	874
Fixed assets, net	5,562	6,442
Intangible assets, net	62	110
Total non-current assets	**6,541**	**7,532**
TOTAL ASSETS	**$ 10,052**	**$ 9,996**
LIABILITIES		
Current Liabilities		
Accounts payable	$ 263	$ 243
Debt	8,730	8,206
Salaries and social security payable	65	70
Taxes payable	69	72
Other liabilities	23	24
Contingencies	10	10
Total current liabilities	**9,160**	**8,625**
Non-Current Liabilities		
Salaries and social security payable	31	30
Other liabilities	34	34
Contingencies	150	139
Total non-current liabilities	**215**	**203**
TOTAL LIABILITIES	**$ 9,375**	**$ 8,828**
SHAREHOLDERS EQUITY	**$ 677**	**$ 1,168**
TOTAL LIABILITIES, FOREIGN CURRENCY TRANSLATION ADJUSTMENTS AND SHAREHOLDERS EQUITY	**$ 10,052**	**$ 9,996**

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16. Unconsolidated information (continued)

Statements of income:

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
Net sales	$ 2,105	$ 1,975
Cost of services	(1,445)	(1,486)
Gross profit	**660**	**489**
General and administrative expenses	(111)	(101)
Selling expenses	(429)	(431)
Operating income (loss)	**120**	**(43)**
Equity gain from related companies	(74)	298
Financial results, net	(483)	329
Other expenses, net	(54)	(85)
Gain on repurchase of debt		280
Net (loss) income before income tax	**(491)**	**779**
Income tax benefit, net		
Net (loss) income	**$ (491)**	**$ 779**

Condensed statements of cash flows:

	Nine-month periods ended

	September 30, 2004	September 30, 2003
Cash flows provided by operating activities	$ 1,185	$ 1,019
Cash flows from investing activities		
Acquisition of fixed assets	(111)	(45)
Decrease (increase) in investments not considered as cash and cash equivalents	133	(110)
Total cash flows provided by (used for) investing activities	**22**	**(155)**
Cash flows from financing activities		
Repurchase of debt		(328)
Payment of interest and debt-related expenses		(283)
Total cash flows used for financing activities		**(611)**
Increase in cash and cash equivalents	1,207	253
Cash and cash equivalents at the beginning of period	1,785	1,057
Cash and cash equivalents at period end	**$ 2,992**	**$ 1,310**

17. Differences between Argentine GAAP and US GAAP

The Company s unaudited consolidated financial statements are prepared in accordance with Argentine GAAP, which differ in certain significant respects from US GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and Regulation S-X of the SEC. Under the reporting requirements of the SEC and under Argentine GAAP, the Company is not required to prepare a US GAAP reconciliation on a quarterly basis. However, the Company has elected to present cumulative US GAAP information as it is considered useful for prospective investors. These unaudited consolidated financial statements include solely a reconciliation of shareholders equity and net loss to US GAAP. This reconciliation does not include disclosure of all information that would be required by US GAAP.

I. Differences in measurement methods

Inflation accounting

As indicated in Note 3.c., in March 2003, the Argentine government issued a decree prohibiting companies from restating financial statements for the effects of inflation and instructing the CNV to issue applicable regulations to ensure that no price-level restated financial statements are accepted. In April 2003, the CNV issued a resolution discontinuing inflation accounting as of March 1, 2003. As a result, the Company s consolidated financial statements include the effects of inflation until February 28, 2003. Comparative figures were also restated until that date. Since Argentine GAAP required companies to prepare price-level restated financial statements through September 30, 2003, the application of the CNV resolution represents a departure from Argentine GAAP.

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17. Differences between Argentine GAAP and US GAAP (continued)

Under US GAAP, financial statements are prepared on a historical cost basis. However, the following reconciliation does not include the reversal of the adjustments to the consolidated financial statements for the effects of inflation required by the CNV, because, as permitted by the SEC, the application of this resolution represents a comprehensive measure of the effects of price-level changes in the Argentine economy, and as such, is considered a more meaningful presentation than is historical cost-based financial reporting for both Argentine and US accounting purposes.

The principal differences, other than inflation accounting, between Argentine GAAP and US GAAP are described below, together with an explanation, where appropriate, of the method used in the determination of the necessary adjustments.

	Nine-month periods ended September 30,	
	2004	**2003**
Reconciliation of net income (loss):		
Total net (loss) income under Argentine GAAP	**$ (491)**	**$ 779**
US GAAP adjustments:		
Foreign currency translation (a)	(3)	(40)
Capitalization of foreign currency exchange differences (b)	89	166
Restructuring and repurchase of debt (c)	20	23
Other adjustments (d)	(2)	(9)
Tax effects on US GAAP adjustments (e)	(38)	(63)
Valuation allowance of tax credits (f)	5	15
Minority interest (g)	1	13
Net (loss) income under US GAAP	**$ (419)**	**$ 884**

	As of September 30, 2004	As of December 31, 2003

Reconciliation of shareholders equity:		
Total shareholders equity under Argentine GAAP	**$ 677**	**$ 1,168**
US GAAP adjustments:		
Foreign currency translation (a)	35	38
Capitalization of foreign currency exchange differences (b)	(477)	(566)
Restructuring and repurchase of debt (c)		(20)
Other adjustments (d)	5	7
Tax effects on US GAAP adjustments (e)	167	205
Valuation allowance of tax credits (f)	(359)	(364)
Minority interest (g)	(11)	(12)
Shareholders equity under US GAAP	**$ 37**	**$ 456**

	As of September 30, 2004	As of September 30, 2003
Description of changes in shareholders equity under US GAAP:		
Shareholders equity (deficit) as of the beginning of the year	**$ 456**	**$ (10)**
Other comprehensive loss		(12)
Net (loss) income under US GAAP	(419)	884
Shareholders equity as of the end of the period	**$ 37**	**$ 862**

a) Foreign currency translation

As indicated in Note 4.a., under Argentine GAAP, the financial statements of the Company s subsidiaries are translated using period-end exchange rates for assets, liabilities and results of operations. Adjustments resulting from these translations are accumulated and reported as a separate line item between the liability and equity sections of the balance sheet.

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17. Differences between Argentine GAAP and US GAAP (continued)

Under US GAAP, financial statements of foreign subsidiaries have been translated into Argentine pesos following the guidelines established in SFAS No. 52, Foreign Currency Translation (SFAS 52). Under SFAS 52, in the case of foreign subsidiaries whose local currency is not the functional currency, the monetary/non-monetary method of translation has been used to remeasure assets and liabilities to the functional currency prior to translation. This method involves the translation of monetary assets and liabilities at the exchange rate in effect at the end of each period, and the non-monetary assets and liabilities and equity at historical exchange rates (i.e., the exchange rates in effect when the transactions occur). Average exchange rates have been applied for the translation of the accounts that make up the results of the periods, except for those charges related to non-monetary assets and liabilities, which have been translated using historical exchange rates. Translation adjustments are included in the statement of income. Once the assets and liabilities have been remeasured to the functional currency, the current rate method of translation has been used to translate them to the reporting currency, the Argentine Peso for the Company. This method involves the translation of assets and liabilities at the exchange rate in effect at the end of each period. Average exchange rates have been applied for the translation of the accounts that make up the results of the periods. In this case, translation adjustments are recorded as a separate component of shareholders equity.

b) Capitalization of foreign currency exchange differences

As indicated in Note 4.c., under Argentine GAAP, foreign currency exchange differences (gains or losses) on or after January 6, 2002 through July 29, 2003, related to foreign-currency denominated debts as of such dates were allocated to the cost of assets acquired or constructed with such financing, as long as a series of conditions and requirements established were fulfilled. Under US GAAP, foreign currency exchange differences cannot be capitalized, and are expensed as incurred.

c) Restructuring and repurchase of debt

As explained in Note 8.b., in December 2002, Telecom Personal entered into an amended agreement pursuant to which the outstanding debt under the Promissory Notes (the old debt) was restructured. Accordingly, Telecom Personal issued the BofA Promissory Notes and the Holders Promissory Note (the new debt). For the year ended December 31, 2002, a gain of $43 was recognized in non-operating income. Under Argentine GAAP, the new debt was discounted to its present value using a discount rate of 12%.

For US GAAP purposes, the restructuring of the old debt was accounted for in accordance with SFAS No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings (SFAS 15) and EITF 02-04 Determining whether a debtor s modification or exchange of debt instruments is within the scope of SFAS 15 , as the creditors made certain concessions due to the financial difficulties of the Company. SFAS No. 15 requires that a comparison be made between the maximum future cash outflows associated with the new debt (including principal, stated interest and related costs), and the recorded assets and liabilities relating to the outstanding old debt as of the date of the exchange.

In the exchange of the old debt, the maximum future cash outflows associated with the new debt exceeded the carrying value of the assets and liabilities of the old debt tendered for exchange. Accordingly, for US GAAP purposes, no gain was recorded in December 2002 and the value of the new debt was initially recorded at the carrying value of the old debt. Based on the foregoing, the basis of the liability is different under US GAAP as compared to Argentine GAAP.

However, as further indicated in Note 8.b., in June 2003, Telecom Personal purchased 100% of the BofA Promissory Notes and 8% of the Holders Promissory Note. Under Argentine GAAP, the Company recognized a net gain on repurchase of debt of approximately $24, which form part of the $376 included in the statement of income for the year ended December 31, 2003. The different basis in the liability under US GAAP gave rise to a difference in the calculation of the gain on repurchase. The reconciling item for 2003 represents the net effect of (1) the adjustment to the gain on repurchase and (2) loss on accretion.

As of September 30, 2004, there is no difference between Argentine GAAP and US GAAP related to the new debt value because the liability are recognized at their nominal value plus accrued interest under Argentine GAAP as a consequence of the notice of acceleration described in Note 8.b.

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17. Differences between Argentine GAAP and US GAAP (continued)

d) Other adjustments

The Company has aggregated under this caption certain reconciling items which management believes are not significant to the Company s financial position and results of operations. These items are described as follows:

- Inventories

Under Argentine GAAP, inventories are stated at the lower of replacement cost or net realizable value. Under US GAAP, inventories are stated at the lower of cost or market.

- Present-value accounting

As indicated in Note 4.f., under Argentine GAAP, certain monetary assets and liabilities are measured based on the calculation of their discounted value using the internal rate of return of such assets or liabilities at the time of measurement, unless the company has the intent and ability to dispose of those assets or advance settlement of liabilities. Under US GAAP, present valuing or discounting of these assets and liabilities is precluded.

- Equity gain (loss) on related companies

The Company held a 0.15%, 0.15% and 5.75% ownership interest in New Skies Satellites N.V., Intelsat and Nahuelsat as of September 30, 2003, respectively. Under Argentine GAAP, the Company has recorded these investments at the lower of cost or equity.

As of December 31, 2002, the Company wrote down its investment in Nahuelsat to zero since its original cost was considered to be permanently impaired based on available information as of that date. However, under Argentine GAAP, the Company has written up this investment since management considered that Nahuelsat s financial situation had improved. This write-up is included in equity gain (loss) from related companies in the statement of income.

For US GAAP purposes, the Company accounts for investments in non-marketable equity securities in accordance with Accounting Principles Board Opinion No. 18 (APB 18) and related interpretations. Under APB 18, investments in less than 20% of the capital stock are generally carried at cost. Under the cost method, investments are recorded and reported at original cost until they are partially or entirely disposed of or the original cost value has been impaired. As indicated above, the Company s investment in Nahuelsat was written down to zero because its impairment was considered to be permanent, thus establishing a new cost basis for the investment. Subsequent write-ups are precluded under US GAAP.

e) Tax effects on US GAAP adjustments

The adjustment represents the effect on deferred income taxes of the foregoing reconciling items, as appropriate.

f) Valuation allowance of tax credits

Under Argentine GAAP, the Company has provided a valuation allowance for a portion of its net deferred tax assets, as the future realization of the tax benefit is not considered by management to be more likely than not. Therefore, a full valuation allowance has been provided for net deferred tax assets of Telecom Argentina and Telecom Personal. Also, as indicated in Note 4.n., the Company is subject to a tax on minimum presumed income. Under Argentine GAAP, the Company considered the ultimate realization of the credit relating to the minimum presumed income tax to be more likely than not based on current projections and its legal expiration period of 10 years. As such, the Company deferred this amount as other non-current receivables in the balance sheet.

However, SFAS 109 establishes more specific and strict procedures to assess whether a valuation allowance should be established for deferred tax assets. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of a deferred tax asset. Judgment must be used in considering the relative impact of negative and positive evidence. The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. The more negative evidence that exists (a) the more positive evidence is necessary and (b) the more difficult it is to support a conclusion that a valuation allowance is not needed.

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17. Differences between Argentine GAAP and US GAAP (continued)

Accordingly, under US GAAP, a full valuation allowance has been provided for the tax credits related to tax on minimum presumed income of Telecom Argentina and Telecom Personal and the tax effects on US GAAP adjustments as described in e) above.

g) Minority interest

The adjustment represents the effect on minority interest of the foregoing reconciling items, as appropriate.

h) Accounting for stock transferred by the Argentine government to employees

Under Argentine GAAP, there are no specific rules governing the accounting to be followed by employers when a principal shareholder transfers shares to a company s employees.

Under US GAAP, the Company has elected to follow Accounting Principles Board Opinion No. 25 (APB No. 25), Accounting for Stock Issued to Employees, and related interpretations, as permitted by SFAS No. 123. In accordance with AIN-APB No 25 Accounting for Stock Issued to Employees - Accounting Interpretations of APB Opinion No. 25 , the economic substance of a plan established by the principal stockholders is substantially the same for the company and the employee, whether the plan is adopted by the company or a principal stockholder. Consequently, the company should account for this type of plan when one is established or financed by a principal stockholder unless (1) the relationship between the stockholder and the company s employee is one which would normally result in generosity, (2) the stockholder has an obligation to the employee which is completely unrelated to the latter s employment, or (3) the company clearly does not benefit from the transaction. The rationale established in this Interpretation has been applied to other situations in which a principal stockholder undertakes transactions for the benefit of the company. SAB No. 79 (SAB Topic 5T) requires any transaction undertaken by a company s principal stockholder for the benefit of the company to be accounted for according to its substance and not its form. Under APB No. 25, compensation expense is based on the difference, if any, on the date of the grant, between the fair value of the company s stock and the exercise price. SFAS No. 123 defines a fair value based method of accounting for an employee stock option or similar equity investment.

The Argentine government agreed to establish a Share Ownership Plan, principally for the benefit of the former employees of ENTel transferred to the Company. Under the terms of the plan, employees eligible to participate acquired the shares of the Company previously held by the Government for an amount significantly less than the then market value of the shares as of the Transfer Date. This discount arises because the eligible employees were only required to pay cash for the shares in an amount equivalent to the cash portion of the proceeds received by the Argentine government from Nortel. The purchase price formula was originally established during the privatization.

Had the Company been required by SEC regulations to include a reconciliation between Argentine GAAP and US GAAP for the fiscal year 1991, it would have included as a reconciling item a charge amounting to $465 in the statement of income. However, this charge represented a reclassification between equity accounts, and consequently, it had no impact on shareholders equity or cash flows determined under US GAAP. The charge was calculated based upon the difference between the estimated total price per share paid by Nortel as of the Transfer Date and the purchase price to be paid by eligible employees.

i) Indefinite-life intangibles impairment testing

As indicated in Note 4.k., the Company identified the PCS license as an indefinite life intangible. Under Argentine GAAP, indefinite life intangibles are not amortized but tested annually for impairment. The carrying value of these intangibles is considered impaired by the Company when the expected cash flows, undiscounted and without interest, from such assets are separately identifiable and less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. The Company concluded that an impairment loss was not necessary.

Under US GAAP, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142), on January 1, 2002. The Company determined that its license met the definition of indefinite-lived intangible assets under SFAS 142. Therefore, upon adoption of SFAS 142 the Company ceased amortizing its license cost, and tested it annually for impairment. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. This valuation determined that the carrying amount of the license did not exceed the fair value of the assets. As a result, no impairment has been recognized for US GAAP purposes.

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17. Differences between Argentine GAAP and US GAAP (continued)

j) Goodwill

Under Argentine GAAP, the Company continued to amortize goodwill until it was fully amortized during the year ended December 31, 2002. In prior periods, goodwill represented the excess of purchase price over the fair market value of a business acquired. For the year ended December 31, 2002, the amortization charge was $10.

Under US GAAP, the Company adopted the provisions of SFAS 142 on January 1, 2002. Under the provisions of SFAS 142, goodwill is not amortized, but tested for impairment annually, or whenever there is an impairment indicator. As required by SFAS 142, the Company ceased amortization and performed a transitional goodwill impairment assessment at the reporting unit level to determine whether there was an indication that goodwill was impaired at the date of adoption. As a result of the test, the Company determined that the carrying value of goodwill was not supported by estimated future cash flows, and accordingly, recorded an impairment charge of $10, which represented the full amount of unamortized goodwill at the time of the test.

As such, the carrying value of goodwill is zero for both Argentine GAAP and US GAAP purposes and therefore no reconciling item is presented.

k) Recently issued accounting pronouncements

In November 2002, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables , which affects revenue arrangements entered into by the Company after January 1, 2004. The issue requires that revenue arrangements with multiple deliverables be divided into separate units of accounting if the deliverables in the arrangement meet specific criteria and generally requires that arrangement consideration be allocated among the separate units of accounting based on their relative fair values. Revenue recognition is then considered separately for each unit of accounting. The adoption of this standard did not have a material impact on its financial position, results of operations or cash flows.

In January 2003, the FASB released FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an Interpretation of ARB 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest it acquired before February 1, 2003. In December 2003, the FASB published a revision to FIN 46 (FIN 46 R) to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46 R, entities that do not have interests in structures that are commonly referred to as special purpose entities are required to apply the provisions of the interpretation in financial statements for periods ending after December 31, 2004. The adoption of FIN 46 R did not have an impact on the Company s financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150 (SFAS 150), Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity, which establishes standards for how an issuer of financial instruments classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on a fixed monetary amount known at inception, variations in something other than the fair value of the issuer s equity shares or variations inversely related to changes in the fair value of the issuer s equity shares. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Telecom has adopted the provisions of SFAS 150, which did not have an impact on Telecom s financial position or results of operations. The classification and measurement provisions in paragraphs 9, 10 and 22 of SFAS 150 are deferred for an indefinite period for certain mandatorily redeemable non-controlling interest in subsidiaries with finite duration. Telecom will continue to evaluate the impact of SFAS 150, if any, and any further classifications that may result from SFAS 150.

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18. 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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18. Other financial statement information (continued)

(a) Fixed assets, net

	Original value						
Principal account	**As of the beginning of year**	**Additions**	**Capitalization and/or reversal of foreign currency exchange differences**	**Foreign currency translation adjustments**	**Transfers**	**Decreases**	**As of the end of the period**
Land	**119**						119
Building	**1,674**				10	(1)	1,683
Transmission equipment	**5,112**	(*)18		3	106	(6)	5,233
Switching equipment	**3,847**	1		1	14		3,863
Power equipment	**536**	1		1	6		544
External wiring	**5,943**				5	(1)	5,947
Telephony equipment, instruments and systems for improvement in services	864			2	8		874
Cellular handsets given to customers at no charge	332	2		2			336
Vehicles	**109**	4				(5)	108
Furniture	**107**						107
Installations	**511**			1	2		514
Computer equipment	**2,511**	8		2	32	(1)	2,552
Work in progress	**63**	(**) 216			(181)	(2)	96
Fixed assets without materials	**21,728**	**250**		**12**	**2**	**(16)**	**21,976**
Materials	**90**	(***) 62			(2)	(42)	108
Total as of September 30, 2004	**21,818**	**312**		**12**		**(58)**	**22,084**
Total as of September 30, 2003	**21,734**	**60**	**(76)**	**13**		**(46)**	**21,685**

(*) Includes $3 transferred from materials.
(**) Includes $124 transferred from materials.
(***) Net of $127 transferred to fixed assets.

Principal account	Depreciation: Accumulated as of the beginning of the year	Annual rate (%)	Amount	Decreases and transfers	Accumulated as of the end of the period	Net carrying value as of September 30, 2004	Net Carrying Value As of December 31, 2003
Land						**119**	**119**
Building	(684)	4 9	(57)		(741)	**942**	**990**
Transmission equipment	(3,164)	10 11	(336)	4	(3,496)	**1,737**	**1,948**
Switching equipment	(2,686)	10	(239)		(2,925)	**938**	**1,161**
Power equipment	(320)	10 20	(35)		(355)	**189**	**216**
External wiring	(3,573)	7	(233)	1	(3,805)	**2,142**	**2,370**
Telephony equipment, instruments and systems for improvement in services	(683)	13 18	(47)		(730)	**144**	**181**
Cellular handsets given to customers at no charge	(328)	50	(5)		(333)	**3**	**4**
Vehicles	(99)	20 40	(8)	5	(102)	**6**	**10**
Furniture	(76)	10 20	(5)		(81)	**26**	**31**
Installations	(358)	9 33	(30)		(388)	**126**	**153**
Computer equipment	(1,846)	18 33	(204)	1	(2,049)	**503**	**665**
Work in progress						**96**	**63**
Fixed assets without materials	**(13,817)**		**(1,199)**	**11**	**(15,005)**	**6,971**	**7,911**
Materials						**108**	**90**
Total as of September 30, 2004	**(13,817)**		**(a) (1,199)**	**11**	**(15,005)**	**(b) 7,079**	**(b) 8,001**
Total as of September 30, 2003	**(12,045)**		**(c) (1,348)**	**8**	**(13,385)**	**8,300**	

(a) Includes (89) corresponding to the depreciation of capitalized foreign currency exchange differences and (5) corresponding to foreign currency translation adjustments.
(b) Includes 4 in September 04 and 4 in December 03 corresponding to the net carrying value of the capitalized cost of asset retirement obligations.
(c) Includes (91) corresponding to the depreciation of capitalized foreign currency exchange differences and (6) corresponding to foreign currency translation adjustments.

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18. Other financial statement information (continued)

(b) Intangible assets, net

	Original value			
Principal account	**As of the beginning of the year**	**Additions**	**Foreign currency translation adjustments**	**As of the end of the period**
Software obtained or developed for internal use	430		1	431
Debt issue costs	80			80
PCS license	662			662
Band B license (Paraguay)	117		4	121
Rights of use	45			45
Exclusivity agreements	98			98
Trademarks	8			8
Total as of September 30, 2004	**1,440**		**5**	**1,445**
Total as of September 30, 2003	**1,416**	**5**	**7**	**1,428**

	Amortization				
Principal account	**Accumulated as of the beginning of the year**	**Amount**	**Accumulated as of the end of the period**	**Net carrying value as of September 30, 2004**	**Net carrying value as of December 31, 2003**
Software obtained or developed for internal use	(301)	(64)	(365)	**66**	**129**
Debt issue costs	(72)	(4)	(76)	**4**	**8**

PCS license	(71)		(71)	**591**	**591**
Band B license (Paraguay)	(71)	(14)	(85)	**36**	**46**
Rights of use	(20)	(2)	(22)	**23**	**25**
Exclusivity agreements	(56)	(3)	(59)	**39**	**42**
Trademarks	(4)	(1)	(5)	**3**	**4**
Total as of September 30, 2004	**(595)**	**(a) (88)**	**(683)**	**762**	**845**
Total as of September 30, 2003	**(470)**	**(b) (89)**	**(559)**	**869**	

a) An amount of $30 is included in cost of services, $5 in general and administrative expenses, $45 in selling expenses and $4 in financial results, net. Also includes $4 corresponding to foreign currency translation adjustments which have been excluded from the income statement.

b) An amount of $31 is included in cost of services; $2 in general and administrative expenses; $48 in selling expenses, $5 in financial results, net. Also includes $3 corresponding to foreign currency translation adjustments which have been excluded from the income statement.

(c) Securities and equity investments

Issuer and characteristic of the securities	Type	Nominal value (b)	Number of securities/ shares	Net realizable value	Cost value as of September 30, 2004	Book value as of September 30, 2004	Book value as of December 31, 2003
CURRENT INVESTMENTS							
Government bonds							
Secured 2018 Bond		$1	8,399,999	8	9	8	7
Soberano Bond		Euro 1					69
Total current investments				**8**	**9**	**8**	**76**
NON-CURRENT INVESTMENTS							
Government bonds							
Argentina 2004 Bond		US$ 1					35
Total government bonds							**35**
Equity investments							
Nahuelsat	Ordinary	$1,000	5,750		13	1	2
Intelsat Ltd.	Ordinary	US$ 3	260,432		8	8	8
New Skies Satellites N.V.	Ordinary	Euro 0.05	171,740		4	4	
Total equity investments					**25**	**13**	**10**
Total non-current investments					**25**	**13**	**45**

(a) Per share data.

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18. Other financial statement information (continued)

(d) Current investments

	Cost as of	Book value as of	
	September 30, 2004	**September 30, 2004**	**December 31, 2003**
CURRENT INVESTMENTS			
Time deposits			
In foreign currency	$ 3,213	$ 3,213	$ 1,665
In Argentine pesos	367	367	508
Mutual funds			
In Argentine pesos			192
Total current investments	**$ 3,580**	**$ 3,580**	**$ 2,365**
NON CURRENT INVESTMENTS			
Financial trust 2003 Telecommunications fund	2	2	2
Total non current investments	**$ 2**	**$ 2**	**$ 2**

(e) Allowances and provisions

Items	**Opening balances**	**Additions**	**Reclassifications**	**Deductions**	**As of September 30, 2004**
Deducted from current assets					
Allowance for doubtful accounts receivables	**112**	**(a)** 1		(6)	**107**

Allowance for obsolescence	**2**	**(d)** 1			**3**
Deducted from non-current assets					
Valuation allowance of net deferred tax assets	**447**	**(b)** 178			**625**
Impairment loss on the Argentina 2004 bond (Note 11)		**(c)** 57			**57**
Allowance for doubtful accounts	**3**	**(d)** 1			**4**
Total deducted from assets	**564**	**238**		**(6)**	**796**
Total deducted from assets as of September 30, 2003	**877**	**(e) 21**		**(f) (322)**	**576**
Included under current liabilities					
Provision for commissions	**1**	**(a)** 10			**11**
Provision for contingencies	**14**		12	(12)	**14**
Included under non-current liabilities					
Provision for contingencies	**210**	**(d)** 28	(12)		**226**
Total included under liabilities	**225**	**38**		**(12)**	**251**
Total included under liabilities as of September 30, 2003	**151**	**(d) 83**		**(g) (15)**	**219**

(a) Included in selling expenses.
(b) Included in income tax (expense).
(c) Included in financial results, net.
(d) Included in other expenses, net.
(e) Includes $19 in selling expenses and $2 in other expenses, net.
(f) Includes $7 corresponding to results on exposure to inflation.
(g) Includes $1 corresponding to results on exposure to inflation.

(f) Cost of services

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
Inventory balance at the beginning of the year	$ 16	$ 18
Plus:		
Purchases	239	6
Financial results, net	(3)	(6)
Cellular handsets given to customers at no charge (a)	(2)	(2)
Retirements not included in cost of cellular handsets	(10)	(7)
Cost of services (Note 18.h)	2,003	1,924
Less:		
Inventory balance at the end of the period	(90)	(4)
COST OF SERVICES	**$ 2,153**	**$ 1,929**

(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.

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18. Other financial statement information (continued)

(g) Foreign currency assets and liabilities

	As of September 30, 2004				As of December 31, 2003
Items	**Amount of foreign currency**		**Current exchange rate**	**Amount in local currency**	**Amount in local currency**
Current assets					
Cash and banks					
Bank accounts	US$	5	2.98100	$ 15	$ 4
	G	2,048	0.0005006	1	2
Investments					
Time deposits	US$	598	2.98100	1,783	885
	EURO	385	3.70510	1,424	776
	G	9,525	0.0005006	6	4
Government bonds	EURO				69
Accounts receivable					
	US$	12	2.98100	37	55
	SDR				2
	G	103,768	0.0005006	53	66
Other receivables					
Tax credits	US$				38
	G	6,827	0.0005006	4	1
Prepaid expenses	US$	1	2.98100	4	
	G	3,302	0.0005006	2	1
Others	G	4,499	0.0005006	1	2
Non-current assets					
Other receivables					
Other tax credits	US$	27	2.98100	79	4
Impairment loss on the Argentina 2004 bond	US$	(19)	2.98100	(57)	
Investments					
Government bonds	US$				35

Total assets				**$ 3,352**	$ 1,944
Current liabilities					
Accounts payable					
Suppliers	US$	54	2.98100	$ 161	$ 65
	G	15,511	0.0005006	8	17
	SDR	1	4.37906	4	9
	EURO	3	3.70510	11	9
Advances from customers	G	5,538	0.0005006	3	3
Debt					
Notes Principal	US$	216	2.98100	645	634
	EURO	1,160	3.70510	4,298	4,278
Banks loans and others Principal	US$	469	2.98100	1,397	1,305
	¥	6,523	0.02714	177	178
Fixed assets financing Principal	US$	583	2.98100	1,739	1,707
	EURO	39	3.70510	143	143
	¥	11,652	0.02714	316	319
Inventory financing Principal	US$	149	2.98100	444	417
Accrued interest	US$	151	2.98100	449	271
	EURO	187	3.70510	694	448
	¥	958	0.02714	26	16
Penalty interest	US$	51	2.98100	151	76
	EURO	14	3.70510	53	24
	¥	221	0.02714	6	4
Salaries and social security payable					
Vacation, bonuses and social security payable	G	2,056	0.0005006	2	1
Taxes payable					
Income tax	G	8,108	0.0005006	5	
VAT	G				1
Other liabilities					
Other	G	1,028	0.0005006	1	
Non-current liabilities					
Debt					
Banks loans and others Principal	US$	8	2.98100	25	86
Total liabilities				**$ 10,758**	$ 10,011

(1) US$ = United States dollars; SDR = Special drawing rights; GF = Golden franc; G= Guaraníes; ¥ = Yen.

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18. Other financial statement information (continued)

(h) Expenses

	Expenses			Nine-month period ended September 30, 2004
	Cost of services	General and administrative	Selling	
Salaries and social security	$ 217	$ 70	$ 147	**$ 434**
Depreciation of fixed assets	1,022	31	141	**1,194**
Amortization of intangible assets	30	5	45	**80**
Taxes	76	6	17	**99**
Turnover tax	117			**117**
Materials and supplies	121	3	32	**156**
Transportation and freight	6	3	17	**26**
Insurance	14	3	3	**20**
Energy, water and others	22	5	7	**34**
Bad debt expense			1	**1**
Interconnection costs	101			**101**
Cost of international outbound calls	60			**60**
Lease of circuits	27			**27**
Rental expense	28	2	9	**39**
Fees for debt restructuring		31		**31**
Fees for services	22	14	19	**55**
Advertising			64	**64**
Commissions		9	157	**166**
Others	140	2	7	**149**
Total	**$ 2,003**	**$ 184**	**$ 666**	**$ 2,853**

	Expenses	Nine-month period ended September 30, 2003
	Selling	

	Cost of services	General and administrative		
Salaries and social security	$ 184	$ 73	$ 106	**$ 363**
Depreciation of fixed assets	1,131	48	163	**1,342**
Amortization of intangible assets	31	2	48	**81**
Taxes	69		20	**89**
Turnover tax	100			**100**
Materials and supplies	73	6	29	**108**
Transportation and freight	5	2	13	**20**
Insurance	11	2	5	**18**
Energy, water and others	19	3	7	**29**
Bad debt expense			19	**19**
Interconnection costs	100			**100**
Cost of international outbound calls	57			**57**
Lease of circuits	28			**28**
Rental expense	24	5	6	**35**
Fees for debt restructuring		14		**14**
Fees for services	17	12	32	**61**
Advertising			16	**16**
Commissions			103	**103**
Others	75	15	9	**99**
Total	**$ 1,924**	**$ 182**	**$ 576**	**$ 2,682**

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18. Other financial statement information (continued)

(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
Total due		**177**			**(a) 7,763**			
Not due								
Payable on demand					(a) 2,960			
Fourth quarter 2004	3,588	416	64	507	3	40	89	24
First quarter 2005		5	6			13		
Second quarter 2005		1	5			9	20	
Third quarter 2005			19			12		
Oct. 2005 thru Sep. 2006			39		3	13		8
Oct. 2006 thru Sep. 2007			9		4	6		2
Oct. 2007 thru Sep. 2008			6		4	4		2
Oct. 2008 thru Sep. 2009			73		14	3		2
Oct. 2009 thru Sep. 2010			1			2		2
Oct. 2010 and thereafter	2		116			3		23
Total not due	**3,590**	**422**	**338**	**507**	**2,988**	**105**	**109**	**63**
Total as of September 30, 2004	**3,590**	**599**	**338**	**(b) 507**	**10,751**	**105**	**109**	**63**
Balances with indexation clauses				4				
Balances bearing interest	3,588	174		5	10,541			
Balances not bearing interest	2	425	338	498	210	105	109	63
Total	**3,590**	**599**	**338**	**507**	**10,751**	**105**	**109**	**63**
Average annual interest rate (%)	**(c)**	**(d)**		**23.04**	**(e)**			

(a) See Note 13.
(b) There are payables in kind that amounted to $1.
(c) $3,580 bears 2.01%.
(d) $124 bear 50% over the Banco Nación Argentina notes payable discount rate and $50 bear 19.43%.
(e) See note 8.

Date due	Investments	Accounts receivable	Other receivables	Accounts payable	Debt	Salaries and social security payable	Taxes payable	Other liabilities
Total due		**157**			**(f) 5,676**			
Not due								
Payable on demand					4,315			
First quarter 2004	2,441	410	46	451		50	60	23
Second quarter 2004		9	15		2	11	58	2
Third quarter 2004		4	14			7	2	
Fourth quarter 2004		1	44		3	9		
Jan. 2005 thru Dec. 2005	36		30		3	12		1
Jan. 2006 thru Dec. 2006			6		4	9		2
Jan. 2007 thru Dec. 2007			2		3	4		2
Jan. 2008 thru Dec. 2008			2		64	2		2
Jan. 2009 thru Dec. 2009			60		12	1		2
Jan. 2010 and thereafter	1		93			2		30
Total not due	**2,478**	**424**	**312**	**451**	**4,406**	**107**	**120**	**64**
Total as of December 31, 2003	**2,478**	**581**	**312**	**(b) 451**	**10,082**	**107**	**120**	**64**
Balances with indexation clauses				5				
Balances bearing interest	2,476	152	6	3	9,978			
Balances not bearing interest	2	429	306	443	104	107	120	64
Total	**2,478**	**581**	**312**	**451**	**10,082**	**107**	**120**	**64**
Average annual interest rate (%)	**2.18**	**(g)**		**41.22**				

(f) Includes $119 corresponding to Nucleo.
(g) $100 bear 50% over the Banco Nación Argentina notes payable discount rate, and $52 bear 20.82%.

Marcelo Kozak	Carlos Felices	Alberto Messano
Accounting and Administrative Manager	**Chief Executive Officer**	**Director**

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REVIEW REPORT OF INTERIM FINANCIAL STATEMENTS

To the Directors and Shareholders of

Telecom Argentina S.A.

1. We have reviewed the accompanying consolidated balance sheet of Telecom Argentina S.A. (Telecom) and its consolidated subsidiaries as of September 30, 2004, and the related consolidated statements of income, changes in shareholders equity and cash flows for the nine month periods ended September 30, 2004 and 2003. These financial statements are the responsibility of the Company s management.

2. We conducted our reviews of these statements in accordance with Technical Resolution N° 7 of the Argentine Federation of Professional Councils in Economic Sciences for limited reviews of interim financial statements. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Argentina, the objective of which is to express an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

3. As further described in Note 3. (c) to the accompanying consolidated financial statements and as required by the corresponding regulatory agencies, the Company has discontinued the restatement of the consolidated financial statements in constant currency as from March 1, 2003. The Professional Council of Economics Sciences of the City of Buenos Aires (CPCECABA) required restatement for inflation until September 30, 2003. The estimated effects of not having performed the restatement into constant pesos from April 1 through September 30, 2003 has been quantified by the Company and included in such Note.

4. As indicated in Note 2. (c) to the accompanying consolidated financial statements, the Public Emergency and Exchange System Reform Law provided that in agreements executed by the Federal Government under public law regulations, including those related to public works and services, indexation clauses based on foreign currency price indices or any other indexation mechanism are annulled. In this regard, the Company s tariffs were set in pesos at the exchange rate of $1 per US$1 while part of the Company s costs and indebtedness is denominated in foreign currency. Consequently, the Company s operating conditions have been altered, negatively affecting its economic and financial equation. Additionally, as indicated in Note 13 to the accompanying consolidated financial statements, during the first half of 2002, the Board of Directors of Telecom decided to suspend payments of principal and interest on its outstanding financial indebtedness as well as those of its Argentine subsidiaries. As mentioned in such Note, on October 21, 2004, after reaching a level of consent of 82.35% of the total creditors representing 94.47% of the total financial indebtedness of the Company, the executed APE was filed with the reviewing court for approval. Furthermore, Telecom Personal (Personal , a wholly-owned subsidiary of Telecom) creditors representing 100% of the total Personal unsecured financial indebtedness consented to its restructuring proposal. Thus, Personal intends to pursue a restructuring for which no court approval is required. Personal expects to complete this process before December 2004. In addition, Nucleo S.A. (a wholly-owned subsidiary of Personal) is currently finalizing the restructuring of a portion of its financial indebtedness.

5. The accompanying consolidated financial statements of Telecom at September 30, 2004 were prepared considering the continuity of the normal course of business of the Company and of its subsidiary Personal, applying assets and liabilities valuation and classification criteria corresponding to a going concern and, therefore, they do not include any adjustments or classification that might result from the outcome of the uncertainty described in paragraph 4.

6. Based on the work done and on our examination of the Company s consolidated financial statements for the year ended December 31, 2003 on which we issued our report dated March 9, 2004 (with qualifications described in paragraphs 3, 4 and 5 of this report), we report that:

a) the consolidated financial statements of Telecom at September 30, 2004 and 2003, described in paragraph 1, prepared in conformity with generally accepted accounting principles (GAAP) in Argentina, as approved by the CPCECABA, consider all significant facts and circumstances which are known to us and we have no observations to make regarding them other than those indicated in paragraphs 3, 4 and 5;

b) comparative information included in the accompanying consolidated balance sheets, derive from the Company s consolidated financial statements for the year ended December 31, 2003.

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7. Accounting principles generally accepted in Argentina vary in certain significant respects from accounting principles generally accepted in the United States of America and as allowed by Item 18 to Form 20-F. Information relating to the nature and effect of such differences is presented in Note 17 to the consolidated financial statements.

8. In compliance with current regulations, we report that:

   a) the financial statements mentioned in paragraph 1 of this report have been transcribed to the Inventory and Balance Sheet book and are, as regards those matters that are within our competence, in conformity with relevant rules and regulations of the Commercial Corporation Law and CNV;

   b) the financial statements of Telecom at September 30, 2004 arise from accounting records carried in all formal respects in accordance with current legal regulations;

   c) we have read the Summary of Activity on the financial statements and the additional information to the notes of the financial statements required by Section 68 of the Buenos Aires Stock Exchange regulation on which, as regards those matters that are within our competence, we have no observations to make regarding them other than those indicated in paragraphs 3, 4 and 5;

   d) at September 30, 2004, the debt corresponding to withholdings and contributions to the Integrated Retirement and Survivors Benefit System according to the Company s accounting records amounts to $8.487.675, none of which was claimable at that date.

Autonomous City of Buenos Aires, November 10, 2004.

PRICE WATERHOUSE & CO.

by (Partner)

Juan C. Grassi

TELECOM ARGENTINA S.A.

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

SUMMARY INFORMATION ON THE UNAUDITED CONSOLIDATED FINANCIAL

STATEMENTS AS OF SEPTEMBER 30, 2004

(In millions of Argentine pesos or as expressly indicated)

1. General considerations

Telecom Argentina recorded a consolidated net loss of $491 million for the nine-month period ended September 30, 2004 (9M04). Comparatively, consolidated net income for the nine-month period ended September 30, 2003 (9M03) was $779 million.

Earnings/loss per share and ADR for 9M04 amounted to $(0.50) and $(2.49), respectively. Earnings per share/loss and ADR for 9M03 were $0.79 and $3.96, respectively.

Operating profit before depreciation and amortization, operating profit/(loss) and net income/(loss) for 9M04 represented, 46%, 6% and (15%) of net sales, respectively; compared with 53%, 1% and 29%, respectively, for 9M03.

	Nine-month periods ended	
	September 30, 2004	September 30, 2003
Net sales	3,211	2,711
Cost of services	(2,153)	(1,929)
Gross profit	**1,058**	**782**
General and administrative expenses	(184)	(182)
Selling expenses	(666)	(576)
Operating income (loss)	**208**	**24**
Equity gain from related companies	(1)	2
Financial results, net	(622)	529
Other expenses, net	(69)	(138)
Gain on repurchase of debt		375

Net income (loss) before income tax and minority interest	**(484)**	**792**
Income tax benefit, net	(9)	
Minority interest	2	(13)
Net income	**(491)**	**779**
Net income per share (in pesos)	**(0.50)**	**0,79**

2. Company activities

Consolidated net revenues

Consolidated net revenues for 9M04 totaled $3,211 million, an increase of $500 million, or 18%, compared with $2,711 million for 9M03. The increase can be largely attributed to the increase in demand, particularly in the cellular business in Argentina and in the Internet.

Fixed telephony (Voice, data and Internet)

Ø ***Voice***

In fixed telephony operations, local measured service revenues increased by $19 million, or 5%, to $377 million during 9M04. Domestic long distance revenues increased by $7 million, or 2%, reaching $322 million. Revenues from both local and domestic long distance telephony increased due to higher traffic.

Total traffic volume (Local and DLD), as measured in minutes, increased by 4%.

Monthly charges increased by $23 million, or 5%, to $471 million for 9M04, mainly due to the increase in customer lines. Customer lines as of September 30, 2004 increased to approximately 3,453,000, due to the recovery in demand, compared to approximately 3,328,000 as of September 30, 2003. However, the current level of lines in service is still 4% lower than before the economic crisis (December 2001). Moreover, monthly charges remained stable after the pesification and freeze enforced by the Argentine Government in January 6, 2002.

Revenues generated by interconnection services increased by $31 million, or 26%, to $150 million, mainly due to the increase of traffic transported by the fixed and cellular networks.

Regarding the international telephony activities during 9M04, revenues reached $158 million increasing by $2 million or 1%, mainly due to higher traffic.

Ø ***Data transmission and Internet***

Revenues generated by the data transmission business totaled $251 million, representing an increase of $4 million, or 2%, mainly due to higher Internet traffic and to the increase in monthly fees charged to other operators of wholesale services for ADSL and dial-up connections, partially off-set by lower prices for data transmission services. As of September 30, 2004 total lines in service with ADSL connections amounted to 111,000, an increase of 49,000, or 79%, compared to approximately 62,000 as of September 30, 2003. Internet minutes represented 33% of total traffic measured in minutes transported over the fixed-line network.

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TELECOM ARGENTINA S.A.

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

Internet revenues from the Arnet unit increased by $13 million, or 30%, to $57 million, mainly due to a higher number of subscribers in ADSL high-speed accesses. As of September 30, 2004, the number of Arnet s ADSL subscribers reached approximately 70,000, while Internet dial-up customers reached approximately 156,000, increasing by 75% and 1%, respectively.

Cellular Telephony

The revenues generated by the cellular business during 9M04 increased by $388 million, or 47%, to $1,205 million.

Revenues of Telecom Personal in Argentina increased by $378 million, or 54%, to $1,084 million, mainly due to the higher number of subscribers, to the increase in outgoing and incoming traffic, and to the increase in sales of handsets as a consequence of the increase in the demand for cellular services and the development of the GSM network.

Furthermore, the average revenue per user increased by 14% (to $35 per customer, including revenues for TLRD or termination of calls coming from other cellular operators). Likewise, total cellular traffic increased by 42%.

Total cellular subscribers of Telecom Personal in Argentina reached approximately 3,375,000 at September 30, 2004, representing an increase of approximately 950,000 customers, or 39%.

Since the beginning of this fiscal year, the level of competition in the cellular market has increased significantly after the launch of GSM services. Accordingly, Telecom Personal continued to increase the coverage and capacity of its GSM network and has continued its marketing campaigns and promotions aimed to reposition its brand and strengthen its market leadership.

The customer base as of September 30, 2004 amounted to approximately 2,568,000 prepaid subscribers, representing 76% of the total customer base, and approximately 807,000 post-paid subscribers, representing the remaining 24%. These percentages were 82% and 18% respectively as of September 30, 2003.

Núcleo, Telecom Personal s subsidiary that provides cellular services in Paraguay, generated $121 million in revenues during 9M04, which are consolidated into the mobile telephony business together with the revenues of Telecom Personal. Nucleo s 9M04 revenues represented an increase of $10 million, or 9%.

As of September 30, 2004, Núcleo had approximately 458,000 customers, a decrease of approximately 12% due to the loss of dormant prepaid customers whose elimination from Nucleo s customer base was ordered by the Paraguayan regulatory authority.

Directories publishing

In the telephone directories publishing business, revenues from the affiliated company Publicom increased by $4 million to $8 million during 9M04 due to higher sales of advertising space in Paginas Amarillas directories and the launch of several new special directories.

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
National fixed telephone service	1,532	1,443
International telephone service	158	156
Data transmission	251	247
Internet	57	44
Fixed telephony	**1,998**	**1,890**
Wireless	1,205	817
Directories publishing	8	4
Total net sales	**3,211**	**2,711**

Operating costs

The cost of services provided, administrative expenses and selling expenses for 9M04 increased by $316 million, or 12%, to $3,003 million, mainly due to the increase in commissions for handset sales, cost of handsets, TLRD costs, in labor, materials and supplies, and advertising expenses. The evolution of costs is mainly related to the increase in sales and increasing competition in the mobile telephony business.

Salaries and social security contributions increased by $71 million, or 20%, to $434 million primarily due to the increase in headcount in Telecom Argentina as a consequence of the addition since October 1, 2003 of employees previously employed by third parties and whose costs were previously accounted for under Services Fees. Additionally, labor cost rose as a consequence of the increase in salaries granted during the second semester of last year. As of September 30, 2004, the headcount totaled 14,263, compared to 12,882 as of September 30, 2003.

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TELECOM ARGENTINA S.A.

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

The allowance for doubtful accounts decreased by $18 million, or 95%, to $1 million. This positive evolution was related to the improvement in the levels of collection and the recovery of past due accounts mainly in the fixed telephony business.

Sales commissions increased by $54 million, or 79%, to $122 million for 9M04, as a consequence of higher commissions paid for new customers and higher sales of cellular prepaid cards.

Costs related to advertising increased by $48 million, or 300%, to $64 million for 9M04. This increase was mainly due to higher media advertising expenses for the Internet and cellular businesses.

In the cellular telephony business, TLRD costs, which have been accounted since mid-2003, reached $90 million. Additionally, in 9M04 the cost of cellular handsets increased by $145 million reaching $150, million mainly due to the increase in handsets sales as a consequence of the cellular business growth after the launch of GSM service.

Depreciation of fixed and intangible assets decreased by $149 million, or 10%, to $1,274 million during 9M04 as a consequence of the end of the amortization period of certain assets.

	Nine-month periods ended	
	September 30, 2004	**September 30, 2003**
Salaries and social security	(434)	(363)
Taxes	(99)	(89)
Turnover tax	(117)	(100)
Materials and supplies	(156)	(108)
Transportation and freight	(26)	(20)
Bad debt expense	(1)	(19)
Interconnection costs	(101)	(100)
Cost of international outbound calls	(60)	(57)
Lease of circuits	(27)	(28)
Fees for debt restructuring	(31)	(14)
Fees for services	(55)	(61)
Advertising	(64)	(16)
Cost of cellular handsets	(150)	(5)
Commissions	(166)	(103)
Roaming	(39)	(28)
Charges for termination of calls coming from other cellular operators	(90)	(39)

Others	(113)	(114)
Subtotal	**(1,729)**	**(1,264)**
Depreciation of fixed assets	(1,194)	(1,342)
Amortization of intangibles assets	(80)	(81)
Operating costs	**(3,003)**	**(2,687)**

Financial results, net

The loss resulting from financial and holding results reached $622 million for 9M04 as compared to a gain of $529 million in 9M03. The difference can be largely attributed to a decrease of $935 million relating to net currency exchange differences. The gap was a consequence of the effect that the appreciation of the Argentine Peso against the Dollar and the EURO had on the financial debt of the Company during the 9M03 that was reversed in 9M04. Moreover, the depreciation of the Argentine Peso against the Dollar and the EURO during 9M04 prompted additional currency exchange losses.

Other expenses, net

Other expenses (net) decreased by $69 million, or 50%, to $69 million for the 9M04 mainly as a result of lower severance payments and lower provisions for lawsuits.

Cash flow and net financial debt

Net Debt (Loans minus Cash and Banks plus Investments) decreased by $427 million, or 6%, to $7,127 million for 9M04 compared with 9M03 ($7,554 million), as a consequence of the cash flow generation of the company partially offset by accrued interest and exchange rate differences.

Investments

Of the total amount of $250 million invested during 9M04, $73 million, or 29%, corresponds to fixed-line telephony, data transmission and Internet, and $177 million or 71% to the cellular business as Telecom Personal continues with the deployment of its GSM network.

Other matters

Debt Restructuring

On August 23, 2004 Telecom Argentina announced that it had achieved 94.47% participation in its *Acuerdo Preventivo Extrajudicial*, (APE) solicitation process launched on June 22, 2004.

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TELECOM ARGENTINA S.A.

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

The APE was filed with the courts in Argentina on October 21st, 2004.

Telecom Argentina cannot predict the timing of the court approval for its APE but expects to complete its APE process and issue the new notes and pay the cash consideration contemplated in the APE in the first half of 2005.

Additionally, Telecom Personal announced on October 6, 2004 that it had achieved 100% participation in its APE solicitation process. Given this strong participation and support from its creditor base, Telecom Personal is pursuing an out-of-court restructuring without seeking court approval of the APE. Telecom Personal expects to end its restructuring before the end of this fiscal year.

3. Summary comparative consolidated balance sheets

	As of September 30,				
	2004	**2003**	**2002**	**2001**	**2000**
Current assets	4,416	2,589	2,283	2,819	4,012
Non current assets	8,100	9,381	11,452	12,061	12,648
Total assets	**12,516**	**11,970**	**13,735**	**14,880**	**16,660**
Current liabilities	11,465	9,981	12,478	3,802	4,660
Non current liabilities	321	343	144	5,810	6,467
Total liabilities	**11,786**	**10,324**	**12,622**	**9,612**	**11,127**
Minority interest	**30**	**23**	**8**	**27**	**29**
Foreign currency translation adjustments	**23**	**27**	**39**		
Shareholders equity	**677**	**1,596**	**1,066**	**5,241**	**5,504**
Total liabilities, minority interest, foreign currency translation adjustments and Shareholders equity	**12,516**	**11,970**	**13,735**	**14,880**	**16,660**

4. Summary comparative consolidated statements of operations

	Nine-month periods ended September 30,				
	2004	2003	2002	2001	2000
Net sales	3,211	2,711	3,151	5,356	5,558
Operating costs	(3,003)	(2,687)	(3,294)	(4,606)	(4,597)
Operating income (loss)	**208**	**24**	**(143)**	**750**	**961**
Equity gain (loss) from related companies	(1)	2	(18)	(5)	(2)
Amortization of goodwill			(10)	(13)	(11)
Financial results, net	(622)	529	(5,862)	(365)	(363)
Other expenses, net	(69)	(138)	(115)	(109)	(83)
Gain on repurchase of debt		375			
Net income (loss) before income tax and minority interest	**(484)**	**792**	**(6,148)**	**258**	**502**
Income tax benefit (expense), net	(9)		1,990	(116)	(207)
Minority interest	2	(13)	21		2
Net income (loss)	**(491)**	**779**	**(4,137)**	**142**	**297**
Net income (loss) per share (in pesos)	**(0.50)**	**0.79**	**(4.20)**	**0.14**	**0.30**

5. Fixed telephone service statistical data (in physical units)

September 30,	2004		2003		2002		2001		2000	
	Accumu-lated	Quarter	Accumu-lated	Quarter	Accumu-lated	Quarter	Accumu-lated	Quarter	Accumu-lated	Quarter
Installed lines	3,800,672	(738)	3,800,604	304	3,802,400	6	3,796,460	13,624	3,680,489	97,650
Lines replaced (a)	1,851,232		1,851,232		1,851,232		1,851,232		1,817,084	
Lines in service (b)	3,749,964	49,342	3,622,749	44,192	3,610,130	(22,129)	3,892,229	(21,913)	3,744,620	189,682
Customers lines	3,453,026	43,765	3,327,514	42,444	3,310,342	(20,921)	3,586,679	(28,937)	3,475,518	175,214
Public phones installed	83,286	1,875	79,446	86	79,497	(182)	82,574	(158)	78,738	727
Percentage of lines connected to digital exchanges	100.0		100.0		100.0		100.0		100.0	
Lines in service per 100 inhabitants (c)	19.9	0.2	19.4	0.2	19.6	(0.1)	21.3	(0.2)	20.7	1.0
Lines in service per employee	328	5	342	10	326	(1)	379	1	382	13

(a) As from November 8, 1990.
(b) Includes direct inward dialing numbers that do not occupy lines installed capacity.
(c) Corresponding to the northern region of Argentina.

6. Consolidated ratios

September 30,	2004	2003	2002	2001	2000
Liquidity (1)	0.39	0.26	0.18	0.74	0.86

Solvency (2)	0.06	0.16	0.09	0.55	0.50
Locked up capital (3)	0.65	0.78	0.83	0.81	0.76

(1) Current assets/Current liabilities.
(2) Shareholders equity plus minority interest and temporary differences from translation/Total liabilities.
(3) Non current assets/Total assets.

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TELECOM ARGENTINA S.A.

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

7. Outlook

In 9M04 the macroeconomic scenario continued with a positive trend on its main variables. Levels of activity also continued with the positive trend shown in previous periods although their growth decelerated. Likewise, inflation rates remained stable. The level of fiscal collection continues with high percentages of growth and the fiscal results continue positive. The Company expects that this context will develop during this fiscal year.

Telecom s operations have improved as a consequence of the better levels of lines in service and better traffic in the fixed telephony. In the cellular business there is a higher number of new subscribers and a better level of traffic with more selling expenses as a consequence of the higher competence. On the other hand, the Telecom Group is still affected by the lack of resolution on the tariff structure renegotiation. Likewise, as the Telecom Group s consolidated debt is nominated in foreign currency, their operations are still being influenced by the fluctuation of the exchange rate of the Peso against the Dollar and the Euro. It should be noted that the negative trend in 9M04 in the exchange rate generated losses arising from currency exchange differences that were the main cause of the consolidated net loss for the period.

In the context of the debt restructuring, on August 23, 2004 Telecom Argentina announced that it had achieved 94.4% participation in its *Acuerdo Preventivo Extrajudicial*, (APE) solicitation process launched on June 22, 2004. The APE was filed with the courts in Argentina on October 21st, 2004. Considering this situation, the Company believes that this is the last stage of its debt restructuring process and expects to finish the process during the first half of fiscal year 2005.

Additionally, Telecom Personal announced on October 6, 2004 that it had achieved 100% participation in its APE solicitation process. Given this strong participation and support from its creditor base, Telecom Personal is pursuing an out-of-court restructuring without seeking court approval of the APE. Telecom Personal expects to end its restructuring before the end of this fiscal year.

The Telecom Group is still working hard to maintain the quality of its service and to reduce its cost structure and adapt it to a new environment. Likewise, Telecom is carrying several investment projects in services, mainly those that have a potential growth that will generate a substantial increase of cash inflows. This is the case of the expansion of GSM network in Telecom Personal and ADSL, which resulted in the increase of investments in fixed assets.

Alberto Messano
Director

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TELECOM ARGENTINA S.A.

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

CORPORATE INFORMATION

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

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

BCBA

Quarter	Market quotation ($/share) High	Low	Volume of shares traded (in million)
September 03	4.04	3.20	62.2
December 03	5.15	3.80	37.7
March 04	6.56	5.14	51.3
June 04	6.27	4.19	35.9
September 04	6.48	5.16	25.6

NYSE

Quarter	Market quotation (US$/ADR*) High	Low	Volume of ADRs traded (in million)
September 03	6.95	5.45	35.3
December 03	8.83	6.54	20.0
March 04	11.06	8.88	27.3
June 04	11.09	7.30	16.3
September 04	10.92	8.49	12.1

* Calculated at 1 ADR = 5 shares

Ø **INVESTOR RELATIONS** for information about Telecom Argentina STET-France Telecom S.A., please contact:

In Argentina

Telecom Argentina S.A.
Investor Relations Departments
Alicia Moreau de Justo 50, 10th Floor
(1107) Ciudad Autónoma de Buenos Aires
Tel.: 54-11-4968-4000
Argentina

Outside Argentina

Golin Harris International
The Chrysler Building
405 Lexington Ave., 16th floor
New York, New York 10017
USA
Tel.: 1-212-697-9191

Morgan Guaranty Trust Co.
ADR Department
60 Wall Street
New York, New York 10260-0060
USA
Tel.: 1-212-648-9935

Ø **INTERNET** http://www.telecom.com.ar

Ø **DEPOSIT AND TRANSFER AGENT FOR ADRs**

Morgan Guaranty Trust Co.
60 Wall Street
New York, New York 10260-0060
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: November 18, 2004	By:	/s/ Alberto Yamandú Messano
	Name:	Alberto Yamandú Messano
	Title:	Director