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EUROWEB INTERNATIONAL CORP
Form 10KSB
April 14, 2003

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-KSB

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

For the fiscal year ended December 31, 2002

OR

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

For the transition period from _____ to _____

Commission File Number 001-1200

EUROWEB INTERNATIONAL CORP.

(Name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3696015
(I.R.S. Employer
Identification No.)

1122 Budapest, Varosmajor utca 13. Hungary
(Address of principal executive offices)

Issuer's telephone number, including area code: (+36) 1-22-44-000
Facsimile: (+36) 1-88-83-783

Securities registered under Section 12(g) of the Exchange Act:

Title of Each Class Name of Each Exchange on which Registered
Common Stock, par value \$.001 per share NASDAQ SMALL CAP

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 requirement for the past 90 days. Yes X No ____

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

Issuer had revenues of \$12,940,631 for the year ended December 31, 2002. As of April 1, 2003, 4,840,822 shares of Common Stock were outstanding of which 2,204,318 were held by non-affiliates of the Company. The aggregate market value of the Common Stock held by non-affiliates of the Company as of April 1, 2003 was \$4,077,988 (based upon the closing bid price on such date on the Nasdaq of \$1.85).

Documents incorporated by reference:

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Part III - Portions of the Registrant's Proxy statement for the Annual Meeting of Stockholders for the fiscal year ended December 31, 2002.

Transitional Small Business Disclosure Format (check one):

Yes ___ No X

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PART I

ITEM 1. Description of Business

History of Business

EuroWeb International Corp. (the "Company" or "EuroWeb") is a Delaware corporation which was organized on November 9, 1992. It was a development stage company through December 31, 1993. The Company operates in the Czech Republic, Romania and Slovakia, through its subsidiaries Euroweb Czech Republic spol. s.r.o. ("Euroweb Czech"), Euroweb Slovakia a.s. ("Euroweb Slovakia") and Euroweb Romania S.A. ("Euroweb Romania"). The Company provides Internet access and additional value added services to business customers. The Company also owns 49% ownership interest in Euroweb Hungary Rt. The remaining 51% of Euroweb Hungary Rt. is held by Pantel Telecommunication Rt., Hungary ("Pantel Rt."), of which KPN Telecom BV is also the controlling owner. KPN Telecom BV owns approximately 53% of EuroWeb's outstanding shares of common stock.

EuroWeb Strategy

Since exiting the construction business, the Company has been striving to be the leading supplier in Central Europe to businesses of complete communications solutions using Internet technologies. Rather than servicing individual users, the Company focuses its efforts on business users and seeks to satisfy all their needs with high quality and reliable service.

The Company's business has shown continued growth since it entered the Internet field in January 1997, and the Company has made various acquisitions in Hungary, the Czech Republic, Slovakia and Romania. As a continuing consolidation is taking place in the industry, the Company is currently reviewing various business opportunities, which may include either a merger with another company, the disposition of one or more of its operating units, a sale of a significant amount of assets or any combination of these items. No assurances can be given that we will be successful in locating or negotiating with any of these potential business opportunities.

Entry into ISP Market in Central Europe and History of Acquisitions/Dispositions

The Company entered the Internet Service Provider ("ISP") market in Central Europe through various acquisitions of companies in that area over the past five years. On January 2, 1997, the Company acquired all of the outstanding stock of three Hungarian ISPs for a total purchase price of approximately \$1,785,000, consisting of 28,800 shares of common stock of the Company and \$1,425,000 in cash (collectively, the "1997 Acquisitions").¹ Thereafter in 1997, the three Hungarian companies were combined and merged into a new Hungarian

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entity, EuroWeb Hungary Rt. On November 22, 1998, the Company sold 51% of the outstanding shares of EuroWeb Hungary Rt. to Pantel Rt. for \$2,200,000 in cash and an agreement to increase the share capital of EuroWeb Hungary Rt. by \$300,000 without changing the ownership ratio (after the capital increase, the ownership ratio would remain 49 - 51 percent). The Company currently uses the equity method of accounting to record its interest in EuroWeb Hungary Rt.

The Company continued with its acquisitions of ISPs in the Czech Republic, Slovakia and Romania in 1999 and 2000. On June 11, 1999, the Company acquired all of the participating interests of Luko CzechNet, an ISP in the Czech Republic, for a total cost of \$1,862,154 consisting of 90,000 shares of the Company's common stock and 50,000 options valued at \$2.00 per share, and the balance paid in cash. This acquisition was effective as of June 1, 1999.

1 1997 Acquisitions were as follows:

- (a) EUNET (Hungary Ltd.) for a total cash cost of \$1,000,000, and an assumption of \$128,000 in liabilities;
- (b) E-Net Hungary Telecommunications and Multimedia for a total cash cost of \$200,000 and \$150,000 in stock (12,000 shares); and (c) MS Telecom Rt. for a total cash cost of \$225,000 and \$210,000 in stock (16,800 shares).

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On July 15, 1999, the Company acquired all of the outstanding shares of capital stock of EUNET Slovakia, an ISP in the Slovak Republic, for a total cost of \$813,299 consisting of 47,408 shares of the Company's common stock valued at \$400,005 issued August 9, 1999 and the balance paid in cash. This acquisition was effective as of August 1, 1999. The Company then made another acquisition of a Slovak ISP on July 15, 1999 with the purchase of 70% of the outstanding shares of Dodo s.r.o.'s subsidiary, R-Net, for a total cost of \$630,234 consisting of 29,091 shares of the Company's common stock valued at \$200,000 issued August 13, 1999 and the balance paid in cash. This acquisition was effective as of August 1, 1999.

On September 23, 1999 and November 16, 1999, the Company acquired from Slavia Capital o.c.p., a.s. 70% and 30%, respectively, of the issued and outstanding stock of Global Network Services a.s.c., a Slovakian corporation providing Internet service primarily to businesses located in Bratislava and other major cities in Slovakia for a total purchase price of \$1,633,051, consisting of 71,114 shares of the Company's common stock valued at \$499,929 issued on September 23, 1999, and the balance paid in cash. This acquisition was effective as of October 1, 1999. All Slovakian operations were then merged into one company under the name of EuroWeb Slovakia.

On April 21, 2000, the Company acquired all of the outstanding capital stock of IInternet SR, s.r.o., an Internet service provider in the Slovak Republic, for \$1,029,299 in cash. Goodwill arising on this purchase was \$945,200. This acquisition was effective May 1, 2000.

On May 19, 2000, the Company purchased all of the Internet related assets of Sumitkom Rokura, S.R.L. an Internet service provider in Romania, for \$1,561,125 in cash. The acquisition has been accounted for as an asset purchase with a value of \$1,150,000 being assigned to customer lists acquired.

On May 22, 2000, the Company acquired the remaining 30% of R-Net (the initial 70% being acquired in 1999) for \$355,810 in cash. Goodwill arising on this purchase was \$357,565.

On June 14, 2000, the Company acquired all of the outstanding shares of capital stock of Mediator S.A., an Internet service provider in Romania for a total cost of \$2,835,569. This consisted of \$2,040,000 in cash and the

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assumption of a \$540,000 liability to the former owner payable in annual installments of \$180,000 commencing on June 1, 2001. Goodwill arising on this purchase was \$2,455,223. Immediately after the purchase the name was changed to Euroweb Romania, S.A. This acquisition was effective as of July 1, 2000.

On August 25, 2000, the Company, through its subsidiary, Luko Czech, acquired all of the outstanding capital stock of Stand s.r.o., an Internet service provider in the Czech Republic for \$280,735 in cash, which was merged into Luko Czech under the name of Euroweb Czech Republic. This acquisition was effective as of September 1, 2000.

On February 11, 2000, a special meeting of the shareholders was held and two proposals were approved. Proposal number one approved the amendment of the Company's certificate of incorporation increasing the number of shares of common stock that is authorized for issuance by the Company from 20,000,000 shares of common stock to 60,000,000 shares of common stock. Proposal number two approved the issuance and sale by the Company to KPN Telecom B.V. ("KPN"), a Netherlands Limited Liability Company, of 2,057,348 shares at \$7.9 per share and rights to shares equal to all other outstanding warrants, options and other securities at \$6.9 per share. At closing KPN exercised its option to purchase 303,362 shares at \$6.9 per share in addition to the 2,057,348 shares at \$7.9 per share. These approvals gave KPN control of 51% of the Company's common stock, representing voting control of the Company. This transaction provided the Company with more than \$18,000,000 in capital to fund future acquisitions.

On October 24, 2000, KPN Telecom B.V. exercised its option for 100,302 shares of the Company's common stock at \$ 6.9 per share, in order to maintain its 51% equity interest in the Company.

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All share figures in the discussion above have been restated to reflect the one for five reverse stock split effective August 21, 2001.

Products and Services

The activity of the company can be divided into the following categories:

- o Traditional ISP services: (a) Internet access, (b) Content and Web services (c) Other services;
- o International/national leased line, IP data services (IP connections between different countries); and
- o Voice over IP services.

Traditional ISP services

Internet access

Access to the Internet can be either through a leased line, which enables a constant connection to the Internet at all times, or through dial-up service, which requires subscribers to dial a telephone number to connect to the Internet.

EuroWeb offers a variety of access options and packages, including leased line and dial-up Internet connections.

Content and Web services

EuroWeb provides various services for the design, development, hosting and maintenance of home pages and web servers. EuroWeb installs and maintains home pages on EuroWeb servers for customers concerned with the cost, difficulty or security of maintaining home pages on their own network, and also provides

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hosting possibility of customer's servers at EuroWeb's location.

International/domestic leased line, IP data services

In order to meet requests of International customers, EuroWeb offers international/national data connection for companies across borders, or within the countries to connect premises in different countries. This service includes single (one to one point) and also Virtual Private Network (many to many point) IP connections. In most cases, PanTel Rt. is acting as a partner in development of the international network possibilities.

Voice over IP services

Capitalizing on its existing international presence and cross border connections, EuroWeb offers voice services to major carriers and partners based on Internet Protocol (IP) technology. Partners are sending Voice minutes to the region in which EuroWeb operates, in order to terminate the calls in the particular country locally. EuroWeb's preferred VOIP partner is Pantel Rt.

Customers

EuroWeb's customers are mainly businesses and professionals. EuroWeb's customer base is using more than 750 leased lines and over 8,400 dial up accounts in Slovakia, the Czech Republic and in Romania as of December 31, 2002.

With the introduction of IP based Data and Voice services in 2001, new types of customers have started to use EuroWeb's services such as telecommunication carriers and multinational corporations who have high cross-border bandwidth communication needs.

Network Operations and Technical Support

As of December 31, 2002, EuroWeb had a network operations group consisting of 45 people, including technical and customer support employees. EuroWeb's network operations personnel located at EuroWeb's network operations center in Slovakia, the Czech Republic and Romania are responsible for continuously monitoring traffic across EuroWeb's network infrastructure and also to carry out implementation of new customer connections both for Internet and other IP data connections. Both technical support and customer support personnel are currently available from 8 a.m. to 8 p.m., Monday through Friday. At other times, these personnel respond to technical support requests via telephone 24 hours a day. By the end of December 2002, EuroWeb had 98 Point of Presences (POPs) covering the territory of the Czech Republic, Slovakia and Romania.

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Sales and Marketing

EuroWeb employs 29 persons in sales and marketing. To date, EuroWeb has sold its Internet access and applications products and services primarily through direct personal and telephone contact. The sales persons work closely with the customer and technical support group, which is responsible for installation at multiple sites and for support and technical consulting services, thereby demonstrating our commitment to account management to our customers.

Government Regulations

EuroWeb is not currently subject to direct government regulation other than laws and regulations applicable to businesses generally. There are specific industry laws that may apply to the local subsidiaries in the field of Internet and Telecommunications. However, with the increasing popularity and use of the

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Internet, it is likely that new laws and regulations involving the Internet will be adopted at the local, state, national or international levels, covering issues such as user privacy, freedom of expression, pricing of products and services, taxation, information security or the convergence of traditional communications services with Internet communications.

Employees

The Company employs a total of 116 persons in the Czech Republic, Slovakia and Romania all of which are full-time employees. None of the Company's employees are represented by a labor organization.

ITEM 2. Description of Properties

The following table lists the office spaces that the Company and its subsidiaries lease from unaffiliated persons:

Lessor	Address of Property	Primary Use	Sq. feet	Re Am Mo
The Company	Varosmajor utca 13. H-1122	stockholder relations and general executive	250	
Euroweb Czech Republic	Budapest, Hungary Argentinska 38 CS-170 05	general operations	3,617	\$
Euroweb Slovakia	Prague, Czech Republic Priemyselna 1/A SK - 821 09	general operations	7,561	\$
Euroweb Romania	Bratislava, Slovakia Bd. Unirii 33, Bl. A2, Sc.3, 6th Floor, Sector 3 Bucharest, Romania	general operations	4,667	\$

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Until June 2002, the Company leased office space in New York for its principal executives. With the closing of the New York office, the Company's Chief Executive, Csaba Toro, has been using offices provided by Pantel Rt. No consideration was charged as Csaba Toro was also the CEO of Pantel Rt. in 2002.

Item 3. Legal Proceedings

The Company is not a party to any material legal proceedings as of the date of this report.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Company's security holders through the solicitation of proxies or otherwise, during the last quarter of the fiscal year ended December 31, 2002.

PART II

ITEM 5. Market For Registrant's Common Equity And Related Stockholder Matters

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Market Information

The Company's Common Stock is traded in the over-the-counter market on the Nasdaq SmallCap Market ("Nasdaq") under the symbol "EWEB". On August 30, 2001, the shareholders approved a one-for-five reverse stock split of the Company's Common Stock.

The following table sets forth the high and low bid prices for the Common Stock during the periods indicated as reported by Nasdaq. Figures prior to September 2001 have been restated to reflect the reverse stock split. The prices reported reflect inter-dealer quotations, and may not represent actual transactions and do not include retail mark-ups, mark-downs or commissions.

Quarter Ending:	High	Low
2001		
March 31, 2001	2.69	0.91
June 30, 2001	1.02	0.69
September 30, 2001	2.62	0.45
December 31, 2001	2.05	1.71
2002		
March 31, 2002	2.95	1.47
June 30, 2002	2.85	1.84
September 30, 2002	2.50	1.88
December 31, 2002	2.14	1.72

On April 2, 2003 the closing bid price on the Nasdaq for the Common Stock was \$1.85.

Holder of Common Stock

As of April 1, 2003 the Company had 4,665,332 shares of Common Stock outstanding and 165 shareholders of record. The Company was advised by its transfer agent, the American Stock Transfer & Trust Company, that according to a search made, the Company has approximately 10,000 beneficial owners who hold their shares in street names.

Dividends

It has been the policy of the Company to retain earnings, if any, to finance the development and growth of its business. However, the Company is currently reviewing various business opportunities, which may include either a merger with another company, the disposition of one or more of its operating units, a sale of a significant amount of assets or any combination of these items. No assurances can be given that we will be successful in locating or negotiating with any of these potential business opportunities. If the Company elects to pursue one of these business opportunities, then it may declare a dividend depending on the situation. There can be no assurance that the Company can achieve such earnings, if any, or that the outcome of the current discussions will result in the Company's payment of a dividend.

Equity Compensation Plans

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Plan Category	Number of shares to be issued upon exercise of outstanding options and warrants	Weighted-average exercise price of outstanding options and warrants	Number available for issuance and compensation
Approved by security holders	61,500	\$7.98	44,500
Not approved by security holders	73,000	\$10.14	--
Total	134,500	\$9.15	44,500

The equity compensation plans are discussed in Notes 16 and 17 to the 2002 Consolidated Financial Statements.

Sale of Securities that were not Registered Under the Securities Act of 1933

The Company did not sell any securities that were not registered under the Securities Act of 1933 during the year ended December 31, 2002.

ITEM 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Operations

In 2001, the Company introduced two new service lines in addition to its traditional Internet services: (1) International, domestic leased line and IP Data services and (2) Voice over IP services. The Company operates through three wholly-owned subsidiaries, one located in the Czech Republic, one located in Slovakia, and one located in Romania, known as Euroweb Czech Republic, Euroweb Slovakia, and Euroweb Romania, respectively. The Company made no new acquisitions in 2001 and 2002.

The results of operations of each ISP have been included in the Company's consolidated results of operations from the effective date of acquisition.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements that have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). This preparation requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. US GAAP provides the framework from which to make these estimates, assumptions and disclosures. The Company chooses accounting policies within US GAAP that management believes are appropriate to accurately and fairly report the Company's operating results and financial position in a consistent manner. Management regularly assesses these policies in light of current and forecasted economic conditions. The Company's accounting policies are stated in Note 2 to the Consolidated Financial Statements. The Company believes the following accounting policies are critical to understanding the results of

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operations and the effect of the more significant judgments and estimates used in the preparation of the consolidated financial statements:

Revenue Recognition Policies -- Revenues from services are recognized in the month in which the services are provided. Invoices for traditional ISP, International leased line and IP Data services are generally issued at the beginning of the month except where local legislation prohibits such treatment. VOIP traffic is measured during the month and invoiced at the end of the month. Billed revenues for which the services are to be provided in the future, are not disclosed as revenues in the reporting period, but are accrued and shown as deferred revenue.

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During the year, the Company entered into an agreement to provide transmission capacity to a customer pursuant to an indefeasible rights-of-use agreement ("IRUs") that management believe qualifies as an operating lease under Financial Accounting Standards Board Interpretation No. 13, "Accounting for Leases" ("FAS 13"), since the IRU agreement provides rights to use a specific subject asset for a defined period. Revenue attributable to the lease will be recognized on a straight-line basis over the term of the 20-year lease agreement, commencing upon completion of the installation in March 2003.

Under Financial Accounting Standards Board Interpretation No. 43, "Real Estate Sales, an interpretation of FASB Statement No. 66" ("FIN 43"), leases of fiber and capacity that are deemed integral equipment are required to be accounted for in the same manner as leases of real estate. If fiber and equipment are considered integral to the related real estate, a lease must include a provision transferring title of such integral equipment to the lessee, in order for that lease to be accounted for as a sales-type lease. Failure to satisfy the title transfer requirements results in operating lease treatment, and recognition of the related lease income over the lease term. The Company's IRU does not involve a transfer of title.

IRUs generally require the customer to make a down payment upon execution of the agreement, with the balance due upon delivery and acceptance of the fiber. This has resulted in a substantial amount of deferred revenue being recorded on the balance sheet. The Company is obligated under the fiber IRU to maintain its network in efficient working order and in accordance with industry standards. Customers are obligated for the term of the agreement to pay for their allocable share of the costs for operating and maintaining the network. The Company recognizes this revenue monthly as services are provided.

Accounting practice and guidance with respect to the treatment of fiber sales and IRU agreements continues to evolve. Any changes in the accounting treatment could affect the way the Company accounts for revenue and expenses associated with these transactions in the future.

Accounts Receivable - Allowance for Doubtful Accounts -- The Company regularly reviews the valuation of accounts receivable. The allowance for doubtful accounts is estimated based on historical experience and future expectations of conditions that might impact the collectibility of accounts.

Property Plant & Equipment Recovery -- Changes in technology or changes in the Company's intended use of these assets may cause the estimated period of use or the value of these assets to change. These assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Estimates and assumptions used in both setting depreciable lives and reviewing recoverability require both judgement and estimation by management. Impairment is deemed to have occurred if projected undiscounted cash flows related to the asset are less than its carrying value. If impairment is deemed to have occurred, the carrying values of the assets are

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written down, through a charge against earnings, to their fair value.

Goodwill - Goodwill results from business acquisitions and represents the excess of purchase price over the fair value of net assets acquired. Amortization was computed over the estimated future period of benefit (generally five years) on a straight-line basis until December 31, 2001. On January 1, 2002 the Company adopted Statement of Financial Accounting Standard No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," which establishes new accounting and reporting standards for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17. Goodwill and intangible assets that have indefinite useful lives are no longer amortized but rather are tested at least annually for impairment. Intangible assets that have finite useful lives (whether or not acquired in a business combination) will continue to be amortized over their estimated useful lives, which are no longer limited to a maximum of 40 years. The adoption of SFAS 142 has eliminated the goodwill charge in 2002. During 2002, the Company performed the required SFAS No. 142 impairment test, with respect to goodwill. The first step of this test requires the Company to compare the carrying value of any reporting unit that has goodwill to the estimated fair value of the reporting unit. As the current fair value was less than the carrying value, the Company performed the second step of the impairment test. This second step requires the Company to measure the excess of the recorded goodwill over the current value of the goodwill by performing an exercise similar to a purchase price allocation, and to record any excess as an impairment. Based upon the results, the Company recorded an impairment of \$2,016,000 to the carrying value of its goodwill in its financial statements for the year ended December 31, 2002.

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Other Intangibles - Other Intangibles reflect customer list and the amount represented on the balance sheet reflects the unamortized difference between the purchase price and fair value of businesses acquired, less any impairment recognized. Customer lists were acquired as a result of a purchase of assets and are being amortized over the estimated future period of benefit of five years. The assessment of recoverability and possible impairment was determined using estimates of undiscounted future cash flows in a manner in accordance with the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144"), with a write-down recorded in the third quarter of 2002. The carrying value of customer lists is considered impaired when the projected undiscounted future cash flows related to the asset are less than its carrying value. The Company measures impairment based on the amount by which the carrying value of the customer lists exceeds its fair market value. Fair market value is determined primarily using the projected future cash flows discounted at a rate commensurate with the risk involved. The assessment of the recoverability of the remaining balance will be impacted if estimated future operating cash flows are not achieved

Commitments and contingencies

The Company's subsidiaries have entered into various capital leases for vehicles and internet equipment, as well as non-cancelable agreements for office premises. Refer to Note 9 (Leases) of the Financial Statements for details.

The Company has entered into an employment agreement with the Chief Executive Officer which provides for aggregate annual compensation of \$96,000 through December 31, 2005.

The following table summarizes the commitments described above:

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Contractual Cash Obligations	Less than 1 year	1-2 Years	2-3 Years	3-4 Years	4-5 Ye
Capital Lease Obligations	311,633	53,666	8,297	4,377	-
Operating Leases	168,264	168,264	168,264	168,264	96,9
Employment agreements	96,000	96,000	96,000	-	-
Total Contractual Cash Obligations	575,897	317,930	272,561	172,641	96,9

In addition to the above contractual cash obligations, the Company's subsidiary in Romania has entered into a 20 year Indefeasible Right of Use agreement whereby for the duration of the agreement, Euroweb Romania is obliged to use all reasonable endeavours to ensure the Cable System is maintained in efficient working order and in accordance with industry standards. The total consideration of \$920,000 has already been received, and is being accounted for as an operating lease. Refer to Note 9 (Leases) of the Financial Statements.

ii.

iii. Results of Operations

iv. Year Ended December 31, 2002 compared to Year Ended December 31, 2001

The Company has experienced a significant (61.47%) revenue growth compared to 2001. The revenue increase of the Company can be attributed to the International/Domestic leased line and VOIP services which were introduced during 2001. A significant portion of these services is provided to Pantel Rt., a related party (see discussion under `revenues').

Revenues

Both the revenue structure and the geographical area of revenue source has changed significantly in 2002. The ISP activity has experienced no growth, while new services were the driving force of growth for the Company. The following two tables summarize the main changes compared to the previous year:

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Revenue / services	2002	2001	%
ISP activity	\$4,814,690	\$4,786,107	100.59%
Int./dom. leased line *	\$6,100,530	\$1,917,399	318%
VOIP **	\$2,025,411	\$1,310,622	154%
Total	\$12,940,631	\$8,014,128	161.47%

* - mainly Pantel or Pantel related sales, ** - Direct sales to Pantel

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Revenue/country	Slovakia	Czech Republic	Romania	U.S.A.
Revenues in 2002	\$2,757,086	\$1,415,541	\$8,768,004	\$
Revenues in 2001	\$2,483,464	\$1,235,875	\$4,294,789	\$

Total revenues from traditional Internet activities for the year ended December 31, 2002 were \$4,814,690 in comparison with \$4,786,107 for the year ended 2001. ISP revenues have stagnated overall, with Slovakia and Czech Republic showing a slight increase, while Romania has shown a decrease in ISP revenue.

International leased line revenue has increased more than three-fold compared to last year. Most of the revenue is direct sales to Pantel Rt. or Pantel Rt. related sales.

A large portion of the Company's VOIP services are provided to Pantel Rt. In the event that Pantel Rt. should no longer use the Company's VOIP services, then the Company's VOIP revenue would be significantly reduced.

In 2002, Pantel Rt. (a related party controlled by KPN Telecom B.V.) was the most significant customer of the Company representing approximately 38% of the total revenue of Euroweb International Corp. and 55% of total revenue of Euroweb Romania.

Although the direct sales to Pantel Rt. were 38% of consolidated revenue, Euroweb's dependency on Pantel Rt. is even greater than this figure suggests. Some third party sales involve Pantel Rt. as the subcontractor/service provider for the international/domestic lines (hence the revenues from Pantel Rt. are lower than the amounts paid to Pantel Rt.), and some third party customers are also clients of Pantel Rt. outside of Romania (i.e. their relationship with Pantel Rt. is stronger than that with Euroweb Romania).

Effective dependency on Pantel Rt., taking into account the direct as well as Pantel Rt.-related sales, represents approximately 53% of total consolidated revenues of Euroweb International Corp. or approximately 80-90% of total sales of Euroweb Romania. There is no such dependency in the case of Euroweb Czech or Euroweb Slovakia

Cost of revenues

Cost of revenues comprise mostly telecommunication network telecom expenses which are related to the provision of access facilities to customers. This category also includes costs of phone calls in connection with VOIP services.

Network costs were \$8,613,196 in 2002 in comparison to \$4,906,014 in 2001. The increase of 75% is larger than the increase of revenue comparing last year, which is the result of increasing proportion of International/domestic leased line and VOIP services having much less margin comparing higher margin on ISP revenue. There were no significant pricing policy changes within the Company during 2002. Pantel Rt. was the largest sub-provider representing approximately 41% of the total direct cost.

Operating expenses (excluding depreciation, amortization, and goodwill impairment)

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The increase in operating expenses from \$4,771,898 to \$6,424,543 is due to severance payments to officers (former CFO and CEO) whose 5 year contracts were terminated midway during 2002. Without this cost item, operating expenses have decreased by \$368,187 which, reflect cost cutting measures including the closure of the US office in New York that resulted in a decrease to "other selling, general and administrative" expenses.

The proportion of salaries versus consulting, professional and directors fees has changed. Salaries have decreased due to the closure of US office, while the company paid slightly higher professional fees and directors' fees compared to the previous years.

Depreciation, amortization, goodwill impairment and writedown of intangibles

Amortization of goodwill and intangibles accounted for over 75% of depreciation & amortization in 2001, while it was only 18% in 2002. The Company charged \$189,227 amortization on intangibles, while no amortization of goodwill was recorded due to the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142"). Depreciation of machinery and equipment has increased due to investments made in order to provide the VOIP and International/domestic leased line services.

On May 19, 2000, the Company purchased all of the Internet related assets of Sumitkom Rokura, S.R.L. an Internet service provider in Romania. The acquisition was accounted for as an asset purchase with a value of \$1,150,000 being assigned to customer lists acquired which are being depreciated over an estimated period of benefit of 5 years. However, an analysis of the customers and revenues as at September 30, 2002 indicated that most of the expected revenues to be generated by this customer list did not materialize. Therefore, the Company has written down \$448,500 of the customer list net book value. The remaining \$184,000 will continue to be amortized over the remaining period of benefit of 33 months. However, the Company will continue to assess the recoverability of this amount on a periodic basis and further writedowns will be made if required.

In 2001, the Company recognized an impairment loss of \$1,507,759 relating to the goodwill of Euroweb Slovakia as the future cash flows over the remaining useful life were not expected to be sufficient to cover the net book value of the goodwill in the Company's books. At the end of 2002 the Company performed an annual impairment test relating to the goodwill recorded in its books. Euroweb Romania, Euroweb Czech, and Euroweb Slovakia were identified as 'Reporting Units' under SFAS 142, with pre-impairment Goodwill of \$1,718,657, \$838,581, and \$1,005,300 respectively. The Company compared the fair value of the reporting units (determined using discounted cash flow projections) to their carrying amounts, noting that the carrying amounts in each case were higher than their fair values. The Company then compared the implied fair value of each reporting unit's goodwill with their carrying amounts and recorded an impairment charge of \$2,016,000. The impairment relating to Euroweb Slovakia was \$442,000, Euroweb Czech was \$746,000 and Euroweb Romania was \$828,000. An average 3% growth rate for revenues was used in the calculations.

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Net interest income

Net interest income is significantly lower than the last year. The decrease is due to the fact that less interest-generating funds were available in this period than in the same period of the previous year, and also because the effective interest rate on these investments has decreased over the periods in question. The major revenue source is the approximately \$12 million cash which is invested into US Government Securities bearing interest at 3.1%. The remaining amount was invested in other securities and /or was held in interest

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bearing accounts.

Equity interest in affiliate

The Company's 49% interest in the net loss of Euroweb Hungary Rt. for the year ended December 31, 2002 is \$809,967. However, as the Company's 49% equity in the net loss (\$809,967) is greater than the carrying value before recording this equity adjustment (\$679,637), the investment has been written down to zero. Since the Company has no legal or commercial commitments to provide continuing financial support, the difference of \$ 130,330 has not been recorded.

Sale or disposal transactions

During 2002, the Company focused purely on improving operation and introduction of new services and thus did not divest any of its assets. Consequently, no gain/loss on sale or disposals are recorded in 2002.

Liquidity and Capital Resources

The Company's cash, cash equivalents and marketable securities were approximately \$14,203,087 as of December 31, 2002, a decrease of \$1,937,680 from the end of fiscal year 2001. The decrease of cash was influenced by two major reasons: (1) loss making activity and (2) severance to officers

The Company has \$14,203,087 of cash, cash equivalents and marketable securities compared to \$2,816,831 total short and long term liabilities (excluding deferred revenue), indicating that the Company is in a strong financial position. Management believes that with its existing cash, cash equivalents, marketable securities and internally generated funds, there will be sufficient funds to meet the Company's currently projected working capital requirements and other cash requirements until at least the next 12 months. In the event the Company makes future acquisitions of Internet service providers in Central and Eastern Europe, the excess cash on hand may be used to finance such future acquisitions.

Inflation and Foreign Currency

The Company maintains its books in local currencies: Czech koruna for Euroweb Czech Republic and the Slovak koruna for Euroweb Slovakia. However, given the hyper-inflationary situation in Romania, the U.S. dollar is used as the functional currency.

The Slovakian Koruna has strengthened by 6.5%, while the Czech Korona has strengthened against the U.S. dollar by approximately 14% when compared with 2001.

Effect of Recent Accounting Pronouncements

The Financial Accounting Standards Board No. 143 "Accounting for Asset Retirement Obligations" ("Statement 143") was issued in June 2001. Statement 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company is required to adopt the provisions of Statement 143 on January 1, 2003. The Company is evaluating the impact, if any, Statement 143 may have on its future consolidated financial statements.

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Corrections. SFAS No.145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No.145 also amends SFAS No.13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No.4 is applied in fiscal years beginning after May 15, 2002. Earlier application of these provisions is encouraged. The provisions of the Statement related to Statement No.13 were effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of SFAS No.145 is not expected to have a material effect on the Company's financial statements.

The Financial Accounting Standards Board ("FASB") No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" ("Statement 146") was issued in June 2002. Statement 146 nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". `Costs' include (a) one-time termination benefits, (b) costs to terminate a contract that is not a capital lease and (c) other associated costs including costs to consolidate facilities or relocate employees. The Statement is based on the general principle that a liability for a cost associated with an exit or disposal activity should be (1) recorded when it is incurred and (2) initially measured at fair value. Thus, a commitment to an exit or disposal plan no longer will be a sufficient basis for recording a liability for those activities. The Company is required to adopt the provisions of Statement 146 for exit or disposal activities initiated after December 31, 2002. The Company is evaluating the impact, if any, Statement 146 may have on its future consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others", an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002. The Company has adopted the disclosure requirements and will apply the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002. To date, the Company has not entered into or modified guarantees.

In December 2002, the FASB issued SFAS No.148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No.123". This Statement amends FASB Statement No.123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No.123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51". This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities

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obtained after January 31, 2003. For nonpublic enterprises, such as the Company, with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to the enterprise no later than the end of the first annual reporting period beginning after June 15, 2003. The application of this Interpretation is not expected to have a material effect on the Company's financial statements.

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In November 2002, the Emerging Task-Force issued its consensus on EITF 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21") on an approach to determine whether an entity should divide an arrangement with multiple deliverables into separate units of accounting. According to EITF 00-21, in an arrangement with multiple deliverables, the delivered item(s) should be considered a separate unit of accounting if all of the following criteria are met: (1) the delivered item(s) has value to the customer on a standalone basis, (2) there is objective and reliable evidence of the fair value of the undelivered item(s), and (3) if the arrangement includes a general right of return, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor. If all the conditions above are met and there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration should be allocated to the separate units of accounting based on their relative fair values. The guidance in this Issue is effective for revenue arrangements entered into in fiscal beginning after June 15, 2003. The Company believes that the adoption of EITF 00-21 will not have a material impact on its financial statements.

At the January 23, 2003 meeting, the Emerging Issues Task Force (EITF) reached consensus on EITF 02-18 "Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition". Issues 1 and 2 of EITF 02-18 which considered whether, (i) an investor should recognize any previously suspended losses when accounting for a subsequent investment in an investee that does not result in the ownership interest increasing from one of significant influence to one of control, and (ii), if the additional investment represents the funding of prior losses, whether all previously suspended losses should be recognized or whether only the previously suspended losses equal to the portion of the investment determined to be funding prior losses should be recognized. The EITF concluded that if the additional investment represents, in substance, the funding of prior losses, the investor should recognize previously suspended losses only up to the amount of the additional investment determined to represent the funding of prior losses. At its February 5, 2003 meeting, the FASB ratified the consensus reached by the Task Force in this Issue. As discussed in notes 1 (i) and 6, the Company has discontinued recording losses on its equity method investment in Euroweb Hungary Rt, which is 51% owned by Pantel Rt., also a subsidiary of KPN. If the Company makes additional investments in Euroweb Hungary Rt., the Company would be required to recognize additional losses to the extent these additional investments are considered funding of unrecognized prior losses of Euroweb Hungary Rt.

Risk Factors

The Company is subject to certain risk factors due to the industry in which it competes and the nature of its operations. These risks include the following:

Limited Operating History; Accumulated Deficit. Although the Company was founded in November 1992, it only entered the Internet business in January 1997 by acquiring three operating Internet businesses. Accordingly, the Company has only limited operating history on which to base an evaluation of its present business and prospects. The Company and its prospects must be considered in light of the risks, expenses and difficulties frequently encountered by

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companies in an early stage of development, particularly companies in new and rapidly evolving markets such as the Internet. Such risks for the Company include, but are not limited to, an evolving business model and the management of both internal and acquisition based growth. To address these risks, the Company must, among other things, continue to expand its client base, continue to develop the strength and quality of its operations, maximize the value delivered to clients, respond to competitive developments and continue to attract, retain and motivate qualified employees. There can be no assurance that the Company will be successful in meeting these challenges and addressing such risks and the failure to do so could have a material adverse affect on the Company's business, results of operations and financial condition.

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Regulations and Legal Uncertainties. In the United States, the business engaged in by the Company is not currently subject to direct regulation other than federal and state regulation applicable to businesses generally and multi-level marketing. However, changes in the regulatory environment relating to the telecommunications, Internet and media industries could have an effect on its business, which effect may be materially adverse to the interests of the Company. Additionally, legislative proposals from international, federal, state and foreign governmental bodies in the areas of content regulation, intellectual property, privacy rights and tax issues, could impose additional regulations and obligations upon all online service and content providers, which effect may be materially adverse to the interests of the Company. The Company cannot predict the likelihood that any such legislation will pass, nor the financial impact, if any, the resulting regulation may have on it.

Moreover, the applicability to persons engaged in Internet commerce of existing laws governing issues such as intellectual property ownership, libel and personal privacy is uncertain. Recent events relating to the use of online services for certain activities has increased public focus and could lead to increased pressure on foreign and national legislatures to impose regulations on online service providers. The U.S. law relating to the liability of entities conducting business over the Internet for information carried on, or disseminated through, their systems is currently unsettled and has been the subject of several recent private lawsuits. While the Company intends to provide only content which meets the highest standards in quality, creativity and ethical values, should similar actions be initiated against it, costs incurred as a result of such actions could have a material adverse effect on the business of the Company.

Dependence on Key Personnel; Limited Management; Need for Qualified Management and Other Personnel. The success of the Company will be dependent on the personal efforts of Csaba Toro, Chief Executive Officer (CEO). The loss of the services of Mr. Toro could have a material adverse effect on the Company's business and prospects. The Company does not have and does not intend to obtain "key-man" insurance on the life of any of its officers. The success of the Company is largely dependent upon its ability to hire and retain additional qualified management, marketing, technical, financial and other personnel. Competition for qualified personnel is intense, and there can be no assurance that the Company will be able to hire or retain additional qualified management. The inability to attract and retain qualified management and other personnel will have a material adverse effect on the Company.

Dependence on Pantel Rt. The majority owners of Pantel Rt. and Euroweb International Corp. is KPN Telecom B.V. Such ownership improved the co-operation of the two companies, which has resulted in a high level of dependency in the case of Euroweb Romania. Actual dependency from Pantel Rt., taking into account the direct and Pantel Rt. related sales, represents approximately 50-56% of total consolidated revenue of Euroweb International Corp. or approximately 80-90% of total sales of Euroweb Romania. Despite the fact that co-operation is

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based on arm's length agreements, disagreements between the management of Pantel Rt. and EuroWeb, or an effective change of ownership in one or both companies, may result in the loss of the Pantel Rt. related revenues and their significant margin.

Developing Market; New Entrants; Unproven Acceptance of the Products; Uncertain Adoption of Internet as a Medium of Commerce and Communications. The market for Internet Programs and services has only recently begun to develop and is rapidly evolving. The Internet is characterized by an increasing number of market entrants who have introduced or developed products and services for communication and commerce over the Internet and private networks. As is typical in the case of a new and rapidly evolving industry, demand and market acceptance for recently introduced products and services are subject to a high level of uncertainty. Critical issues concerning the commercial use of the Internet (including security, reliability, cost, ease of use and access, and quality of service) remain unresolved and may impact the growth of Internet use. While the Company believes that its products and services offer significant advantages for Internet users, there can be no assurance that its products and services will become widely chosen for access to the Internet or that, if chosen, will hold the attention of users in order to allow it to continue to attract users.

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Because the market for the Company's proposed business, products and services is new and evolving, it is difficult to predict the future growth rate, if any, and size of this market. There can be no assurance that the market for its products and services will develop, that the Company's products or services will be adopted, or that individual personal computer users in business or at home will use the Internet for commerce and communication. If the market fails to develop, develops more slowly than expected, becomes saturated with competitors, or if its products do not achieve market acceptance, its business, operating results and financial condition will be materially adversely affected.

Competition. The market for Internet-based products and services is new, intensely competitive, rapidly evolving and subject to rapid technological change. The Company expects competition to persist, intensify and increase in the future. Such competition could materially adversely affect the Company's business, operating results or financial condition.

We believe that the main competitors of Euroweb Slovakia are four of the largest or most active providers in Slovakia:

- o Nextra;
- o GTS Inec;
- o SLOVANET; and
- o the incumbent telecom operator, Slovak Telecom.

The above are all also providing internet services. Both Nextra and GTS Inec have a customer base similar to that of the Company's.

Romania's Internet market is in the initial phase of development. At present, other than Euroweb Romania, there are two other data transmission companies providing internet services, which also cover the entire territory of Romania:

- o Global One Romania; and
- o Logic Telecom.

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The Company may face intense competition from other companies directly involved in the same business and also from many other companies offering products which can be used in lieu of those offered by the Company. Competition can take many forms, including convenience in obtaining products, service, marketing and distribution channels. Although the Company believes it can compete on the basis of the quality and reliability of its services, there can be no assurance that the Company will be able to compete successfully against current or future competitors or that competitive pressures faced by the Company will not materially adversely affect the Company's business, operating results or financial condition.

Volatility of Stock Prices. Market prices for the Company's common stock will be influenced by many factors and will be subject to significant fluctuations in response to variations in operating results of the Company and other factors such as investor perceptions of the Company, supply and demand, interest rates, general economic conditions and those specific to the industry, developments with regard to the Company's activities, future financial condition and management. There can be no assurance regarding the future prices at which the Company's common stock will trade, if any.

Foreign Currency and Exchange Risks and Rate Revaluation. The Company will be subject to significant foreign exchange risk. There are currently no meaningful ways to hedge currency risk in either Hungary, the Czech Republic, Romania or Slovakia. Therefore, the Company's ability to limit its exposure to currency fluctuations is significantly restricted. The Company's ability to obtain dividends or other distributions is subject to, among other things, restrictions on dividends under applicable local laws and foreign currency exchange regulations of the jurisdictions in which its subsidiaries operate. The laws under which the Company's operating subsidiaries are organized provide generally that dividends may be declared by the partners or shareholders out of yearly profits subject to the maintenance of registered capital and required reserves and after the recovery of accumulated losses.

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Other factors affecting shareholders/investors

Possible Future Capital Needs. The Company currently anticipates that its available cash resources will be sufficient to meet its presently anticipated working capital and capital expenditure requirements for at least the next 12 months and has currently no immediate plans for acquisitions that would exceed the available funds. However, the Company may need to raise additional funds in order to support more rapid expansion, acquire complementary businesses or technologies or take advantage of unanticipated opportunities through public or private financing, strategic relationships or other arrangements. There can be no assurance that such additional funding, if needed, will be available on terms acceptable to the Company, or at all. If adequate funds are not available on acceptable terms, the Company may be unable to develop or enhance its services and products or take advantage of future opportunities either of which could have a material adverse effect on the Company's business, results of operations and financial condition.

No Dividends. It has been the policy of the Company to not pay cash dividends on its common stock. At present, the Company will follow a policy of retaining all of its earnings, if any, to finance the development and expansion of its business. However, the Company is currently reviewing various business opportunities, which may include either a merger with another company, the disposition of one or more of its operating units, a sale of a significant amount of assets or any combination of these items. No assurances can be given that we will be successful in locating or negotiating with any of these potential business opportunities. If the Company elects to pursue one of these business opportunities, then it may declare a dividend depending on the

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situation. There can be no assurance that the Company can achieve such earnings, if any, or that the outcome of the current discussions will result in the Company's payment of a dividend.

Potential Issuance of Additional Common and Preferred Stock. The Company is currently authorized to issue up to 60,000,000 shares of common stock and intends on obtaining shareholder approval to amend its Certificate of Incorporation so as to decrease the number of authorizes shares of common stock from 60,000,000 to 12,500,000. To the extent of such authorization, the Board of the Company will have the ability, without seeking stockholder approval, to issue additional shares of common stock in the future for such consideration as the Board may consider sufficient. The issuance of additional common stock in the future will reduce the proportionate ownership and voting power of the common stock offered hereby. The Company is also authorized to issue up to 5,000,000 shares of preferred stock, the rights and preferences of which may be designated in series by the Board. To the extent of such authorization, such designations may be made without stockholder approval. The designation and issuance of series of preferred stock in the future would create additional securities which may have voting, dividend, liquidation preferences or other rights that are superior to those of the common stock, which could effectively deter any takeover attempt of the Company.

Forward-Looking Statements

When used in this Form 10-KSB, in other filings by the Company with the SEC, in the Company's press releases or other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer of the Company, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

The Company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, are based on certain assumptions and expectations which may or may not be valid or actually occur, and which involve various risks and uncertainties, including but not limited to the risks set forth below. See "Risk Factors." In addition, sales and other revenues may not commence and/or continue as anticipated due to delays or otherwise. As a result, the Company's actual results for future periods could differ materially from those anticipated or projected.

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Unless otherwise required by applicable law, the Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

ITEM 7. Financial Statements

Reference is made to the Consolidated Financial Statements of the Company, beginning with the index thereto on page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;

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COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The following table sets forth certain information regarding the executive officers and directors of the Company as of April 7, 2003.

Name	Age	Position with Company
----	---	-----
Csaba Toro	37	Chief Executive Officer, Chairman of the Board
Rob Van Vliet	48	Director, Secretary to the Board and Treasurer
Gerald Yellin	68	Director
Stewart Reich	59	Director
Hans Lipman	43	Director

Csaba Toro, age 37, Chairman and CEO of the Company since June 2002, has been with the Company since September 1998 in various other positions. During 2001 and 2002, Mr. Toro held the positions of COO and CEO in Pantel Rt. He resigned as CEO of Pantel Rt. as of March 2003. From 1997 to 1999, Mr. Toro was managing director of the Company's Hungarian subsidiary. Prior thereto, since 1994, he was managing director of ENET Kft., which was acquired by the Company in 1997.

Rob van Vliet, age 48, has been a Director of the Company since May 2000. Mr. van Vliet has been involved within KPN in the international IP/data activities as developed in EuroWeb and Pantel Rt. since 1998. In 2002, Mr. van Vliet was a member of the board of Pantel Rt. As of March 1, 2002, he became CEO of Vision Networks Holdings with cable TV operations in Poland and the Czech Republic, the operations of which were sold in early 2003. During the period from November 1998 until January 2000 he was also a member of the Supervisory Board of Planet Internet, a consumer ISP in Belgium. From 1993 until 1998, Mr. van Vliet was active as Project Director for KPN's international acquisitions in Central and Eastern Europe.

Gerald Yellin, age 68, has been the Vice-President of the Investment Banking House of Bear Stearns & Company, Inc. since 1975. Mr. Yellin worked for Bear Stearns for 28 years, and is a graduate from Temple University, PA. Mr. Yellin has been a Director of the Company since November 2001.

Stewart Reich, age 58, was Chief Executive Officer and President of Golden Telecom Inc., Russia's largest alternative voice and data service provider as well as its largest ISP, since 1997. In September 1992, Mr Reich was employed as Chief Financial Officer at UTEL (Ukraine Telecommunications), of which he was appointed President in November 1992. Prior to that Mr. Reich held various positions at a number of subsidiaries of AT&T Corp. Mr. Reich has been a director of the Company since 2002.

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Hans Lipman, age 43, is a Dutch Registered Accountant and is financial manager for Royal Dutch KPN's International Participations department since March 2001. He is a member of the supervisory board of Pantel Rt, Hungary. From April 1994, Mr. Lipman has been working as a financial manager and IT controller with KPN Telecom. Prior to that he was auditor with PriceWaterhouseCoopers' predecessors, since 1978. Mr. Lipman replaces Mr. Roelant Lyppens who resigned as director on December 18, 2002.

Directors are elected annually and hold office until the next annual meeting of the stockholders of the Company and until their successors are elected and qualified. Officers are elected annually and serve at the discretion of the Board of Directors.

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ROLE OF THE BOARD

Pursuant to Delaware law, our business, property and affairs are managed under the direction of our board of directors. The board has responsibility for establishing broad corporate policies and for the overall performance and direction of EuroWeb, but is not involved in day-to-day operations. Members of the board keep informed of our business by participating in board and committee meetings, by reviewing analyses and reports sent to them regularly, and through discussions with our executive officers.

2002 BOARD MEETINGS

In 2002, the board met four times. No director attended less than 75% of all of the combined total meetings of the board and the committees on which they served in 2002.

BOARD COMMITTEES

Audit Committee

The audit committee of the board of directors reviews the internal accounting procedures of the company and consults with and reviews the services provided by our independent accountants. During 2002, the audit committee consisted of Messrs. Stewart Reich, Gerald Yellin and Rob van Vliet. The audit committee held three meetings in 2002. Messrs. Yellin and Reich both serve as audit committee financial expert for the Audit Committee. Both of the audit committee financial experts are considered to be independent. Compensation Committee

Compensation Committee

The compensation committee of the board of directors i) reviews and recommends to the board the compensation and benefits of our executive officers; ii) administers our stock option plans and employee stock purchase plan; and iii) establishes and reviews general policies relating to compensation and employee benefits. In 2002, the compensation committee consisted of Messrs. Rob van Vliet, Roelant Lyppens and Csaba Toro. No interlocking relationships exist between the board of directors or compensation committee and the board of directors or compensation committee of any other company. During the past fiscal year the compensation committee had two meetings.

SECTION 16(A) BENEFICIAL OWNERSHIP COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than 10 percent of the Company's Common Stock, to file with the SEC the initial reports of ownership and reports of changes in ownership of common stock. Officers, directors and greater than 10 percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

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Specific due dates for such reports have been established by the Commission and the Company is required to disclose in this Proxy Statement any failure to file reports by such dates during fiscal 2002. Based solely on its review of the copies of such reports received by it, or written representations from certain reporting persons that no Forms 5 were required for such persons, the Company believes that during the fiscal year ended December 31, 2002, there was no failure to comply with Section 16(a) filing requirements applicable to its officers, directors and ten percent stockholders.

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POLICY WITH RESPECT TO SECTION 162(m)

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), provides that, unless an appropriate exemption applies, a tax deduction for the Company for compensation of certain executive officers named in the Summary Compensation Table will not be allowed to the extent such compensation in any taxable year exceeds \$1 million. As no executive officer of the Company received compensation during 2002 approaching \$1 million, and the Company does not believe that any executive officer's compensation is likely to exceed \$1 million in 2003, the Company has not developed an executive compensation policy with respect to qualifying compensation paid to its executive officers for deductibility under Section 162(m) of the Code.

CODE OF ETHICS

The Company has adopted its Code of Ethics and Business Conduct for Officers, Directors and Employees that applies to all of the officers, directors and employees of the Company.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth information concerning the annual and long term compensation of the Company's Chief Executive Officer. The Company does not have any officer whose annual salary and bonus exceeds \$100,000 as of December 31, 2002:

Name and Principal Position ----- Compensation (\$)	Year Ended December 31, -----	ANNUAL COMPENSATION		LONG-TERM COMPENSATION	
		Salary (\$) -----	Bonus and Other Annual Compensation (\$) -----	Restricted Stock Award(s) ----- (\$)	-----
Csaba Toro	2002	\$96,000	--	--	--
CEO and Chairman	2001	\$96,000	--	--	--
	2000	\$96,000	--	--	--

Employment agreements with Mr. Frank Cohen and Robert Genova, former executive officer and directors of the Company, were terminated in the second quarter of 2002 and their total compensation for the period from June 2002 to December 31, 2005 was settled. At the same time, Mr. Robert Genova and Mr. Frank Cohen forfeited all of their outstanding options in the Company. Mr. Toro was appointed as the CEO and Chairman in May 2002. Prior to May 2002, Mr. Toro served as the Chief Operating Officer of the Company. There is no other officer, whose yearly compensation exceeded \$100,000

OPTIONS/SAR GRANTS IN LAST FISCAL YEAR

There were no grants of Stock Options/SAR made to the named Executives during the fiscal year ended December 31, 2002.

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AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND YEAR-END OPTION/SAR VALUES

Name	Shares acquired on exercise (#)	Value realized (\$)	Number of securities underlying unexercised options/SARs at FY-end mo (#) Exercisable/UnexercisableEx
Csaba Toro, Chairman and CEO	None	None	87,000

* Fair market value of underlying securities (calculated by subtracting the exercise price of the options from the closing price of the Company's Common Stock quoted on the Nasdaq as of December 31, 2002), which was \$1.73 per share. None of Mr. Toro's options are presently in the money.

EMPLOYMENT AND MANAGEMENT AGREEMENTS

The Company entered into a six-year agreement with its Chief Executive Officer and Chairman of the Board, Csaba Toro on October 18, 1999, which commenced January 1, 2000. The agreement provides for an annual compensation of \$96,000 for Mr. Toro and terminates on December 31, 2005.

The agreement further provides that, if Mr. Toro's employment is terminated other than for willful breach by the employee, for cause or in event of a change in control of the Company, then the employee has the right to terminate the agreement. In the event of any such termination, the employee will be entitled to receive the payment due on the balance of his employment agreement.

The Company has no pension or profit sharing plan or other contingent forms of remuneration with any officer, director, employee or consultant, although bonuses are paid to some individuals.

There were no changes in the Employment and Management Agreements in the last fiscal year, other than the termination of the contract with the former CFO and CEO.

DIRECTOR COMPENSATION

Directors who are also officers of the Company are not separately compensated for their services as a director. Directors who are not officers receive cash compensation for their services: \$2,000 at the time of agreeing to become a Director; \$2,000 for each Board Meeting attended either in person or by telephone; and \$1,000 for each Audit Committee Meeting attended either in person or by telephone. Non-employee directors are reimbursed for their expenses incurred in connection with attending meetings of the Board or any committee on which they serve and are eligible to receive awards under the Company's 1993 Stock Option Plan (described below). No stock option awards were made to non-employee directors as of April 7, 2003.

STOCK OPTION PLAN

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The Company's 1993 Stock Option Plan (the "Plan") permits the grant of options to employees of the Company, including officers and directors, who are serving in such capacities. An aggregate of 134,000 shares of Common Stock are authorized for issuance under the Plan. At December 31, 2002, options for 61,500 Common Stock were outstanding and exercisable under the Plan. The Plan provides that qualified and non-qualified options may be granted to officers, directors, employees and consultants to the Company for the purpose of providing an incentive to those persons to work for the Company. No options were granted to any officers, directors, employees and consultants to the Company during the year ended December 31, 2002.

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ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to the beneficial ownership of the Common Stock as of April 1, 2003 by (i) each person known by the Company to own beneficially more than 5% of the outstanding Common Stock; (ii) each director of the Company; (iii) each officer of the Company and (iv) all executive officers and directors as a group. Except as otherwise indicated below, each of the entities or persons named in the table has sole voting and investment powers with respect to all shares of Common Stock beneficially owned by it or him as set forth opposite its or his name.

Name and Address	Shares Beneficially Owned (1)	Percent Owned (1)
KPN Telecom B.V. (4) Maanplein 5 The Hague, The Netherlands	2,461,014	52.75%
Csaba Toro (3) (5) (6) 1122 Budapest Varosmajor utca 13 Hungary	87,000 (2)	1.86%
Hans Lipman (3) (6) KPN Telecom B.V. Maanplein 5 The Hague, The Netherlands	0	0
Rob van Vliet (3) (5) - (6) KPN Telecom B.V. Maanplein 5 The Hague, The Netherlands	0	0
Gerald Yellin (6) 500 E. 83rd Street New York, NY 10028	0	0
Stewart Reich (6) 18 Dorset Lane, Bedminister, NJ 07921	0	0
All Officers and Directors as a Group (7 Persons)	87,000	1.86%

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- (1) Unless otherwise indicated, each person has sole investment and voting power with respect to the shares indicated. For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares which such person has the right to acquire within 60 days after April 1, 2003. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above on April 1, 2003 any security which such person or group of persons has the right to acquire within 60 days after such date is deemed to be outstanding for the purpose of computing the percentage ownership for such person or persons, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.
- (2) Mr. Toro owns, directly or indirectly, 1.86% of the issued and outstanding shares of the Company represented by options to purchase 87,000 shares.
- (3) Does not include shares reported to be beneficially owned by KPN Telecom B.V. Messrs. van Vliet and Lipman are employees of KPN Telecom B.V. Until March 1, 2003, Mr. Toro was an employee of Pantel Rt, an indirect subsidiary of Royal KPN N.V.
- (4) KPN Telecom B.V. is a subsidiary of Royal KPN N.V.
- (5) An officer of the Company.
- (6) A director of the Company.

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The foregoing table is based upon 4,665,332 shares of common stock outstanding as of April 1, 2003.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Significant related party transactions exist with Pantel Rt. Details of these transactions can be found in the MD&A section of this form 10-KSB and in Note 14 of the 2002 Consolidated Financial Statements.

In January 1999, the Company loaned Mr. Toro \$150,000 for the purpose of purchasing an apartment condominium in Budapest. The loan bears interest at the rate of 11 1/2% per annum and is secured both by Mr. Toro's employment contract and by a lien on the property. Mr. Toro repaid the loan in full in 2001.

Management believes that the transaction with Mr. Toro was made on terms no less favorable to the Company than those available from unaffiliated parties. It is intended that any future transactions with officers, directors and affiliates of the Company will be made on terms no less favorable to the Company than those available from unaffiliated parties.

There are no other significant related party transactions.

PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

- A. Exhibits (numbers below reference Regulation S-B, Item 601)
 - (2) Subscription Agreement and Option Agreement with KPN(1)(2)

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- (3) (a) Certificate of Incorporation filed November 9, 1992(1)
- (b) Amendment to Certificate of Incorporation filed July 9, 1997(2)
- (c) By-laws(2)
- (4) (a) Form of Common Stock Certificate(1)
- (b) Form of Underwriters' Warrants to be sold to Underwriters(1)
- (c) Placement Agreement between Registrant and J.W. Barclay & Co., Inc. and form of Placement Agent Warrants issued in connection with private placement financing(1)
- (99) (a) Certification of the Chief Executive Officer of Euroweb International Corp. Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (99) (b) Certification of the Chief Accounting Officer of Euroweb International Corp. Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (99) (c) Code of Ethics and Business Conduct of Officers, Directors and Euroweb International Corp.

- (1) Exhibits are incorporated by reference to Registrant's Registration Statement on Form SB-2 dated May 12, 1993 (Registration No. 33-62672-NY, as amended)
- (2) Filed with Form 10-QSB for quarter ended June 30, 1998.

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ITEM 14. CONTROLS AND PROCEDURES

As of December 31, 2002, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Accounting Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Accounting Officer, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2002. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to December 31, 2002.

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EUROWEB INTERNATIONAL CORP.

Consolidated Balance Sheet as of December 31, 2002 and 2001, and
Consolidated Statements of Operations & Comprehensive Loss,
Stockholders' Equity, and Cash Flows for the

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Years ended December 31, 2002 and 2001

EUROWEB INTERNATIONAL CORP.
Consolidated Financial Statements
December 31, 2002 and 2001

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Independent Auditors' Report

The Board of Directors and Stockholders
Euroweb International Corp.

We have audited the accompanying consolidated balance sheet of Euroweb International Corp. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for each of the years in the two year period ended December 31, 2002. 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 auditing standards generally accepted

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in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Euroweb International Corp. and subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years ended December 31, 2002 and 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1(k) to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangibles in 2002.

KPMG Hungaria Kft.
Budapest, Hungary
April 9, 2003

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Euroweb International Corp.
Consolidated Balance Sheet
December 31,

	2002

ASSETS	
Current assets:	
Cash and cash equivalents (note 3)	\$ 2,098,983
Investment in securities (note 4)	12,104,104
Trade accounts receivable, less allowance for doubtful accounts of	348,488
\$634,484 (2001: \$457,721)	
Related party receivables	855,194
Current portion of note receivable (note 5)	190,105
Prepaid and other current assets	851,100

Total current assets	16,447,974
Note receivable, less current portion (note 5)	173,871
Investment in affiliate (note 6)	--
Property and equipment (note 7)	1,269,923
Assets under construction (note 7)	430,000
Goodwill (note 8)	1,546,538
Intangibles- customer lists (note 8)	167,273
Other non-current assets	--

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Total assets		\$ 20,035,579	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable	\$	659,244	
Related party payables		345,110	
Acquisition indebtedness (note 10)		180,000	
Loan payable (note 11)		129,945	
Other current liabilities		469,547	
Accrued expenses		965,885	
Deferred IRU revenue (note 9)		30,667	
Deferred other revenues		145,392	

Total current liabilities		2,925,790	
Loan payable (note 11)		--	
Acquisition indebtedness, less current portion (note 10)		--	
Non-current portion of deferred IRU revenue (note 9)		889,333	
Non-current portion of lease obligations (note 9)		67,100	

Total liabilities		3,882,223	
Stockholders' equity (note 13)			
Preferred stock, \$.001 par value - Authorized 5,000,000 shares; no shares issued or outstanding			
Common stock, \$.001 par value - Authorized 60,000,000 shares; issued and outstanding 4,665,332 shares		24,129	
Additional paid-in capital		48,227,764	
Accumulated deficit		(31,219,267)	
Accumulated other comprehensive income/(loss)		236,142	
Treasury stock - 175,490 common shares, at cost		(1,115,412)	

Total stockholders' equity		16,153,356	-----
Commitments and contingencies (note 15)			
Total liabilities and stockholders' equity		\$ 20,035,579	=====

See accompanying notes to consolidated financial statements.

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Euroweb International Corp.
Consolidated Statements of Operations and Comprehensive Loss
Years Ended December 31, 2002 and 2001

	2002	2001
	----	----
Revenues		
Third party revenues	\$ 8,067,290	\$ 5,524,442
Related party revenues	4,873,341	2,489,686
	-----	-----
Total Revenues	12,940,631	8,014,128

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Cost of revenues		
Third party cost of revenues	6,584,806	4,123,692
Related party cost of revenues	2,028,390	782,322
	-----	-----
Total Cost of revenues	8,613,196	4,906,014
	-----	-----
Gross profit	4,327,435	3,108,114
Operating expenses		
Compensation and related costs	1,884,891	2,001,191
Severance to officers	2,020,832	--
Consulting, professional and directors fees	1,078,908	977,951
Other selling, general and administrative expenses	1,439,912	1,792,756
Goodwill impairment (Note 8)	2,016,000	1,507,759
Writedown of intangibles (Note 8)	448,500	--
Depreciation and amortization	1,038,166	2,905,012
	-----	-----
Total operating expenses	9,927,209	9,184,669
	-----	-----
Loss from operations	(5,599,774)	(6,076,555)
Net interest income	385,177	948,803
Equity in net loss of affiliate (Note 6)	(679,637)	(455,261)
Loss before income taxes	(5,894,234)	(5,583,013)
Provision for income taxes	--	--
	-----	-----
Net loss	(5,894,234)	(5,583,013)
Other comprehensive income (loss)	379,465	(129,312)
	-----	-----
Comprehensive loss	\$ (5,514,769)	\$ (5,712,325)
	=====	=====
Net loss per share, basic	(1.26)	(1.17)
Weighted average number of shares outstanding	4,665,332	4,771,804

See accompanying notes to consolidated financial statements

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EUROWEB INTERNATIONAL CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2002 and 2001

Common Stock	Additional Paid-in	Accumulated	Accum Ot Compr
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	Shares*	Amount	Capital	Deficit	Gains
	-----	-----	-----	-----	-----
Balances, December 31, 2000	4,801,702	\$ 24,129	\$48,227,764	\$(19,742,020)	\$ (1)
	=====	=====	=====	=====	=====
Foreign currency translation gain	--	--	--	--	1
Unrealized gain on securities ...					
available for sale	--	--	--	--	2
Reclassification of realized gain	--	--	--	--	(17)
Net loss for the period	--	--	--	(5,583,013)	
Treasury stock	(136,370)	--	--	--	
	-----	-----	-----	-----	-----
Balances, December 31, 2001	4,665,332	\$ 24,129	\$48,227,764	\$(25,325,033)	\$ (14)
	=====	=====	=====	=====	=====
Foreign currency translation loss	--	--	--	--	16
Unrealized gain on securities ...					
available for sale (Note 4)	--	--	--	--	24
Reclassification of realized gain	--	--	--	--	(2)
Net loss for the period	--	--	--	(5,894,234)	
	-----	-----	-----	-----	-----
Balances, December 31, 2002	4,665,332	\$ 24,129	\$48,227,764	\$(31,219,267)	\$ 23
	=====	=====	=====	=====	=====

* restated to reflect 1 for 5 reverse stock split

See accompanying notes to consolidated financial statements

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Euroweb International Corp.
Consolidated Statements of Cash Flows
Year Ended December 31, 2002 and 2001

	2002

Cash flows from operating activities	
Net loss	\$ (5,894,234)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	1,038,166
Goodwill impairment	2,016,000
Intangibles impairment - customer lists	448,500
Amortization of discount on acquisition indebtedness (note 10)	15,380
Equity in net loss of affiliate	679,637
Provision on doubtful accounts	176,763
Foreign currency loss (gain)	35,041
Realized gain on sale of investment securities	(47,970)
Unrealized interest income on investment securities	(357,046)
Changes in operating assets and liabilities net of effects of acquisitions:	
Accounts receivable	(579,009)
Prepaid and other assets	(247,384)
Accounts payable, other current liabilities and accrued expenses	743,416
Deferred revenue	788,265

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Net cash used in operating activities	(1,184,475)

Cash flows from investing activities:	
Investment in securities	(13,506,666)
Maturity of securities	16,654,820
Payment of acquisition indebtedness	(180,000)
Repayments of notes receivable	194,296
Repayment of loan receivable	--
Acquisition of property and equipment	(966,545)

Net cash provided by (used in) investing activities	2,195,905

Cash flows from financing activities:	
Payments to acquire treasury stock	--
Principal payments under capital lease obligations	(400,987)

Net cash used in financing activities	(400,987)

Effect of foreign exchange rate changes on cash	(23,763)

Net increase (decrease) in cash and cash equivalents	586,680
Cash and cash equivalents, beginning of year	1,512,303

Cash and cash equivalents, end of year	\$ 2,098,983
=====	
Supplemental disclosure:	
Interest paid	\$ 77,247
New capital leases	\$ 155,713

See accompanying notes to consolidated financial statements.

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Euroweb International Corp.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

1. Organization and Business

EuroWeb International Corp. (the "Company") is a Delaware corporation which was organized on November 9, 1992, and was a development stage enterprise through December 31, 1993. The controlling owner of Euroweb International Corp. is KPN Telecom BV, a Netherlands corporation.

The Company operates in the Czech Republic, Romania and Slovakia, through its subsidiaries Euroweb Czech Republic spol. s.r.o. ("Euroweb Czech"), Euroweb Slovakia a.s. ("Euroweb Slovakia") and Euroweb Romania S.A. ("Euroweb Romania"). The Company operates in one industry segment, providing Internet access and additional value added services to business customers.. The Company's

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consolidated statements of operations also include the equity in the net income or loss of Euroweb Hungary Rt., in which the Company has a 49% ownership interest. The other 51% of Euroweb Hungary Rt. is held by Pantel Telecommunication Rt., Hungary ("Pantel Rt."), of which KPN Telecom BV is also the controlling owner.

The revenues come from the following three sources:

- (1) Internet Service Provider (Internet access, Content and Web services, Other services)
- (2) International/domestic leased line, Internet Protocol data services
- (3) Voice over Internet Protocol services

For the services in point (2) and (3), the main customer of the Company in 2002 and 2001 was Pantel Rt. (See Note 15).

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and basis of presentation

The consolidated financial statements comprise the accounts of the Company and its controlled subsidiaries. All material intercompany balances and transactions have been eliminated upon consolidation.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America.

(b) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by the Company include the period of benefit and recoverability of goodwill and other intangible assets.

(c) Fair value of financial instruments

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Euroweb International Corp.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

The carrying values of cash equivalents, investment in debt securities, notes and loans receivable, accounts payable, loans payable and accrued expenses approximate fair values.

(d) Revenue recognition

Revenues from Internet services are recognized in the month in which the services are provided, either based on monthly traffic or on fixed monthly fees (leased lines). Revenue for other services, are recognized as the service is performed.

During the year, the Company entered into an agreement to provide transmission capacity to a customer pursuant to an indefeasible rights-of-use agreement ("IRUs") that management believe qualifies as

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an operating lease under Financial Accounting Standards Board Interpretation No. 13, "Accounting for Leases" ("FAS 13"), since the IRU agreement provides rights to use a specific subject asset for a defined period. Revenue attributable to the lease will be recognized on a straight-line basis over the term of the 20-year lease agreement, commencing upon completion of the installation in March 2003.

Under Financial Accounting Standards Board Interpretation No. 43, "Real Estate Sales, an interpretation of FASB Statement No. 66" ("FIN 43"), leases of fiber and capacity that are deemed integral equipment are required to be accounted for in the same manner as leases of real estate. If fiber and equipment are considered integral to the related real estate, a lease must include a provision transferring title of such integral equipment to the lessee in order for that lease to be accounted for as a sales-type lease. Failure to satisfy the title transfer requirements results in operating lease treatment, and recognition of the related lease income over the lease term. The Company's IRU does not involve a transfer of title.

IRUs generally require the customer to make a down payment upon execution of the agreement, with the balance due upon delivery and acceptance of the fiber. This has resulted in a substantial amount of deferred revenue being recorded on the balance sheet. The Company is obligated under the fiber IRU to maintain its network in efficient working order and in accordance with industry standards. Customers are obligated for the term of the agreement to pay for their allocable share of the costs for operating and maintaining the network. The Company recognizes this revenue monthly as services are provided.

Accounting practice and guidance with respect to the treatment of fiber sales and IRU agreements continues to evolve. Any changes in the accounting treatment could affect the way the Company accounts for revenue and expenses associated with these transactions in the future.

(e) Cost of revenues

Cost of revenues comprise principally of telecommunication network expenses, costs of content services and cost of leased lines.

(f) Foreign currency translation

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Euroweb International Corp.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

The Company considers the United States Dollar ("US\$") to be the functional currency of the Company and unless otherwise stated, the respective local currency to be the functional currency of its subsidiaries. The reporting currency of the Company is the US\$ and accordingly, all amounts included in the consolidated financial statements have been translated into US\$.

The balance sheets of subsidiaries are translated into US\$ using the year end exchange rates. Revenues and expenses are translated at average rates in effect for the periods presented. The cumulative translation adjustment is reflected as a separate component of shareholders' equity on the consolidated balance sheet.

The Company conducts business and maintains its accounts for Euroweb

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Romania in the Romanian Lei ("ROL"). Romania is considered a highly inflationary economy and, therefore the U.S. dollar is used as the functional currency. The Company's financial statements presented in ROL are remeasured into U.S. dollars using the following policies:

- o Monetary assets and liabilities are remeasured into the functional currency using the exchange rate at the balance sheet date.
- o Non-monetary assets and liabilities are remeasured into the functional currency using historical exchange rates.
- o Revenues, expenses, gains and losses are remeasured into the functional currency using the average exchange rate for the period except for revenues and expenses related to non-monetary items that are remeasured using historical exchange rates.

The net effect of re-measurement from the local currency into the functional currency (US\$) is included in the determination of net profit and loss, under 'Other selling, general and administration expenses'.

Foreign currency transaction gains and losses are included in the consolidated results of operations for the periods presented.

(g) Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term deposits of less than three months duration.

(h) Investment in securities

Investments in marketable debt securities are classified as available-for-sale and are recorded at fair value with any unrealized holding gains or losses included as a component of other comprehensive income until realized. Investments with remaining maturities of greater than one year are classified as long-term, while those with remaining maturities of less than one year are classified as short-term.

(i) Investment in affiliate

The Company holds a minority interest of 49% in Euroweb Hungary Rt. which is controlled by its 51% shareholder, Pantel Rt. As the Company exerts significant influence over Euroweb Hungary Rt., the investment

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Euroweb International Corp.
Notes to Consolidated Financial Statements
December 31, 2002 and 2001

is carried under the equity method of accounting, with the Company recording its share of the earnings or loss of Euroweb Hungary Rt. Dividends are credited against the investment account when received.

As a result of continuing losses, the carrying value of the net investment in affiliate was written down to zero during 2002. Since the Company has no legal or commercial commitments to provide continuing financial support, no further losses will be recognized unless the Company makes additional qualifying investments in Euroweb Hungary Rt., and future profits will be recognized only once such profits exceed the amount of unrecorded losses. If the Company makes additional qualifying investments in Euroweb Hungary Rt., the Company would be required to recognize additional losses to the extent these additional investments

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are considered funding of unrecognized prior losses of Euroweb Hungary Rt.

(j) Property and equipment