EUROWEB INTERNATIONAL CORP
Form 10KSB
March 30, 2004

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-KSB

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

For the fiscal year ended December 31, 2003

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	13-3696015
(State or other jurisdiction of incorporation or organization)	(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) 1-88-97-101, Facsimile: (+36)-1-88-97-100

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 $14,761,374 for the year ended December 31, 2003. As of March 25, 2003, 4,665,332 shares of Common Stock were outstanding of which 2,324,318 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 March 1, 2004

was $11,389,158 (based upon the closing bid price on such date on the Nasdaq of $4.90).

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, Slovakia , and Romania, 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 has a 49% ownership interest in Euroweb Hungary Rt., with the remaining 51% held by Pantel Telecommunication Rt., Hungary ("Pantel Rt."), of which KPN Telecom BV is the controlling owner. Effective March 1, 2004, the Company purchased the remaining 51% of Euroweb Hungary Rt. from Pantel Rt.

KPN Telecom BV owns approximately 50.18% of EuroWeb's outstanding shares of common stock as at December 31, 2003.

EuroWeb Strategy

The Company strives to be a 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 constantly reviewing various business opportunities, which may include either an acquisition or a merger with another company.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 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

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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).

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.

On February 12, 2004, Euroweb International Corp. entered into a Shares Purchase Agreement to re-acquire Pantel Rt.'s 51% interest in Euroweb Hungary Rt. See Note 18 in the Consolidated Financial Statements.

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.

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 Isternet 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 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.

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

On February 23, 2004, the Company entered into a Shares Purchase Agreement with the owners of 100% interest in Elender Business Communications Services Ltd., a Hungarian corporation ("Elender"), which is an Internet service provider located in Hungary that provides internet access to the corporate and institutional (public) sector and, amongst others, 2,300 schools in Hungary. The total purchase price to be paid by the Company for Elender shall be $9,500,000 as follows: (i) cash in the amount of $6,500,000; and (ii) 677,201 shares of the Company's common stock valued at $3,000,000. The number of shares was calculated by dividing $3,000,000 by $4.43, which is the average trade weighted stock market price during the 60 days prior to signing of the binding term sheet between the parties. At Closing, Elender shall have debt valued at $2,900,000, consisting of a bank loan and a non-transferable shareholders loan payable by Elender to the Sellers. The Company guarantees the full repayment of the non-transferable shareholders loan in a period of one and a half years and, in addition, the Company has also placed in escrow 248,111 shares, which are to be issued to the Sellers in the event that there is a default in connection with the non-transferable shareholders loan. The closing of the Elender purchase remains subject to the satisfaction of customary terms and conditions and the approval of the Hungarian Competition Office.

Products and Services

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

- Traditional ISP services: (a) Internet access, (b) Content, Web and other services
- International/national leased line, IP data services (IP connections between different countries);
- Voice over IP services; and
- Facilities (sale,rent and maintenance of dark fiber between the Hungarian border and the Romanian City of Timisoara).

Traditional ISP services

Internet access

Access to the Internet can be either through a leased line / DSL, microwave technology, 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.

Content and Web services

In addition to internet access services, EuroWeb provides services such as the design, development, hosting and maintenance of home pages and web servers, domain registration, consulting, and other services.

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. acts as a partner in the development of 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 its customers based on Internet Protocol (IP) technology. Carriers and partners send Voice minutes to/from the region in which EuroWeb operates. Euroweb's most significant VOIP partner is Pantel Rt.

Customers

EuroWeb's customers are mainly local businesses and professionals including telecommunication carriers and multinational corporations. EuroWeb's customer base uses more than 780 leased lines and over 6,550 dial up accounts in Slovakia, the Czech Republic and in Romania as of December 31, 2003.

Network Operations and Technical Support

As of December 31, 2003, EuroWeb had a network operations group consisting of approximately 42 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 2003, EuroWeb owned or contracted 61 Point of Presences (POPs) covering the territory of the Czech Republic, Slovakia and Romania.

Sales and Marketing

EuroWeb employs approximately 25 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 force works 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. v. vi. 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 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 115 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	R A M
Euroweb	Varosmajor utca 13. H-1122 Budapest, Hungary	stockholder relations and general executive	250	
Euroweb Czech Republic	Argentinska 38 CS-170 05 Prague, Czech Republic	general operations	3,617	4
Euroweb Slovakia	Priemyselna 1/A SK - 821 09 Bratislava, Slovakia	general operations	14,274	
Euroweb Romania	Bd. Unirii 33, Bl. A2, Sc.3, 6th Floor, Sector 3 Bucharest, Romania	general operations	4,951	$7

The Company's Chief Executive, Csaba Toro, uses offices provided by Euroweb Rt. No rent was charged in 2003.

ITEM 3. Legal Proceedings

Euroweb Slovakia has been the National registrar of Top Level Domains (suffix attached to Internet domain names e.g. .sk, .net, etc.) since the middle of 2003. The Company has been subject to legal proceedings and submissions to different authorities in connection with its exclusive right to manage the system. The Company has succeeded in its defense on all occasions to date, but there is no assurance that it will be able to keep these rights and/or that penalties will not be charged in the future.

From time to time, we are a party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not involved currently in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

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, 2003.

PART II

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

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. 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
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
2003		
March 31, 2003	3.73	1.53
June 30, 2003	3.25	1.92
September 30, 2003	8.30	2.45
December 31, 2003	4.82	3.10

On March 25, 2004 the closing bid price on the Nasdaq for the Common Stock was $5.01.

Holders of Common Stock

As of February 27, 2004, the Company had 4,665,332 shares of Common Stock outstanding and 177 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 6,153 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.

Equity Compensation Plans

Plan Category	Number of shares to be issued upon exercise of outstanding options and warrants	Weighted-average exercise price of outstanding options and warrants	N a i c
Approved by security holders	46,000	$ 7.97	
Not approved by security holders	263,000	$5.60	
Total	309,000	$5.95	

The equity compensation plans are discussed in Notes 16 and 17 to the 2003 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, 2003.

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

Operations

The Company operates through three wholly-owned subsidiaries, located in the Czech Republic, Slovakia and Romania, known as Euroweb Czech Republic, Euroweb Slovakia, and Euroweb Romania, respectively. The Company made no new acquisitions in 2003 and 2002.

The revenues are derived from the following four activities:

(1) Internet Service Provider (Internet access, Content, Web services and Other services);

(2) International/domestic leased line, Internet Protocol data services;

(3) Voice over Internet Protocol services; and

(4) Facilities (sale, rent and maintenance of dark fiber between the Hungarian border and the Romanian City of Timisoara)

For the services in points (2) and (3), the Company's main customer in 2003 and 2002 was Pantel Rt.

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 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.

In 2002, 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 is recognized on a straight-line basis over the term of the 20-year lease agreement.

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.

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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 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. The adoption of SFAS 142 has eliminated the goodwill charge in 2002. During 2003 and 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. When the current fair value is less than the carrying value, the Company performs 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 $980,538 to the carrying value of its goodwill in its financial statements for the year ended December 31, 2003 (2002: $2,016,000).

Other Intangibles - Other Intangibles reflects customer lists 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 fourth quarter of 2003 ($100,364), and the third quarter of 2002 ($448,500). 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 then 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 impairment in 2003 has resulted in the customer lists being written down to zero.

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.

An employment agreement with the Chief Executive Officer which provided for aggregate annual compensation of $96,000 through December 31, 2005 was amended in 2004. The amended agreement provides for an annual salary of $150,000 and a bonus of up to $100,000 (guaranteed minimum of $50,000) in 2004, and an annual salary of $200,000 and a bonus of up to $150,000 in 2005.

The following table summarizes the commitments described above:

Contractual Cash Obligations	Less than 1 year	1-2 Years	2-3 Years	3-4 Years	4-5 Ye
Capital Lease Obligations	109,293	36,801	8,391	-	-
Capital Lease Obligations for Vehicles delivered in January 2004	35,213	35,213	26,411		
Operating Leases	168,264	168,264	168,264	96,964	
Employment agreements (including guaranteed bonus)	200,000	200,000	-	-	-
Total Contractual Cash Obligations	512,770	440,278	203,066	96,964	-

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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. v. vi. Results of Operations

Year Ended December 31, 2003 compared to Year Ended December 31, 2002

Revenues

The Company experienced a 14.07% revenue growth compared to 2002. The increase in revenue can be attributed to the weakness of the US Dollar relative to the Czeck Koruna and Slovak Koruna, as well as to revenues generated from 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').

	2003	2002
Total Revenues	14,761,374	12,940,631

The following table summarize the main changes in revenue compared to the previous year with respect to the revenue structure:

Revenue / services	2003	2002	% increase
ISP activity	$5,497,222	$4,814,690	14.17%
Int./dom. leased line *(a)	$6,487,607	$6,100,530	6.34%
VOIP ** (a)	$2,491,212	$2,025,411	23.00%
Facilities (a)	$285,333	0	N/A
Total	$14,761,374	$12,940,631	14.07%

* - primarily Pantel or Pantel related sales, ** - substantially all direct sales to Pantel (a) substantially all generated by the Romanian subsidiary

Overall, each revenue category has experienced an increase in 2003 compared to the previous year, while facilities became a new revenue source in 2003 after the installation of the fibre optic cables in Romania in May 2003.

The following table summarize the main changes in revenue compared to the previous year with respect to the geographical source of revenue:

Revenue/country *	Slovakia	Czech Republic	Romania	Total
Revenues in 2003	$3,424,633	$1,163,662	$10,173,079	$14,761
Revenues in 2002	$2,757,086	$1,415,541	$8,768,004	$12,940
Change in USD	24%	(18%)	16%	

* Revenues allocated to the respected countries

Euroweb Czech Republic and Slovakia generate purely internet related revenue representing 83% of the total ISP turnover.

In 2003, Euroweb Slovakia experienced an approximate 8% decrease in revenue from its traditional ISP revenue sources, which was wholly offset by revenues

generated from domain registration (Euroweb Slovakia became the National registrar of Top Level Domains in 2003). The increase in USD terms of 24% (from the table above) is due to the strengthening of the Slovak Koruna against the US Dollar.

In 2003, Euroweb Czech Republic experienced an approximately 30% decrease in its overall revenue in local currency, which was partly offset by the strength of the US Dollar, with the decrease in Dollar terms being 18%. The decrease was due to a smaller customer base compared

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to the previous year. The decrease in the customer base was due mainly to lower pricing by competitors and to customers switching to fibre optic cable providers.

Euroweb Romania generated 17% of the total ISP revenue, however this represents only 9% of Euroweb Romania's total revenue, as Euroweb Romania is focusing on the international/national leased line, VOIP and facilities services, where Pantel Rt. is the main Client.

In 2003, Pantel Rt., (a related party controlled by KPN Telecom B.V. as of December 31, 2003), 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. In connection with VOIP services, over 95% of VOIP sales are provided directly 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 almost completely disappear.

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, 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 60% of total consolidated revenues of Euroweb International Corp. or approximately 87% of total sales of Euroweb Romania. There is no such dependency in the case of Euroweb Czech or Euroweb Slovakia.

Cost of revenues

	2003	2002
Total Cost of revenues	10,149,609	8,613,196

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 $10,149,609 in 2003 in comparison to $8,613,196 in 2002. The increase of 18% is larger than the increase of revenue due to a higher proportion of VOIP services in 2003 which have a lower margin compared with margins on other revenue categories. There were no significant pricing policy changes within the Company during 2003. Pantel Rt. was the largest supplier representing approximately 26% of the total direct cost.

Operating expenses (excluding depreciation, amortization, goodwill/intangibles

impairment, and 2002 severance payments to officers)

	2003	2002
Compensation and related costs	1,888,417	1,884,891
Consulting, professional and directors fees	1,289,295	1,078,908
Other selling, general and administrative expenses	1,336,613	1,439,912
Total	4,514,325	4,403,711

Operating expenses (excluding depreciation, amortization, goodwill/intangibles impairment, and 2002 severance payments to officers) increased from $4,403,711 to $4,514,325, or 2.5% ($110,614), which is smaller than the increase related to gross margin. This is due mainly to the continuing process of cost rationalization and a better utilization of internal resources leading to an improvement in efficiency.

The proportion of salaries versus consulting, professional and directors fees for the year ended December 31, 2003 as compared to the year ended December 31, 2002 has changed. Salaries have remained the same, while the Company paid slightly higher (20%) professional fees and directors' fees compared to the previous year. A portion of the increase in professional fees was in connection the successfully resolving a VAT dispute with the Romanian Tax Authorities.

Depreciation, amortization, goodwill impairment and writedown of intangibles

	2003	2002
Depreciation and amortization	886,698	1,038,166
Goodwill impairment	980,538	2,016,000
Impairment of intangibles	100,364	448,500

Amortization and depreciation has decreased by approximately 15% from 2002 due mostly to the fact that amortization on the customer lists in Romania significantly decreased between 2002 ($189,227) and 2003 ($66,909). This decrease is due to the fact that a significant portion of the customer lists ($448,500) were considered impaired in the third quarter of 2002 (see writedown of intangibles below) and so the remaining amount being amortized was significantly lower than in the first 9 months of 2002.

At the end of 2003 and 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. 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 some cases were higher than their fair values taking into account the market developments, actual performance and outlook. The Company then compared the implied fair value of each reporting unit's goodwill with their carrying amounts and recorded an impairment charge of $980,538 (2002: $2,016,000), with $92,881 relating to Euroweb Czech, $563,000 relating to Euroweb Slovakia, and $324,657 relating to Euroweb Romania. An average annual 1% growth rate for revenues was used in the calculations for Euroweb Czech and Euroweb Slovakia, and 3% for Euroweb Romania. After the 2003 impairment, the Goodwill relating to Euroweb Czech and Euroweb Slovakia have a net book value of zero, while the Goodwill relating to Euroweb Romania has a net book value of $566,000.

The Romanian customer lists acquired, were being amortized over an estimated period of benefit of 5 years. However, an analysis of the customers

and revenues as at September 2002 indicated that most of the expected revenues to be generated by this customer list did not materialize and the Company recorded an impairment of $448,500. At the end of 2003, the company again assessed the recoverability of the outstanding amount and wrote down the remaining value ($100,364) to zero.

Net interest income

	2003	2002
Net interest income	355,690	385,177

Net interest income is approximately 8% lower than last year. The decrease is due to the reduction in interest-generating funds available, and also because the effective interest rate on these investments has decreased. 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 bearing accounts.

Equity interest in affiliate

	2003	2002
Equity in net loss of affiliate	-	(679,637)

The Company's 49% interest in Euroweb Hungary Rt. was written down to zero in 2002 and the Company has no legal or commercial commitments to provide continuing financial support as of December 31, 2003. Therefore, the 49% interest in net loss of Euroweb Rt. for the year ended December 31, 2003 of $17,206 (2002: $809,967) has not been recorded.

Sale or disposal transactions

During 2003 and 2002, the Company focused purely on improving its operations 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 2003 or 2002.

Liquidity and Capital Resources

The Company's cash, cash equivalents and marketable securities were approximately $13,391,338 as of December 31, 2003, a decrease of $811,749 from the end of fiscal year 2002. The decrease was influenced by two major reasons: (1) unrealised loss on marketable securities and (2) purchase of fixed assets (mostly fiber optic cables in Romania).

The Company has $13,391,338 of cash, cash equivalents and marketable securities compared to $2,713,877 total short and long term liabilities (excluding deferred revenue), while the working capital (current assets less current liabilities) of the company is $12,684,692 indicating that the Company is in a strong financial position.

The Company has entered into share purchase agreements to acquire 100% of Elender Rt and the remaining 51% of Euroweb Hungary Rt in the first quarter of 2004. These agreements will significantly influence the liquidity position of the Company, which can be separated into three parts: (1) cash portion of purchase price will be $8,607,000 (2) liabilities (approximately $ 2,000,000) for short term loans related to Euroweb Hungary Rt., which cannot be covered from Euroweb Hungary Rt.'s nor Elender Rt.'s working capital and (3) funding the

working capital shortage (approximately $600,000) of Euroweb Hungary Rt. and Elender Rt. The closing of the Elender purchase remains subject to the satisfaction of customary terms and conditions and the approval of the Hungarian Competition Office.

After the acquisitions, the consolidated working capital (without deferred revenue) is estimated to be more than $2,000,000 indicating that the Company will be able to meet its working capital and capital expenditure needs over the next twelve months. The Company's financial situation is still stable and strong, as current assets covers all current trade, loan and other liabilities of the company.

Management believes, although it cannot provide guarantees, that the synergy effects and potential business opportunities of the merged entities will significantly improve cash generating ability and will reduce the loans of the Company in the coming few years. Management also 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 taking into account the new acquisitions.

In the event the Company makes future acquisitions of Internet service providers in Central and Eastern Europe, the excess cash on hand or additional fund raising 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 18.6%, while the Czech Korona has strengthened against the U.S. dollar by approximately 14% when compared with 2002.

Effect of Recent Accounting Pronouncements

At the January 23, 2003 meeting, the Emerging Issues Task Force (EITF) reached consensuses 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 consensuses 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., and purchased the remaining 51% owned by Pantel Rt. in February 2004.

On April 30, 2003, the FASB issued FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, to address (1) decisions reached

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by the Derivatives Implementation Group, (2) developments in other Board projects that address financial instruments, and (3) implementation issues related to the definition of a derivative. Statement 149 has multiple effective date provisions depending on the nature of the amendment to Statement 133, and the Company is currently considering its potential effect on the financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement is effective for contracts entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of non-public entities. The Company has adopted SFAS 150 and has concluded that there is no current impact on its consolidated financial statements.

In December 2003, the Securities and Exchanges Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 104, "Revenue Recognition". SAB 104 revises or rescinds certain SAB guidance in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations relating to revenue recognition. This bulletin is effective immediately. The Company's current revenue recognition policies comply with SAB 104.

Risk Factors

The Company is subject to certain risk factors due to the industry in which it competes and the nature of its operations. Theses 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 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.

Regulations and Legal Uncertainties.

In eastern Europe, 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. While the Company intends to provide only content which meets the highest standards in quality, creativity and ethical values, should 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 owner of Pantel Rt. and Euroweb International Corp. is KPN Telecom B.V. Such ownership has led to improved co-operation between 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. and approximately 80-90% of total sales of Euroweb Romania. Despite the fact that co-operation is 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.

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, the Company's 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:

- Nextra;
- GTS Inec;
- SLOVANET; and
- 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 then Euroweb Romania, there are two other data transmission companies providing internet services, which also cover the entire territory of Romania:

- Global One Romania; and
- Logic Telecom.

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.

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 (other than the acquisition of the remaining 51% of Euroweb Hungary Rt. and the acquisition of Elender Business Communications Ltd. (subject to approval from Hungarian Competition Office)). 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

Potential Issuance of Additional Common and Preferred Stock.

The Company is currently authorized to issue up to 12,500,000 shares (after obtaining shareholder approval in 2003 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). 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 Board intends to seek shareholder approval in 2004 to increase the authorized limit from 12,500,000 to 25,000,000 shares of common stock. 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 above. 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.

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.

ITEM 8A. CONTROLS AND PROCEDURES

As of December 31, 2003, 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, 2003. 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, 2003.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; 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 March 25, 2004

Name	Age	Position with Company
Csaba Toro	38	Chief Executive Officer, Board Chairman, Treasurer
Howard Cooper	47	Director
Stewart Reich	59	Director
Hans Lipman	43	Director
Daniel Kwantes	43	Director

Csaba Toro, age 38, 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.

Howard Cooper, age 47, has been the President, CEO and Chairman, Teton Petroleum Company - Denver, CO (AMEX:TPE) from 1996. Teton has raised institutional equity and US Trade and Development Agency funding for the development of proven oil fields in Russia. Teton has been successful in Russia producing oil, exporting oil for hard currency, and developing an oil field with proven and probable reserves in excess of 107 million barrels. Previously he was engaged in oil projects in the former Soviet Union.

Stewart Reich, age 60, 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.

Hans Lipman, age 44, 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.

Daniel Kwantes, age 43, has been working for 13 years within KPN in various financial positions, and since the end of 1998 especially focused on KPN's international operations. He graduated as a business economist at the Free

University of Amsterdam, and is currently managing director of various (holding) companies owned by KPN. Since 2002, he is also Chairman of the Supervisory Board of Pantel Rt. in Hungary.

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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.

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.

2003 BOARD MEETINGS

In 2003, the board met 5 times. No director attended less than 80% of all of the combined total meetings of the board and the committees on which they served in 2003.

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 2003, the audit committee consisted of Messrs. Stewart Reich and Howard Cooper, both of whom are considered to be independent The audit committee held three meetings in 2003. Mr. Reich serves as the financial expert on the Audit 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 2003, the compensation committee consisted of Messrs Cooper, Reich and Lipman. 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 then 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 2003. 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, 2003, there was no failure to comply with Section 16(a) filing requirements applicable to its officers, directors and ten percent stockholders.

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 2003 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, 2003:

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION	
Name and Principal Position	Year Ended December 31,	Salary ($)	Bonus and Other Annual Compensation ($)	Restricted Stock Award(s) ($)	Number o Securiti Underlyi Options/
Csaba Toro	2003	$96,000	--	--	--
Chairman, CEO, and Treasurer	2002	$96,000	--	--	--
	2001	$96,000	--	--	--

OPTIONS/SAR GRANTS IN LAST FISCAL YEAR

There were no grants of Stock Options/SAR made to the named Executive during the fiscal year ended December 31, 2003.

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 (#) Exercisable/Unexercisable	mo E
Csaba Toro, Chairman CEO, and Treasurer	None	None	83,000	

* 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, 2003), which was $3.77 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, and provided for an annual compensation of $96,000. The agreement was amended in 2004. The amended agreement provides for an annual salary of $150,000 and a bonus of up to $100,000 (guaranteed minimum of $50,000) in 2004, and an annual salary of $200,000 and a bonus of up to $150,000 in 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.

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).

STOCK OPTION PLAN

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, 2003, options for 46,000 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.

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 March 22, 2004 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(5)(6) 1122 Budapest Varosmajor utca 13 Hungary	83,000(2)	1.86%
Hans Lipman (3)(6) KPN Telecom B.V. Maanplein 55 2516 CK The Hague, The Netherlands	0	0
Howard Cooper (6) 2135 Burgess Creek Road, Ste. #7 Steamboat Springs, CO 80477	25,000(7)	*
Daniel Kwantes (6) KPN Telecom B.V. Maanplein 55 2516 CK The Hague, The Netherlands	0	0
Stewart Reich (6) 18 Dorset Lane, Bedminister, NJ 07921	25,000(7)	*
All Officers and Directors as a Group (5 Persons)	137,000	2.90%

* Less than one percent

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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 May 22, 2004. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above on May 22, 2004 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 83,000 shares.

(3) Does not include shares reported to be beneficially owned by KPN Telecom B.V. Mr. Lipman is an employee of KPN Telecom B.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.

(7) Includes an option to purchase 25,000 shares of common stock at an exercise price of $4.21 per share. The options vest on April 13, 2004.

The foregoing table is based upon 4,665,332 shares of common stock outstanding as of March 30, 2004.

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 2003 Consolidated Financial Statements.

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)

(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)

(10) (a) Shares Purchase Agreement between PanTel Tavkozlesi es

Kommunikacios rt., a Hungarian company, and Euroweb International Corp., a Delaware corporation (3)

(10) (b) Guaranty by Euroweb International Corp., a Delaware corporation, in favor of PanTel Tavkozlesi es Kommunikacios rt., a Hungarian company (3)

(10) (c) Shares Purchase Agreement between Vitonas Investments Limited, a Hungarian corporation, Certus Kft., a Hungarian corporation, Rumed 2000 Kft., a Hungarian corporation and Euroweb International Corp., a Delaware corporation, dated as of February 23, 2004. (4)

(31) (a) Certification of the Chief Executive Officer of Euroweb International Corp. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(31) (b) Certification of the Chief Accounting Officer of Euroweb International Corp. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(32) (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.

(32) (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) (a) Code of Ethics and Business Conduct of Officers, Directors and Euroweb International Corp.

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(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.
(3) Filed as an exhibit to Form 8-K on February 27, 2004. (4) Filed as an exhibit to Form 8-K on March 9, 2004.

B. Reports on Form 8-K

On February 27, 2004, the Company filed a Form 8-K Current Report reporting its acquisition of Pantel Rt.'s interest in Euroweb Hungary Rt.

On March 9, 2004, the Company filed a Form 8-K Current Report reporting the entering into of a Shares Purchase Agreement for the acquisition of Elender Business Communications Ltd.

ITEM 14. PRINCIPAL ACCOUNTANTS FEES AND SERVICES

Audit Fees. The aggregate fees billed by our auditors, for professional services rendered for the audit of the Company's annual financial statements for the years ended December 31, 2003 and 2002, and for the reviews of the financial

statements included in the Company's Quarterly Reports on Form 10-QSB during the fiscal years were $153,100 and $135,500, respectively.

There were no audit related fees in 2003 and 2002.

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All Other Fees. The aggregate fees billed by auditors for services rendered to the Company, other than the services covered in "Audit Fees" and for the fiscal years ended December 31, 2003 and 2002 were $33,000 and $1,400. - The 2003 fees relate to assistance provide to Euroweb Romania in connection with the Tax Authority Review on VAT. The 2002 fees relate to miscellaneous tax advise provided during the course of 2002.

The Board of Directors has considered whether the provision of non-audit services is compatible with maintaining the principal accountant's independence.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on the 25th day of March 2003.

EUROWEB INTERNATIONAL CORP.

By /s/Csaba Toro

Csaba Toro
Chairman of the Board

Pursuant to the requirements of the Securities Exchange of 1934, as amended, this Report has been signed below by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	D
/s/Csaba Toro ------------------ Csaba Toro	Chairman of Board, Chief Executive Officer (CEO) Director,Treasurer	March
/s/ Daniel Kwantes ------------------ Daniel Kwantes	Director	March
/s/Hans Lipman ------------------ Hans Lipman	Director	March

/s/ Stewart Reich ------------------ Stewart Reich	Director	March
/s/Howard Cooper ------------------ Howard Cooper	Director	March

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EUROWEB INTERNATIONAL CORP.

Consolidated Balance Sheet as of December 31, 2003 and 2002, and
Consolidated Statements of Operations & Comprehensive Loss,
Stockholders' Equity, and Cash Flows for the
Years ended December 31, 2003 and 2002

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EUROWEB INTERNATIONAL CORP.

Consolidated Financial Statements

December 31, 2003 and 2002

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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, 2003 and 2002, and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended 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
March 23, 2004

Euroweb International Corp.
Consolidated Balance Sheet
December 31, 2003 and 2002

	2003
ASSETS	
Current assets:	
Cash and cash equivalents (note 3)	$ 1,941,669
Investment in securities (note 4)	11,449,669
Trade accounts receivable, less allowance for doubtful accounts of $729,530 (2002: $634,484)	455,990
Related party receivables	1,074,861
Current portion of note receivable (note 5)	173,911
Prepaid and other current assets	863,200
Total current assets	15,959,300
Note receivable, less current portion (note 5)	-
Investment in affiliate (note 6)	-
Property and equipment (note 7)	1,902,854

Assets under construction (note 7)	47,853
Goodwill (note 8)	566,000
Intangibles- customer lists (note 8)	-
Total assets	$18,476,007
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Trade accounts payable	$967,492
Related party payables	935,310
Acquisition indebtedness (note 10)	-
Loan payable (note 11)	-
Other current liabilities	302,160
Accrued expenses	466,502
Deferred IRU revenue (note 9)	46,000
Deferred other revenues	557,144
Total current liabilities	3,274,608
Non-current portion of deferred IRU revenue (note 9)	843,334
Non-current portion of lease obligations (note 9)	42,413
Total liabilities	4,160,355
Stockholders' equity	
Preferred stock, $.001 par value - Authorized 5,000,000 shares; no shares issued or outstanding	-
Common stock, $.001 par value - Authorized 12,500,000 shares; issued and outstanding 4,665,332 shares	24,129
Additional paid-in capital	48,227,764
Accumulated deficit	(32,795,327
Accumulated other comprehensive (loss)/income	(25,502
Treasury stock - 175,490 common shares, at cost	(1,115,412
Total stockholders' equity	14,315,652
Commitments and contingencies (note 14)	
Total liabilities and stockholders' equity	$18,476,007

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See accompanying notes to consolidated financial statements.

Euroweb International Corp.
Consolidated Statements of Operations and Comprehensive Loss
Years Ended December 31, 2003 and 2002

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Revenues	
Third party revenues	$ 9,1
Related party revenues	5,6
Total Revenues	14,7

Cost of revenues	
Third party cost of revenues	7,4
Related party cost of revenues	2,6
Total Cost of revenues	10,1
Gross profit	4,6
Operating expenses	
Compensation and related costs	1,8
Severance to officers	
Consulting, professional and directors fees	1,2
Other selling, general and administrative expenses	1,3
Goodwill impairment (Note 8)	9
Impairment of intangibles (Note 8)	1
Depreciation and amortization	8
Total operating expenses	6,4
Loss from operations	(1,8
Net interest income	3
Equity in net loss of affiliate (Note 6)	
Loss before income taxes	(1,5
Provision for income taxes	
Net loss	(1,5
Other comprehensive (loss) income	(2
Comprehensive loss	$(1,8
Net loss per share, basic	
Weighted average number of shares outstanding	4,6

See accompanying notes to consolidated financial statements

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EUROWEB INTERNATIONAL CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2003 and 2002

	Common Stock Shares*	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumul Othe Comprehe Gains(L

Balances, December 31, 2001	4,665,332	$24,129	$48,227,764	$(25,325,033)	$ (143,
Foreign currency translation gain	-	-	-	-	160,
Unrealized gain on securities available for sale	-	-	-	-	245,
Reclassification of realized gain included in net income	-	-	-	-	(26,
Net loss for the period	-	-	-	(5,894,234)	
Treasury stock	-	-	-	-	
Balances, December 31, 2002	4,665,332	$24,129	$48,227,764	$(31,219,267)	$236
Foreign currency translation loss	-	-	-	-	(45,
Unrealized loss on securities available for sale (Note 4)	-	-	-	-	(216,
Net loss for the period	-	-	-	(1,576,060)	
Balances, December 31, 2003	4,665,332	$24,129	$48,227,764	$(32,795,327)	$(25,

* restated to reflect 1 for 5 reverse stock split

See accompanying notes to consolidated financial statements

Euroweb International Corp.
Consolidated Statements of Cash Flows
Year Ended December 31, 2003 and 2002

Cash flows from operating activities	
Net loss	$(1,
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	
Goodwill impairment	
Intangibles impairment - customer lists	
Amortization of discount on acquisition indebtedness (note 10)	
Equity in net loss of affiliate	
Provision on doubtful accounts	
Foreign currency loss	
Realized gain on sale of investment securities	
Unrealized interest income on investment securities	(
Changes in operating assets and liabilities net of effects of acquisitions:	
Accounts receivable	(
Prepaid and other assets	
Accounts payable, other current liabilities and accrued expenses	
Deferred revenue	
Net cash provided by (used in) operating activities	

Cash flows from investing activities:	
Investment in securities	
Maturity of securities	
Payment of acquisition indebtedness	(
Collection on notes receivable	
Repayment of loan receivable	(
Acquisition of property and equipment	(
Net cash (used in) provided by investing activities	
Cash flows from financing activities:	
Principal payment under capital lease obligations	(
Net cash used in financing activities	(
Effect of foreign exchange rate changes on cash	
Net (decrease) increase in cash and cash equivalents	(
Cash and cash equivalents, beginning of year	2,
Cash and cash equivalents, end of year	$1,
Supplemental disclosure:	
Interest paid	
Income taxes paid	
New capital leases	

See accompanying notes to consolidated financial statements.

1. Organization and Business

EuroWeb International Corp. (the "Company") is a Delaware corporation which was organized on November 9, 1992. 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 consolidated statements of operations also include its 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 four 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

(4) Facilities

For the services in points (2) and (3) above, the primary customer of the Company in 2003 and 2002 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 inter-company 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.

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(c) Fair value of financial instruments

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.

In 2002, the Company entered into an agreement to provide transmission capacity to a customer pursuant to an indefeasible rights-of-use agreement ("IRU") 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 as