

Edgar Filing: EUROWEB INTERNATIONAL CORP - Form 10QSB

EUROWEB INTERNATIONAL CORP  
Form 10QSB  
August 13, 2003

U.S. Securities and Exchange Commission  
Washington, D.C. 20549

Form 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2003

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-1200

EUROWEB INTERNATIONAL CORP.  
(Exact name of small business issuer as specified in its charter)

Delaware 13-3696015  
-----  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

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

+36-1-2244000 +36-1-8883783  
Issuer's telephone number Issuer's facsimile number

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock, \$.001 par value 4,665,332  
-----  
(Class) (Outstanding at June 30, 2003)

Transitional Small Business Disclosures Format (Check one): Yes\_\_\_ No X\_\_\_

EUROWEB INTERNATIONAL CORP.

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PART I. Financial Information

Item 1. Financial Statements

Consolidated balance sheets as of June 30, 2003 (unaudited)

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and December 31, 2002 (audited)

Consolidated statements of operations and comprehensive loss (unaudited) for the three months ended June 30, 2003 and 2002 and six months ended June 30, 2003 and 2002

Consolidated statements of stockholders' equity for the six months ended June 30, 2003 (unaudited) and twelve months ended December 31, 2002

Consolidated statements of cash flows (unaudited) for the six months ended June 30, 2003 and 2002

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Signature

EUROWEB INTERNATIONAL CORP.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

|   | June 30, 2003        |
|---|----------------------|
|   | -----<br>(Unaudited) |
| <b>ASSETS</b>                               |                      |
| Current Assets                              |                      |
| Cash and cash equivalents                   | \$ 11                |
| Investment in securities                    | 11                   |
| Trade accounts receivable, net              | 1                    |
| Related party receivables                   | 1                    |
| Current portion of note receivable          | 1                    |
| Prepaid and other current assets            | 1                    |
|   | -----                |
| Total current assets                        | 16                   |
| Note receivable, less current portion       |                      |
| Investment in affiliate                     |                      |
| Property and equipment, net                 | 2                    |
| Assets under construction                   |                      |
| Goodwill                                    | 1                    |
| Intangibles - customer lists                |                      |
|   | -----                |
| Total assets                                | \$20<br>=====        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                      |
| Current Liabilities                         |                      |
| Trade accounts payable                      | \$ 1                 |
| Related party payables                      |                      |
| Acquisition indebtedness                    |                      |

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|   |      |
|---|------|
| Other current liabilities   |      |
| Loan payable  |      |
| Accrued expenses  |      |
| Deferred IRU revenue  |      |
| Deferred other revenue  |      |
| Total current liabilities   | 3    |
| Non-current portion of deferred IRU revenue   |      |
| Non-current portion of lease obligations  |      |
| Total liabilities   | 4    |
| Stockholders' Equity  |      |
| Preferred stock, \$.001 par value - Authorized 5,000,000 shares;<br>no shares issued or outstanding       |      |
| Common stock, \$.001 par value - Authorized 12,500,000 shares;<br>Issued and outstanding 4,665,332 shares |      |
| Additional paid-in capital  | 48   |
| Accumulated deficit   | (31) |
| Accumulated other comprehensive income:   |      |
| Treasury stock - 175,490 common shares, at cost   | (1,  |
| Total stockholders' equity  | 15   |
| Commitments and contingencies   |      |
| Total liabilities and stockholders' equity  | \$20 |

See accompanying notes to consolidated financial statements.

EUROWEB INTERNATIONAL CORP.  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
(Unaudited)

|                                | Three months ended<br>June 30 |           |
|--------------------------------|-------------------------------|-----------|
|                                | 2003                          | 2002      |
| Revenues                       |                               |           |
| Third party revenues           | 2,406,065                     | 1,910,141 |
| Related party revenues         | 1,506,656                     | 1,059,041 |
| Total Revenues                 | 3,912,721                     | 2,969,182 |
| Cost of revenues               |                               |           |
| Third party cost of revenues   | 2,043,605                     | 1,355,397 |
| Related party cost of revenues | 613,701                       | 541,199   |
| Total Cost of revenues         | 2,657,306                     | 1,896,596 |

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|  |  |           |             |
|--|--|-----------|-------------|
| Gross profit   |  | 1,255,415 | 1,072,586   |
| Operating expenses   |  |           |             |
| Compensation and related costs                                   |  | 507,019   | 453,966     |
| Severance to officers  |  | -         | 2,020,832   |
| Consulting and professional fees                                 |  | 329,629   | 293,102     |
| Other selling, general and administrative expenses               |  | 313,854   | 569,766     |
| Depreciation and amortization                                    |  | 230,605   | 237,093     |
| Total operating expenses   |  | 1,381,107 | 3,574,759   |
| Loss from operations   |  | (125,692) | (2,502,173) |
| Net interest income  |  | 91,602    | 100,441     |
| Equity in loss of affiliate                                      |  | -         | 307,137     |
| Loss from operations before income taxes                         |  | (34,090)  | (2,708,869) |
| Provision for income taxes                                       |  | 55,578    | -           |
| Net Loss   |  | (89,668)  | (2,708,869) |
| Other comprehensive (loss) gain                                  |  | (64,490)  | 239,970     |
| Comprehensive loss   |  | (154,158) | (2,468,899) |
| Net Loss per share, basic and diluted                            |  | (.02)     | (.50)       |
| Weighted average number of shares outstanding, basic and diluted |  | 4,665,332 | 4,771,800   |

See accompanying notes to consolidated financial statements

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EUROWEB INTERNATIONAL CORP.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited)

|   | Common<br>Shares | Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Compreh<br>Gains (L |
|---|------------------|-----------------|----------------------------------|------------------------|---|
| Balances, December 31, 2001                         | 4,665,332        | \$24,129        | \$48,227,764                     | \$(25,325,033)         | (143,000)                                   |
| Foreign currency translation gain                   | -                | -               | -                                | -                      | 160,000                                     |
| Unrealized gain on securities<br>available for sale | -                | -               | -                                | -                      | 245,000                                     |

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|  |           |          |              |                |         |
|--|-----------|----------|--------------|----------------|---------|
| Reclassification of realized gain included in net income | -         | -        | -            | -              | (26,    |
| Net loss for the period                                  | -         | -        | -            | (5,894,234)    |         |
| Balances, December 31, 2002                              | 4,665,332 | \$24,129 | \$48,227,764 | \$(31,219,267) | \$236,  |
| Foreign currency translation loss                        | -         | -        | -            | -              | (11,    |
| Unrealized loss on securities available for sale         | -         | -        | -            | -              | (97,    |
| Reclassification of realized gain included in net income | -         | -        | -            | -              | (7,     |
| Net loss for the period                                  | -         | -        | -            | (151,978)      |         |
| Balances, June 30, 2003                                  | 4,665,332 | \$24,129 | \$48,227,764 | \$(31,371,245) | \$120,0 |

See accompanying notes to consolidated financial statements

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EUROWEB INTERNATIONAL CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|   |       |
|---|-------|
| Cash flows from operating activities:                                       |       |
| Net loss  | \$ (  |
| Adjustments to reconcile net loss to net cash used in operating activities: |       |
| Depreciation and amortization   |       |
| Amortization of discount on acquisition indebtedness                        |       |
| Equity in loss of affiliate   |       |
| Foreign currency (gain) loss  |       |
| Realized gain on sale of securities   |       |
| Unrealized interest income on 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  |       |
| Collection on notes receivable  |       |

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|  |       |
|--|-------|
| Payment of acquisition indebtedness                  | (     |
| Purchase of property and equipment                   | (     |
|  | ----- |
| Net cash (used in) provided by investing activities  | (     |
|  | ----- |
| Cash flows from financing activities:                |       |
| Repayment of loan payable                            | (     |
| Principal payments 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 period       | 2.    |
|  | ----- |
| Cash and cash equivalents, end of period             | \$1,  |
|  | ===== |

See accompanying notes to consolidated financial statements.

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Euroweb International Corp.  
Notes to Interim Unaudited Consolidated Financial Statements

### 1. Organization and Business

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

The Company operates in the Czech Republic, Romania and Slovakia, through its subsidiaries Euroweb Czech Republic spol. s.r.o. ("Euroweb Czech"), Euroweb Slovakia a.s. ("Euroweb Slovakia") and Euroweb Romania S.A. ("Euroweb Romania"). The Company operates in one industry segment, providing Internet access and additional value added services to business customers. The Company's consolidated statements of operations also include the equity in the net income or loss of Euroweb Hungary Rt., in which the Company has a 49% ownership interest. The other 51% of Euroweb Hungary Rt. is held by Pantel Telecommunication Rt., Hungary ("Pantel Rt."), of which KPN Telecom BV is also the controlling owner.

The revenues are derived from the following four activities:

- (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 (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

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2002 was Pantel Rt.

### 2. Summary of Significant Accounting Policies

#### (a) Principles of consolidation and basis of presentation

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

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted 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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Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

#### (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 ("IRU") agreement 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, and commenced upon installation in May 2003.

Under Financial Accounting Standards Board Interpretation No. 43, "Real Estate Sales, an interpretation of FASB Statement No. 66" ("FIN 43"), leases of fiber and capacity that are deemed integral equipment are required to be accounted for in the same manner as leases of real estate. If fiber and equipment are considered integral to the related real estate, a lease must include a provision transferring title of

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such integral equipment to the lessee in order for that lease to be accounted for as a sales-type lease. Failure to satisfy the title transfer requirements results in operating lease treatment, and recognition of the related lease income over the lease term. The Company's IRU does not involve a transfer of title.

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

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

### (e) Cost of revenues

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

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Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

### (f) Foreign currency translation

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

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

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

- o Monetary assets and liabilities are remeasured into the functional currency using the exchange rate at the balance sheet date.
- o Non-monetary assets and liabilities are remeasured into the functional currency using historical exchange rates.
- o Revenues, expenses, gains and losses are remeasured into the functional currency using the average exchange rate for the



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period except for revenues and expenses related to non-monetary items that are remeasured using historical exchange rates.

The net effect of re-measurement from the local currency into the functional currency (US\$) is included in the determination of net profit and loss, under 'Other selling, general and administration expenses'. Foreign currency transaction gains and losses are included in the consolidated results of operations for the periods presented.

(g) Cash and cash equivalents

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

(h) Investment in securities

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

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### Euroweb International Corp.

#### Notes to Interim Unaudited Consolidated Financial Statements

(i) Investment in affiliate

The Company holds a minority interest of 49% in Euroweb Hungary Rt. which is controlled by its 51% shareholder, Pantel Rt. As the Company exerts significant influence over Euroweb Hungary Rt., the investment is carried under the equity method of accounting, with the Company recording its share of the earnings or loss of Euroweb Hungary Rt. Dividends are credited against the investment account when received.

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

(j) Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Equipment purchased under capital lease is stated at the present value of minimum lease payments at the inception of the lease, less accumulated depreciation. The Company provides for depreciation of equipment using the straight-line method over the shorter of estimated useful lives of up to four years or the lease term.

Recurring maintenance on property and equipment is expensed as incurred.

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Any gain or loss on retirements and disposals are included in the results of operations.

### (k) Goodwill and Intangibles

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

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Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

Based upon the results, the Company recorded an impairment of \$2,016,000 to the carrying value of its goodwill in its financial statements for the year ended December 31, 2002.

Intangibles consist of customer lists which 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 are determined using estimates of undiscounted future cash flows in a manner in accordance with the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144"), with a write-down recorded in the third quarter of 2002. The carrying value of customer lists is considered impaired when the projected undiscounted future cash flows related to the asset are less than its carrying value. The Company measures impairment based on the amount by which the carrying value of the customer lists exceeds its fair market value. Fair market value is determined primarily using the projected future cash flows discounted at a rate commensurate with the risk involved. The assessment of the recoverability of the remaining balance will be impacted if estimated future operating cash flows are not achieved.

### (l) Net loss per share

The Company has adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share," ("SFAS No. 128"), which provides for

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the calculation of "basic" and "diluted" earnings per share. Basic earnings(loss) per share includes no dilution and is computed by dividing income(loss) attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings(loss) per share reflects the potential effect of common shares issuable upon exercise of stock options and warrants in periods in which they have a dilutive effect. The Company had potentially dilutive common stock equivalents for the periods ended June 30, 2003 and 2002, which were not included in the computation of diluted net loss per share because they were antidilutive.

(m) Comprehensive loss

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," ("SFAS No. 130") which established standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by, and distributions to, owners. Among other disclosures, SFAS No.130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company has chosen to present a Combined Statement of Operations and Comprehensive Loss.

(n) Business segment reporting

The Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information," ("SFAS No. 131"). SFAS No. 131 superseded FASB Statement No. 14, "Financial Reporting for Segments of a Business Enterprise." SFAS No. 131 establishes standards for disclosures about operating segments, products and services, geographic areas and major customers.

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Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

Management has determined that the Company operates in one industry segment, providing Internet access and additional value added services to business customers. Substantially all of the Company's revenues are derived from the provision of such services.

(o) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities, net of appropriate valuation allowances, are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities, if any, are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(p) Stock-Based compensation

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The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations including FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation an interpretation of APB Opinion No. 25" issued in March 2000, to account for its fixed plan stock options. Under this method, compensation expense is recorded at measurement date only if the current market price of the underlying stock exceeds the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS No. 123") established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123. As no grants were made since 2000, the reported loss is the same as the pro-forma loss as all previous grants vested in the year of the grant and thus the full amount of the fair values were reflected in the pro forma loss in the year of the grants.

- (q) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

On January 1, 2002, the Company adopted SFAS No. 144 ("SFAS 144"), "Accounting for Impairment or Disposal of Long-Lived Assets," which establishes a single accounting method for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations. The adoption of this statement had no significant impact on the Company's results of operations or financial position. The Company evaluates the carrying value of long-lived assets to be held and used, including goodwill, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of a long-lived asset is considered impaired when the projected undiscounted future cash flows related to the asset are less than its carrying value. The Company measures impairment based on the amount by which the carrying value of the respective asset 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.

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Euroweb International Corp.

Notes to Interim Unaudited Consolidated Financial Statements

- (r) Asset Retirement Obligations

On January 1, 2003, the Company adopted Financial Accounting Standards Board No. 143 "Accounting for Asset Retirement Obligations" ("Statement 143") issued in June 2001. Statement 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Significant asset retirement obligations do not exist and therefore none have been recognized in the Company's books.

- (s) Recent accounting pronouncements

The Financial Accounting Standards Board ("FASB") No. 146 Accounting for Costs Associated with Exit or Disposal Activities ("Statement 146") was issued in June 2002. Statement 146 nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an

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

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

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### Euroweb International Corp. Notes to Interim Unaudited Consolidated Financial Statements

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

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For nonpublic enterprises, such as the Company, with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to the enterprise no later than the end of the first annual reporting period beginning after June 15, 2003. The application of this Interpretation is not expected to have a material effect on the Company's financial statements.

In November 2002, the Emerging Task-Force issued its consensus on EITF 00-21, Revenue Arrangements with Multiple Deliverables ("EITF 00-21") on an

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

At the January 23, 2003 meeting, the Emerging Issues Task Force (EITF) reached consensus on EITF 02-18 Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition. Issues 1 and 2 of EITF 02-18 which considered whether, (i) an investor should recognize any previously suspended losses when accounting for a subsequent investment in an investee that does not result in the ownership interest increasing from one of significant influence to one of control, and (ii), if the additional investment represents the funding of prior losses, whether all previously suspended losses should be recognized or whether only the previously suspended losses equal to the portion of the investment determined to be funding prior losses should be recognized. The EITF concluded that if the additional investment, represents, in substance, the funding of prior losses, the investor should recognize previously suspended losses only up to the amount of the additional investment determined to represent the funding of prior losses. At its February 5, 2003 meeting, the FASB ratified the consensus reached by the Task Force in this Issue. As discussed in notes 1 (i) and 4, the Company has discontinued recording losses on its equity method investment in Euroweb Hungary Rt., which is 51% owned by Pantel Rt., also a subsidiary

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of KPN Telecom BV. If the Company makes additional investments in Euroweb Hungary Rt., the Company would be required to recognize additional losses to the extent these additional investments are considered funding of unrecognized prior losses of Euroweb Hungary Rt.

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 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

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after June 15, 2003, except for mandatorily redeemable financial instruments of non-public entities. The Company is currently assessing the impact of this pronouncement on its financial statements.

### 3. Investment in Securities

On April 24, 2003, the Company sold United States Treasury Notes for \$499,632 representing a face value of \$505,000. As at June 30, 2003, the Company holds investments in United States Treasury Notes with a face value of \$11,764,000, which mature on February 15, 2004.

As of June 30 2003, the Company has recorded net unrealized gains of \$147,410 and the accretion of interest and discount on the Notes of \$526,031 (\$93,645 of which is recorded in the second quarter of 2003).

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Euroweb International Corp.  
Notes to Interim Unaudited Consolidated Financial Statements

### 4. Affiliate, carried on an equity basis

The Company's consolidated statement of operations for the six months ended June 30, 2003 and 2002 includes the Company's equity interest in the net income of Euroweb Rt. for each period, calculated as follows:

|  | 2003 (six months) |
|--|-------------------|
|  | -----             |
| Revenues                               | \$ 4,181,581      |
| Gross profit                           | 2,005,404         |
| Net loss                               | \$ (81,019)       |
|  | =====             |
| 49% equity in net loss of affiliate    | \$ (39,699)       |
|  | =====             |
| Equity in loss recorded by the company | \$ -              |
|  | =====             |
| Unrecorded cumulative net loss         | \$ (170,029)      |
|  | =====             |

The carrying value of the investment was written down to zero in 2002. Since the Company has no legal or commercial commitments to provide continuing financial support, the equity in the net loss of Euroweb Hungary Rt. of \$39,699 has not been recorded. If the Company makes additional investments in Euroweb Hungary Rt., the Company would be required to recognize additional losses to the extent these additional investments are considered funding of unrecognized prior losses of Euroweb Hungary Rt. Moreover, only future profits in excess of the unrecorded loss of \$170,029 (\$39,699 from 2003 and \$130,330 unrecorded carry forward equity in loss of affiliate from 2002) may be recorded.

Pursuant to the non-compete provision in the shareholders' agreement, the Company cannot: (i) engage in any business activity listed in the scope of

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activities of Euroweb Hungary Rt.'s charter, which, among others, includes telecommunications, data bank activity and information technology activity, (ii) own or control any equity interest in any person or entity that engages in any such business activity or (iii) permit any of its employees to act as a director, officer, manager or consultant to any person or entity that engages in any such business activity. If the Company breaches its obligation set forth under this provision, the Company will be required to sell to PanTel Rt. all of its shares at the time of such breach at a price equal to the nominal value of such shares.

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### Euroweb International Corp. Notes to Interim Unaudited Consolidated Financial Statements

#### 5. Stockholders' Equity

During the six months of 2003, the Company did not grant any options or warrants, nor were any exercised. Upon the exercise of an outstanding warrant or option, each warrant/option holder will receive 1/5 of a share, due to the reverse stock split effected on August 30, 2001.

#### 6. Commitments and Contingencies

##### (a) Employment Agreements

An employment agreement with the Chief Executive Officer provides for aggregate annual compensation of \$96,000 through December 31, 2005.

##### (b) Lease agreements

The Company's subsidiaries have entered into various capital leases for vehicles and internet equipment, as well as non-cancelable agreements for office premises.

##### (c) 20 years' usage rights

Euroweb Romania has provided an Indefeasible Right of Use for transmission capacity on 12 pairs of fiber over a period of 20 years. The construction was finished in April 2003 and the fibres were put into use from May 1, 2003. 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.

##### (d) VAT Tax Authority audit - Romania

Currently the Romanian Tax Authorities are conducting an audit relating to how the Company accounted for VAT with respect to foreign invoices. As at June 30, 2003, the Tax Authority has not reached a decision regarding this matter. Based on discussions to date, the final outcome could range from a best case scenario of no liability to a maximum exposure of principal, fines and penalties of up to \$1,768,000. Due to ongoing discussions, the Tax Authority has delayed the publication of its findings until September 2003. Based on consultations with its advisors, management is confident that the Company has appropriate legal basis to defend its treatment of VAT (although the final outcome cannot be assured), and therefore no provision has been made.

#### 7. Related Party Transactions

The provision of international/domestic leased line and VOIP services are being



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provided in conjunction with Pantel Telecommunication Rt., an entity which is majority owned and controlled by KPN Telecom BV (which also owns a majority interest in the Company). In 2002 and 2003, Pantel Rt., a subsidiary of KPN Telecom BV and therefore a related party, is the most significant trading partner of the Company. Approximately 54% of the 2003 revenues of Euroweb Romania (translating into 37% of the consolidated revenues of the Company) were derived from the provision of services to Pantel Rt.

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### ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Forward-Looking Statements

When used in this Form 10-QSB, 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. 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.

#### Operations

##### Overview

The Company owns and operates Internet Service Providers 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 the equity in the net income or loss of Euroweb Hungary Rt., in which the Company has a 49% ownership interest. The other 51% of Euroweb Hungary Rt. is held by Pantel Telecommunication Rt., Hungary ("Pantel Rt."), of which KPN Telecom BV is also the controlling owner.

The revenues come from the following 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 (sale, rent and maintenance of dark fiber between the Hungarian border and the Romanian City of Timisoara)

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For the services in point (2) and (3), the main customer of the Company in 2002 and 2003 was Pantel Rt, a related party. The majority owner of Euroweb International Corporation and Pantel Rt. is KPN Telecom BV, a Netherlands corporation.

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Related party transactions - Pantel Telecommunications Rt.

General: The largest customer of the Company since early 2001 is Pantel Rt, a Hungary-based alternative telecommunications provider. Pantel Rt. operates within the region and has become a significant trading partner for Euroweb Romania and Euroweb Slovakia through the provision of direct fiber cable connection which enables companies to transmit data to a variety of destinations by utilizing the international connections of Pantel Rt.

Due to the fact that the significant revenue of the Company derives from the international/domestic leased line and Voice over Internet Protocol services, a few of the Company's representatives have moved to the premises of Pantel Rt. in order to improve co-operation on international projects.

Transactions: Both Euroweb Slovakia and Euroweb Romania have engaged in transactions with Pantel Rt.:

(a) Pantel Rt. receives revenue from the provision of the following services to subsidiaries of Euroweb International Corporation:

- Internet bandwidth
- International leased lines outside Romania and Slovakia

The total amount of these services was USD \$1,128,597 during the six month period ended June 30, 2003.

(b) Euroweb International and its subsidiaries received revenue from the provision of the following services to Pantel Rt.:

- International leased lines and local loops in Slovakia and Romania
- International IP and VOIP services for Pantel Rt.
- Commission
- Facilities

Total value of these services were approximately USD \$2,705,690 in the six months period ended June 30, 2003.

Direct sales to Pantel Rt. were 37% of total consolidated revenue, but 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 their relationship with Euroweb Romania).

Effective dependency on Pantel Rt. - taking into account direct and Pantel Rt.-related sales - represents approximately 60% of total consolidated revenues of the Company and approximately 90% of total sales of Euroweb Romania. There is no such dependency in the case of Euroweb Czech or Euroweb Slovakia.

Pricing: Agreements are made at market prices or a split of the margin based on the financial investment into the specific services by each of the parties. Euroweb International Corporation always considers alternative suppliers for each individual project when appropriate.

## 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 accounting principles generally accepted 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, assumption 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 1 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.

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.

Intangibles Recovery - Intangibles consist mostly of goodwill. Goodwill represented on the balance sheet reflects the unamortized difference between the purchase price and fair value of businesses acquired. As of January 1, 2002 the Company adopted SFAS 142 which specifies that goodwill no longer be amortized on a systematic basis, but should be subject to at least annual impairment tests. SFAS also prescribes some transitional provisions which have been completed by June 30, 2002.

## Acquisitions

There were no new acquisitions in 2002 and the six months of 2003.

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Six-month Period Ended June 30, 2003 Compared to Six-month Period Ended  
June 30, 2002

The Company has slightly increased its revenue, while gross margin has decreased in absolute terms compared to the same period in the previous year. A significant part (69%) of the revenue can be attributed to activities in Romania. During the same time period, the Company was able to reduce operating expenses compared to the previous year, resulting in a significant improvement of the operating results. In accordance with SFAS 142, the Company no longer amortizes goodwill.

### Revenues

Total revenues for the six months ended June 30, 2003 were \$7,254,617 in comparison with \$6,119,641 for the six months ended June 30, 2002. The Company experienced increases in sales in Romania and Slovakia, and a decrease in sales in the Czech Republic as follows:

| Revenue per countries/six months of | 2003       | 2002       |
|-------------------------------------|------------|------------|
| Czech Republic                      | \$ 626,990 | \$ 738,244 |
| Romania                             | 5,011,413  | 4,003,826  |
| Slovakia                            | 1,616,214  | 1,377,571  |
| Total                               | 7,254,617  | 6,119,641  |

The Company has increased ISP and VOIP revenue in 2003 as compared to the same period of 2002, however it has experienced reduction of revenue from international/national leased line and IP data revenue due to the following:

- o in the third quarter of 2002, a few of the most significant leased line partners closed their contracts; and
- o market competition has reduced the prices.

The proportion of revenue per product lines as of the six months ended June 30, 2003 has developed as follows:

| Revenue per services             | 2003         | (margin) | 2002         |
|----------------------------------|--------------|----------|--------------|
| ISP                              | \$ 2,722,641 |          | \$ 2,426,590 |
| Int./dom leased line and IP data | 3,057,443    |          | 3,240,020    |
| VOIP                             | 1,282,570    |          | 453,152      |
| Facilities                       | 191,963      |          | -            |
| Total                            | 7,254,617    | (31.40%) | 6,119,762    |

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Cost of revenues comprise mostly telecommunication expenses.

Network costs were \$4,976,114 for the six months ended 2003 in comparison to \$3,853,434 for the six months ended 2002. Gross margin has decreased from 37.03% to 31.4% when compared to the previous year. Although there were no significant pricing policy changes within the Company during the six months of 2003, the margin has decreased as follows:

- o the previously high internet margin in SK and CZ reduced to a reasonable level;
- o Margin on International/domestic leased line has decreased in 2003 due to a favourable one time agreement with one of the major suppliers of the Company in 2002, which resulted in smaller costs last year comparing this year.

This fall in margins was partly offset by the high margin on facilities revenue, but the total margin was ultimately the same in absolute terms despite the revenue increase on facilities revenue.

Operating expenses (excluding depreciation, amortization and severance)

Overall operating expenses (excluding depreciation, amortization and severance to officers) decreased by 14% due to cost control measures and the positive impact of closing of the New York office in 2002. The Company was able to reduce costs in most categories and it is managing all of the product lines with the existing operational infrastructure minimizing the need for additional resources.

The severance payments to officers in 2002 related to the closure of the New York office whereby the five year contracts of the former CFO and CEO were terminated in June 2002.

VAT Tax Authority audit-Romania

Currently the Romanian Tax Authorities are conducting an audit relating to how the Company accounted for VAT with respect to foreign invoices. As at June 30, 2003, the Tax Authority has not reached a decision regarding this matter. Based on discussions to date, the final outcome could range from a best case scenario of no liability to a maximum exposure of principal, fines and penalties of up to \$1,768,000. Due to ongoing discussions, the Tax Authority has delayed the publication of its findings till September 2003. Based on consultations with its advisors, management is confident that the company has appropriate legal basis to defend its treatment of VAT (although the final outcome cannot be assured), and therefore no provision has been made.

Depreciation and amortization

As disclosed above, no goodwill was amortized in 2002 and 2003. Other intangibles, representing customer lists obtained in an acquisition in Romania in 2000, are being amortized over a period of five years. In the first six months of 2002, amortization was \$ 115,000, while in the first six months of 2003, amortization was \$33,454 due to the impairment of customer list in Q3 of 2002 which reduced the carrying value of the customer lists. Depreciation of tangible fixed assets has increased from \$336,547 in 2002 to \$406,191 in 2003, reflecting the investment in equipment used to provide the new services.

Net interest income

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Net interest income in the six months of 2003 is lower than the comparable amount in the six months of 2002 because there was a reduction in the interest-generating funds that were available for the six month period ended June 30, 2003 as compared to June 30, 2002, and also because the effective interest rate on these investments has decreased over the periods in question.

### Equity interest in affiliate

Although the Company's 49% share in the net loss of Euroweb Hungary Rt. for the six months ended June 30, 2003 is \$39,699, the opening net carrying value of the investment in the Company's financial statements at the beginning of the year was zero due to the goodwill write-offs in 2002. Therefore, the loss of \$39,699 was not recorded in the books of the Company. However, if in the future, Euroweb Hungary Rt. has net income, then the Company may only recognize its 49% interest on Euroweb Hungary Rt. net income in excess of its cumulative share of unrecorded losses of \$170,029 (\$130,330 unrecorded from 2002 and \$39,699 unrecorded for the first half of 2003).

### Liquidity and Capital Resources

The Company's cash, cash equivalents and marketable securities were approximately \$13,463,871 as of June 30, 2003, a decrease of \$739,216 from the end of 2002.

The Company achieved a positive cash flow from operations of \$229,434 in the first six months of 2003 (compared to cash used in operations of \$2,732,601 in the first six months of 2002). Approximately \$2 million of the approximately \$3 million difference is due to the severance paid to the former CEO and CFO in June 2002 due to the closure of the New York office. The remaining amount is due to various other cost control measures reducing expenses, and therefore cash outlays.

The income tax expense relates to income tax payable of Euroweb Romania which is expected to have taxable income in 2003, with no tax loss carryforwards to offset this income.

For the six months ended June 30, 2003, the Company has \$13,463,871 of cash, cash equivalents and marketable securities compared to \$4,498,214 total short and long term liabilities. Management believes that with its existing cash, cash equivalents, marketable securities and internally generated funds, there will be sufficient funds to meet the Company's currently projected working capital requirements and other cash requirements until at least the next 12 months.

KPN Telecom B.V. (NY Stock Exchange: KPN) owns 52% of the outstanding shares of Common Stock of the Company. KPN Telecom BV has announced that it intends to sell all of its non-core assets, including its ownership of 52% of the outstanding shares of the Company.

### Inflation and Foreign Currency

The Company maintains its books in local currencies, including the 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 20%, while the Czech Koruna has strengthened against the U.S. dollar by approximately 17% between the six months of 2003 and 2002. The impact of this is reflected in the exchange rates used in the six months of 2003 and the six months of 2002.

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## Item 3. Controls and Procedures

As of June 30, 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 June 30, 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 June 30, 2003.

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## PART II

### Item 1. Legal Proceedings

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

### Item 2. Changes in Securities

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

On May 27, 2003, the Company held its annual meeting of shareholders in Budapest, Hungary. The Company's shareholders voted on, and approved, the following three items:

1. The Company's shareholders elected the following five (5) director to hold office until his successor is elected and qualified or until his earlier resignation or removal. The result of the vote was as follows:

| MEMBER         | FOR       | AGAINST | WITHHELD AUTHOR |
|----------------|-----------|---------|-----------------|
| Csaba Toro     | 2,515,334 | -0-     | 3,083           |
| Daniel Kwantes | 2,515,334 | -0-     | 3,083           |
| Stewart Reich  | 2,515,284 | -0-     | 3,133           |
| Gerald Yellin  | 2,515,334 | -0-     | 3,083           |
| Hans Lipman    | 2,515,334 | -0-     | 3,083           |

2. The Company's shareholders approved an amendment and restatement to the Company's Certificate of Incorporation decreasing the number of the Company's authorized shares of common stock from 60,000,000 to 12,500,000. The result of the vote was as follows:

|             |           |
|-------------|-----------|
| For         | 2,516,333 |
| Against     | 2,084     |
| Abstentions | -0-       |

3. The Company's shareholders approved the Board of Directors' selection of KPMG Hungaria Kft. as the Company's independent auditors for the fiscal year

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ending December 31, 2003. The result of the vote was as follows:

|             |           |
|-------------|-----------|
| For         | 2,515,524 |
| Against     | 2,893     |
| Abstentions | -0-       |

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### ITEM 5. OTHER INFORMATION

None

### Item 6. EXHIBITS AND REPORTS ON FORM 8-K

#### A. Exhibits (numbers below reference Regulation S-B, Item 601)

- (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)
- (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 Section 906 of the Sarbanes-Oxley Act of 2002.
- (32) (b) Certification of the Chief Accounting Officer of Euroweb International Corp. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

#### 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 12th day of August 2003.

EUROWEB INTERNATIONAL CORP.

By   /s/Csaba Toro  
Csaba Toro  
Chairman of the Board and Chief Executive Officer

By   /s/Peter Szigeti  
Chief Accounting Officer

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.



Exhibit 31(a)

CERTIFICATION

I, Csaba Toro, certify that:

1. I have reviewed this Form 10-QSB of Euroweb International Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

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5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 12, 2003  
/s/ Csaba Toro  
Csaba Toro  
Chief Executive Officer

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Exhibit 31(b)

### CERTIFICATION

I, Peter Szigeti, certify that:

1. I have reviewed this Form 10-QSB of Euroweb International Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 12, 2003  
/s/ Peter Szigeti  
Peter Szigeti  
Chief Accounting Officer

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EXHIBIT 32 (a)

Certification Pursuant to 18 U.S.C. Section 1350, As Adopted

Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

I, Csaba Toro, the Chief Executive Officer of Euroweb International Corp. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

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- (1) the Quarterly Report on Form 10-QSB of the Company for the fiscal quarter ended June 30, 2003 (the "Report") fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 12, 2003

/s/Csaba Toro

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Name: Csaba Toro  
Title: Chief Executive Officer

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EXHIBIT 32(b)

Certification Pursuant to 18 U.S.C. Section 1350, As Adopted

Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

I, Peter Szigeti, the Chief Accounting Officer of Euroweb International Corp. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) the Quarterly Report on Form 10-QSB of the Company for the fiscal quarter ended June 30, 2003 (the "Report") fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 12, 2003

/s/Peter Szigeti

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Name: Peter Szigeti  
Title: Chief Accounting Officer

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