

DEAR SHAREHOLDERS:

Insituform launched a new era in 2003 - an era marked by more than just a change in the chairman's office.

We took the first steps in developing and implementing a new five-year strategic plan aimed at redefining what it means to be a world-class provider of solutions to underground problems. We began placing renewed focus on operational excellence. And we started reaching out to expand our relationships both internally and with our clients throughout the world.

In short, we did what market leaders must sometimes do. We looked in the mirror and saw a good company with unacceptable 2003 financial results. Now we are retooling to make an even better company with a financial performance to match.

The facts are these: Our North American cured-in-place-pipe (CIPP) business experienced a relatively flat year in a competitive bidding environment. North American CIPP revenues were up slightly from 2002, while operating income fell. These results primarily reflect weaknesses in two of our six regional business units.

Our pipebursting businesses proved to be a significant drain on earnings in 2003, with operating losses of \$2.8 million for the year. While we remain dedicated to this technology, it is now apparent that our expectations for Kinsel - the company we acquired in 2001 - were overly optimistic. We have now scaled back our pipebursting operations and integrated them with our other domestic pipe rehabilitation businesses.

We have been similarly disappointed in our 2002 acquisition of the business of Elmore Pipe Jacking, Inc., our West Coast tunneling operation. Our reasons for acquiring Elmore remain valid; the western U.S. should be a prime source of growth for our tunneling business. This acquisition brought with it, however, a backlog of more than \$5 million in problem projects. By the end of 2003, we had put those problem projects behind us and installed a new, proven management team. We look forward to a fresh start for our West Coast tunneling operations in 2004.

Despite Elmore's losses, tunneling, which now accounts for 21% of our business, experienced revenue growth of 16%.

Business was also up in our Tite Liner® division as the sectors it serves - oil, gas and mining - continued their recovery.

The picture is also brighter in our European operations. Following senior management changes in 2002, we are pleased to report stronger revenues in 2003, with operating income also beginning to show improvement. Most of our European business units are now profitable and poised for growth in 2004.

Taken altogether, the company's diluted earnings per share from continuing operations in 2003 declined to \$0.17 from \$1.07 the year before. Net income per diluted share was \$0.13, compared with \$0.85 in 2002. The results for 2003 were clearly skewed by certain fourth quarter adjustments as management took difficult but necessary steps by identifying, addressing and resolving several operational and balance sheet issues.

Although they reflect the company's performance in 2003, these results don't reflect the changes implemented in the year's second half. Nor, frankly, is it likely that our 2004 results will reflect the initiatives that will be implemented in 2004.

Since this past July, it's been my job to lead Insituform as we continue the difficult work of rebuilding our operations. It's also my job to be candid with you. It's going to take the full attention of management, and it's going to take investments of time and resources to enable Insituform to realize its full potential.

We see 2004, in particular, as a time when the company will make strategic internal investments to improve our performance and maintain our leadership status.

Today our company's focus has been redirected to (1) achieving operational excellence, (2) developing competitive advantages through technological innovation, and (3) growing our business. We'll take a brief look at each.

ACHIEVING OPERATIONAL EXCELLENCE – In 2003, we laid the groundwork for improving our internal operations. **Our goal:** to become better at the basics.

First, we are placing major focus on financial rigor and accountability. In December, the Board appointed Chris Farman as the company's chief financial officer. Chris will lead us in developing better tools for financial forecasting and ensuring that we use sound financial practices to make sound business decisions.

Second, we are dramatically stepping up our training program. I'll give a brief example of why that is important. When we line a pipe using the Insituform® CIPP process, our liner initially covers up all the lateral connections in the pipe. After the pipe rehabilitation is complete, we use a robotic tool to cut the laterals open again. Anytime we overlook the cutting of even a single lateral, we create the potential for a sewer backup and an expense – the cost of fixing our mistake. By instituting a training program for our "cutters," we believe we can dramatically reduce the number of such mistakes.

The same thing can be said for safety training. We are committed to providing the training, incentives and other programs we need to make our safety program world-class. Not only is this the right thing to do – I'm confident it will help us significantly reduce our insurance costs down the road.

Finally, we are going back to basics on both quality control and project management. We are particularly interested in applying discipline to our project management, identifying our best construction practices and then replicating them in the field among all of our work crews.

DEVELOPING COMPETITIVE ADVANTAGES THROUGH TECHNOLOGICAL INNOVATION – When the original Insituform CIPP process was introduced in 1971, the trenchless sewer rehabilitation market was born. Our company, at its very roots, is a company of innovators. We made this market, and we intend to continue to make it.

Our goal: to be able to solve all the challenges associated with underground pipes – and to make money doing it.

I mention money because it is no secret that price pressure continues in our industry. That's one reason we are directing much of our R&D investments toward innovations that lower our costs without compromising our operational excellence.



AT A GLANCE:
THOMAS S. ROONEY, JR.

POSITION:
President and
Chief Executive Officer

AGE:
44

JOINED INSITUFORM:
April 1, 2003

BACKGROUND:
Mr. Rooney formerly served as senior vice president and regional manager for Gilbane Building Company, a \$2.7 billion, privately held construction firm based in Providence, R.I. He worked previously with San Diego-based Centex Golden Construction Company and Turner Construction Company of New York City.

EDUCATION:
Mr. Rooney earned a bachelor of science degree in civil engineering from Cornell University in 1982, and a master of business administration degree from The University of Chicago in 1991.

We are now introducing, for example, a new process that speeds the time it takes to cure the resin used in our Insituform CIPP process. Currently, our crews use cold water to push our Insituform tubes into place in a sewer. We then heat the water, which circulates through the tube and cures the resin into a hard pipe. We must then cool the water again. The entire process takes up to six hours.

Our new process uses steam rather than hot water to cure the resin. Because steam is hotter, it cures the resin more quickly. The new tube installation process and steam cure cycle reduce the total small-diameter installation time by 25%.

Currently, only a handful of our 60 crews use this new process. We intend to implement this change fully by the end of 2004.

As some long-time investors may recall, this is not the first time we have talked of using steam heat in our installation process. It is, however, the first time we have perfected the process and deployed it in the field.

We have other cost-saving innovations in various stages of development and implementation. We have developed a truly innovative – and cost-saving – way to combine directional drilling techniques and microtunneling to install brand new gravity sewer pipes without digging. We're also developing ways to use carbon fiber to add structural value to our liners, with the goal of reducing the amount of resin needed to create a structurally sound pipe-within-a-pipe.

We also continue to seek innovations that enable us to expand both the scope of our capabilities and the larger sewer rehabilitation market. In 2003, we introduced Insituform SP™, a new product created for repairing large sewers – lines that have been notoriously difficult to repair. This product immediately proved itself on the repair of a large 90-year-old sewer that serves approximately 100,000 Chicago residents. In fact, the Composite Fabricators Association has honored Insituform SP™ as one of the 2003 winners in its annual competition spotlighting innovation and creativity in the use of composites.

While we are excited about these innovations, I am personally more pleased with the innovative culture that fostered them. Our company includes many of the industry's most creative and brilliant people. By encouraging their collaboration, I am confident there are more great ideas to come.

GROWING OUR BUSINESS – Despite our 2003 performance, underground infrastructure remains a good business.

Growth opportunities abound, and we intend to pursue them in several ways. First and foremost, we expect to further penetrate our traditional core sewer rehabilitation market. That means increasing our sales force, which had been cut in half in 2002. We intend to train these sales people on all of our products, which we believe will give us an advantage as they work with customers facing a broad range of sewer repair needs. We want our customers to look to us for a full range of solutions to their underground problems, including tunneling, microtunneling and pipebursting.

Second, we are continuing to expand our reach. In 2003, we invested approximately \$7.7 million in acquiring businesses. Our purchase of the key business assets of Insituform East, Inc. brought us the final remaining independent licensee of the Insituform CIPP and NuPipe® fold and form processes in North America. This acquisition adds the Maryland, Pennsylvania, Ohio and Washington, D.C. markets to our mix.

We also intend to seek growth in our overseas markets. We currently operate or have licensees in 45 countries worldwide, with operations in North and South America, Europe, Africa and Asia. This past November, we acquired the remaining interest in our Swiss joint venture, Ka-Te Insituform AG, a robotic repair business. In June, we purchased certain assets of Sewer Services, Ltd., a United Kingdom-based contractor that specializes in the rehabilitation of man-entry pipes and culverts. Both of these acquisitions help us expand our European capabilities.

FINALLY, WE INTEND TO GROW BY LEADING OUR INDUSTRY THROUGH AN ONGOING PARADIGM SHIFT. It costs substantially less to use our Insituform CIPP trenchless solutions today than it did 20 years ago. Our solutions, in other words, have never been more affordable. We see it as our job to continue educating the marketplace about the increasing number of affordable alternatives now available to them.

Nowhere is this more true than in the tunneling business. As the growth in this business over the past five years has demonstrated, tunnels are now being considered on jobs where it was once cost-prohibitive. Affholder, Inc., our tunneling subsidiary, broke five world records for tunneling in 2003, thanks to technology and expertise that have allowed us to substantially increase the speed with which we can complete these projects.

The paradigm shift under way also includes the procurement process. As communities see the complexity of their sewer repair needs grow, many are now listening when we talk about bundling services and pursuing alternative construction approaches, including design-build and construction management.

These plans are ambitious. But this is clearly an important time for Insituform. There is no other company in our industry with the global brand recognition, the strong reputation and the unique power to orchestrate industry-wide change. These plans will enable us to leverage that power and improve our results.

When we look back five years from now, we expect to view both 2003 and 2004 as watershed years when management and the Board of Directors made bold moves to change our company's direction. We expect these years to be remembered as ones when the company faced up to the challenges before it and made the critical changes needed for revenue and earnings growth in 2005 and beyond.

As you read on, you will learn more about why the investments we are now making are well-worth the focus of our management team. You'll see why we are so excited about the future of both our company and our industry.

You'll also see why I have confidence in our plan and in the people who will be executing it. I look forward to reporting our progress to you a year from now.



Thomas S. Rooney, Jr.
President and Chief Executive Officer



DEAR SHAREHOLDERS,

This past summer your Board of Directors made a vitally important decision. As a Board, we had then – and continue to have today – strong confidence in both the company's capabilities and its potential for building long-term shareholder value. To achieve our long-term goals, however, we concluded that a shift in the company's strategic direction was needed.

"The right person comes at the right time," says a proverb. We believe "the right person" to lead the company at this crucial time is Tom Rooney, appointed president in April and CEO in July.

Tom has both the hands-on construction industry experience and the long-term strategic view the company needs to realign its operational priorities and to capitalize on its well-established strengths. The Board was also drawn to Tom's collaborative leadership style and his proven ability to inspire innovation, both of which are absolutely essential to achieve operational excellence.

Keeping with new, higher corporate governance standards, the Board also saw this leadership change as an appropriate time to split our CEO's role from that of the board chairman. In July, I was elected non-executive Chairman of the Board of Directors. Previous to this expanded responsibility, I served as Presiding Director, chair of the Corporate Governance & Nominating Committee and as a member of the Compensation Committee.

I am honored to serve in this new position, and equally pleased to have Tom developing and implementing a disciplined, long-term strategic growth plan. Moving forward, the Board and the management team are committed to work on your behalf, with the goal of ensuring that our company realizes its full, exciting potential, which will ultimately create value for our shareholders.



Alfred L. Woods
Chairman of the Board