CONSOLIDATED STATEMENTS OF INCOME

(millions – except per share amounts)

For the years ended December 31,	2003	2002	2001
REVENUES			
Net premiums earned	$ 11,341.0	$ 8,883.5	$ 7,161.8
Investment income	465.3	455.2	413.6
Net realized gains (losses) on securities	12.7	(78.6)	(111.9)
Service revenues	41.8	34.3	24.7
Other income[1]	31.2	—	—
Total revenues	11,892.0	9,294.4	7,488.2
EXPENSES			
Losses and loss adjustment expenses	7,640.4	6,299.1	5,264.1
Policy acquisition costs	1,249.1	1,031.6	864.9
Other underwriting expenses	1,010.1	874.2	686.9
Investment expenses	11.5	11.5	12.7
Service expenses	25.7	22.0	19.8
Interest expense	95.5	74.6	52.2
Total expenses	10,032.3	8,313.0	6,900.6
NET INCOME			
Income before income taxes	1,859.7	981.4	587.6
Provision for income taxes	604.3	314.1	176.2
Net income	$ 1,255.4	$ 667.3	$ 411.4
COMPUTATION OF EARNINGS PER SHARE			
Basic:			
Average shares outstanding	216.8	219.0	221.0
Per share	$ 5.79	$ 3.05	$ 1.86
Diluted:			
Average shares outstanding	216.8	219.0	221.0
Net effect of dilutive stock-based compensation	3.7	4.2	4.2
Total equivalent shares	220.5	223.2	225.2
Per share	$ 5.69	$ 2.99	$ 1.83

[1]See *Note 3 – Income Taxes* for discussion.

All share and per share amounts were adjusted for the April 22, 2002, 3-for-1 stock split.

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(millions)

December 31,	2003	2002
ASSETS		
Investments:		
Available-for-sale:		
Fixed maturities, at market (amortized cost: $8,899.0 and $7,409.4)	$ 9,133.4	$ 7,712.5
Equity securities, at market:		
Preferred stocks (cost: $751.3 and $631.9)	778.8	656.7
Common equities (cost: $1,590.6 and $1,425.3)	1,972.1	1,347.3
Short-term investments, at amortized cost (market: $648.0 and $567.8)	648.0	567.8
Total investments	12,532.3	10,284.3
Cash	12.1	16.9
Accrued investment income	97.4	77.9
Premiums receivable, net of allowance for doubtful accounts of $66.8 and $54.6	2,079.6	1,742.8
Reinsurance recoverables, including $41.4 and $34.8 on paid losses	271.3	215.7
Prepaid reinsurance premiums	114.7	96.7
Deferred acquisition costs	412.3	363.5
Income taxes	81.6	219.2
Property and equipment, net of accumulated depreciation of $476.4 and $392.4	584.7	503.1
Other assets	95.5	44.3
Total assets	$ 16,281.5	$ 13,564.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unearned premiums	$ 3,894.7	$ 3,304.3
Loss and loss adjustment expense reserves	4,576.3	3,813.0
Accounts payable, accrued expenses and other liabilities	1,290.1	1,190.1
Debt	1,489.8	1,489.0
Total liabilities	11,250.9	9,796.4
Shareholders' equity:		
Common Shares, $1.00 par value (authorized 600.0 and 300.0; issued 230.1, including treasury shares of 13.7 and 12.1)	216.4	218.0
Paid-in capital	688.3	584.7
Unamortized restricted stock	(28.9)	—
Accumulated other comprehensive income (loss):		
Net unrealized appreciation on investment securities	418.2	162.4
Net unrealized gains on forecasted transactions	10.7	11.7
Foreign currency translation adjustment	(3.9)	(4.8)
Retained earnings	3,729.8	2,796.0
Total shareholders' equity	5,030.6	3,768.0
Total liabilities and shareholders' equity	$ 16,281.5	$ 13,564.4

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(millions – except per share amounts)

For the years ended December 31,	2003		2002		2001	
RETAINED EARNINGS						
Balance, Beginning of year	$ 2,796.0		$ 2,497.4		$ 2,220.4	
Net income	1,255.4	$ 1,255.4	667.3	$ 667.3	411.4	$ 411.4
Cash dividends on Common Shares ($.100, $.096 and $.093 per share, split effected)	(21.7)		(21.1)		(20.6)	
Treasury shares purchased	(297.5)		(200.7)		(112.5)	
Capitalization of stock split	—		(147.0)		—	
Other, net	(2.4)		.1		(1.3)	
Balance, End of year	$ 3,729.8		$ 2,796.0		$ 2,497.4	
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX						
Balance, Beginning of year	$ 169.3		$ 125.9		$ 64.7	
Changes in:						
Unrealized appreciation		255.8		40.9		52.0
Net unrealized gains on forecasted transactions		(1.0)		2.5		9.2
Foreign currency translation adjustment		.9		—		—
Other comprehensive income	255.7	255.7	43.4	43.4	61.2	61.2
Balance, End of year	$ 425.0		$ 169.3		$ 125.9	
Comprehensive Income		$ 1,511.1		$ 710.7		$ 472.6
COMMON SHARES, $1.00 PAR VALUE						
Balance, Beginning of year	$ 218.0		$ 73.4		$ 73.5	
Stock options exercised	2.8		1.2		.8	
Treasury shares purchased[1]	(5.0)		(3.6)		(.9)	
Restricted stock issued, net of forfeitures	.6		—		—	
Capitalization of stock split	—		147.0		—	
Balance, End of year	$ 216.4		$ 218.0		$ 73.4	
PAID-IN CAPITAL						
Balance, Beginning of year	$ 584.7		$ 554.0		$ 511.2	
Stock options exercised	47.2		21.4		25.2	
Tax benefits on stock options exercised	44.0		19.3		24.4	
Treasury shares purchased	(14.3)		(10.0)		(6.8)	
Restricted stock issued, net of forfeitures	26.7		—		—	
Balance, End of year	$ 688.3		$ 584.7		$ 554.0	
UNAMORTIZED RESTRICTED STOCK						
Balance, Beginning of year	$ —		$ —		$ —	
Restricted stock issued, net of forfeitures	(37.3)		—		—	
Restricted stock market value adjustment	(2.6)		—		—	
Amortization of restricted stock	11.0		—		—	
Balance, End of year	$ (28.9)		$ —		$ —	
Total Shareholders' Equity	$ 5,030.6		$ 3,768.0		$ 3,250.7	

[1]The Company did not split treasury shares. In 2002, the Company repurchased 136,182 Common Shares prior to the stock split and 3,471,916 Common Shares subsequent to the stock split.

There are 20.0 million Serial Preferred Shares authorized; no such shares are issued or outstanding.

There are 5.0 million Voting Preference Shares authorized; no such shares have been issued.

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions)

For the years ended December 31,	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,255.4	$ 667.3	$ 411.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	89.3	83.9	81.0
Amortization of restricted stock	11.0	—	—
Net realized (gains) losses on securities	(12.7)	78.6	111.9
Changes in:			
Unearned premiums	590.4	587.6	80.2
Loss and loss adjustment expense reserves	763.3	575.0	251.6
Accounts payable, accrued expenses and other liabilities	124.5	256.6	103.4
Prepaid reinsurance premiums	(18.0)	(19.1)	18.1
Reinsurance recoverables	(55.6)	(14.2)	36.2
Premiums receivable	(336.8)	(245.7)	69.9
Deferred acquisition costs	(48.8)	(46.9)	(6.7)
Income taxes	(.1)	(65.1)	30.2
Tax benefits from exercise of stock options	44.0	19.3	24.4
Other, net	31.0	34.7	23.0
Net cash provided by operating activities	2,436.9	1,912.0	1,234.6
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases:			
Available-for-sale: fixed maturities	(9,491.6)	(7,924.9)	(4,935.2)
equity securities	(771.2)	(680.7)	(1,696.0)
Sales:			
Available-for-sale: fixed maturities	7,189.3	5,823.3	3,335.5
equity securities	337.8	412.0	1,436.3
Maturities, paydowns, calls and other:			
Available-for-sale: fixed maturities	779.2	594.0	451.9
equity securities	91.7	—	135.9
Net purchases of short-term investments	(80.2)	(340.4)	(40.6)
Net unsettled security transactions	(37.1)	115.3	(95.3)
Purchases of property and equipment	(171.1)	(89.9)	(74.9)
Net cash used in investing activities	(2,153.2)	(2,091.3)	(1,482.4)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of stock options	50.0	22.6	26.0
Proceeds from debt	—	398.6	365.4
Payments of debt	—	(.8)	(.5)
Dividends paid to shareholders	(21.7)	(21.1)	(20.6)
Acquisition of treasury shares	(316.8)	(214.3)	(120.2)
Net cash provided by (used in) financing activities	(288.5)	185.0	250.1
Increase (decrease) in cash	(4.8)	5.7	2.3
Cash, Beginning of year	16.9	11.2	8.9
Cash, End of year	$ 12.1	$ 16.9	$ 11.2

See notes to consolidated financial statements.

- 1 - REPORTING AND ACCOUNTING POLICIES

NATURE OF OPERATIONS The Progressive Corporation, an insurance holding company formed in 1965, owns 68 subsidiaries and has 1 mutual insurance company affiliate and 1 reciprocal insurance company affiliate (the Company) as of December 31, 2003. The insurance subsidiaries and affiliates provide personal automobile insurance and other specialty property-casualty insurance and related services throughout the United States. The Company's Personal Lines segment writes insurance for private passenger automobiles and recreation vehicles through both an independent agency channel and a direct channel. The Company's Commercial Auto segment writes insurance for automobiles and trucks owned by small businesses primarily through the independent agency channel.

BASIS OF CONSOLIDATION AND REPORTING The accompanying consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries and affiliates. All of the subsidiaries and the affiliates are wholly owned or controlled. All intercompany accounts and transactions are eliminated in consolidation.

ESTIMATES The Company is required to make estimates and assumptions when preparing its financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America (GAAP). Actual results could differ from those estimates.

INVESTMENTS Available-for-sale: fixed maturity securities are debt securities, which may have fixed or variable principal payment schedules, may be held for indefinite periods of time, and may be used as a part of the Company's asset/liability strategy or sold in response to changes in interest rates, anticipated prepayments, risk/reward characteristics, liquidity needs or similar economic factors. These securities are carried at market value with the corresponding unrealized appreciation or depreciation, net of deferred income taxes, reported in accumulated other comprehensive income. Market values are obtained from a recognized pricing service or other quoted sources. The asset-backed portfolio is accounted for under the retrospective method; prepayment assumptions are based on market expectations. For interest only and non-investment-grade asset-backed securities, the prospective method is used in accordance with the guidance prescribed by Emerging Issues Task Force Issue (EITF) 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets."

Available-for-sale: equity securities include common equities and nonredeemable preferred stocks and are reported at quoted market values. Changes in the market values of these securities, net of deferred income taxes, are reflected as unrealized appreciation or depreciation in accumulated other comprehensive income. Changes in value of foreign equities due to foreign currency exchange rates are limited by foreign currency hedges; unhedged amounts are not material and changes in value are recognized in income in the current period. The Company held no foreign equities or foreign currency hedges during 2003 or 2002.

Trading securities are securities bought principally for the purpose of sale in the near term and, when not material to the Company's financial position, cash flows or results of operations, are reported at market value within the available-for-sale portfolio. The Company had no trading securities at December 31, 2003; derivatives used for trading are discussed below. In prior years, the net activity in trading securities was not material to the Company's financial position or cash flows; the effect on results of operations is separately disclosed in *Note 2 - Investments*. To the extent the Company has trading securities, changes in market value would be recognized in income in the current period.

Derivative instruments may include futures, options, forward positions, foreign currency forwards and interest rate swap agreements and may be used in the portfolio for risk management or trading purposes or to hedge the exposure to: changes in fair value of an asset or liability (fair value hedge); foreign currency of an investment in a foreign operation (foreign currency hedge); or variable cash flows of a forecasted transaction (cash flow hedge). These derivative instruments would be recognized

as either assets or liabilities and measured at fair value with changes in fair value recognized in income in the period of change. Changes in the fair value of the hedged items would be recognized in income while the hedge was in effect.

At December 31, 2003, the Company held two derivatives classified as trading securities. The Company sold default protection related to two issuers, using credit default swaps and matched the notional value of these positions with Treasury notes with an equivalent principal value and maturity to replicate a cash bond position. Changes in the fair value of the credit default swaps and the Treasury notes are recognized in income in the current period.

During 2003, the Company held no derivatives classified as cash flow hedges. Changes in fair value of these hedges are reported as a component of accumulated other comprehensive income and subsequently amortized into earnings over the life of the hedged transaction. Gains and losses on hedges on forecasted transactions are amortized over the life of the hedged item (see *Note 4 – Debt*). Hedges on forecasted transactions that no longer qualify for hedge accounting due to lack of correlation are considered derivatives used for risk management purposes.

During 2003, the Company had no fair value or foreign currency hedges or derivative instruments held or issued for risk management purposes. To the extent the Company held fair value hedges, changes in the hedge, along with the hedged items would be recognized in income in the period of change while the hedge was in effect. Gains and losses on foreign currency hedges would offset the foreign exchange gains and losses on the foreign investments. Derivatives held or issued for risk management purposes would be recognized in income during the period of change.

Derivatives designated as hedges would also be evaluated on established criteria to determine the effectiveness of their correlation to, and ability to reduce risk of, specific securities or transactions; effectiveness would be reassessed regularly. If the effectiveness of a fair value hedge becomes non-compliant, the adjustment in the change in value of the hedged item would no longer be recognized in income during the current period.

For all derivative positions, net cash requirements are limited to changes in market values, which may vary based upon changes in interest rates, currency exchange rates and other factors. Exposure to credit risk is limited to the carrying value; collateral may be required to limit credit risk.

Short-term investments include Eurodollar deposits, commercial paper and other securities maturing within one year and are reported at amortized cost, which approximates market.

Investment securities are exposed to various risks such as interest rate, market and credit risk. Market values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect portfolio value in the near term. The Company continually monitors its portfolio for pricing changes, which might indicate potential impairments and performs detailed reviews of securities with unrealized losses based on predetermined criteria. In such cases, changes in market value are evaluated to determine the extent to which such changes are attributable to (i) fundamental factors specific to the issuer, such as financial conditions, business prospects or other factors or (ii) market-related factors, such as interest rates or equity market declines. When a security in the Company's investment portfolio has an unrealized loss in market value that is deemed to be other than temporary, the Company reduces the book value of such security to its current market value, recognizing the decline as a realized loss in the income statement. Any future increases in the market value of securities written down are reflected as changes in unrealized gains as part of accumulated other comprehensive income within shareholders' equity.

Realized gains and losses on securities are computed based on the first-in first-out method and include write-downs on available-for-sale securities considered to have other than temporary declines in market value.

PROPERTY AND EQUIPMENT Property and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the assets using accelerated methods for computers and the straight-line method for all other fixed assets. The useful lives range from 3 to 4 years for computers, 10 to 40 years for buildings and improvements, and 5 to 6 years for all other property and equipment. Property and equipment includes software capitalized for internal use. At December 31, 2003 and 2002, land and buildings comprised 75% and 73%, respectively, of total property and equipment.

Total interest capitalized was $1.5 million, $.5 million and $1.2 million in 2003, 2002 and 2001, respectively, relating to both the Company's construction projects and capitalized computer software costs.

INSURANCE PREMIUMS AND RECEIVABLES Insurance premiums written are earned on a pro rata basis over the period of risk, using a mid-month convention. Insurance premiums written in 2004 and forward will be earned based on a daily earnings

convention. The Company provides insurance and related services to individuals and small commercial accounts throughout the United States, and offers a variety of payment plans. Generally, premiums are collected prior to providing risk coverage, minimizing the Company's exposure to credit risk. The Company performs a policy level evaluation to determine the extent the premiums receivable balance exceeds its unearned premiums balance. The Company then ages this exposure to establish an allowance for doubtful accounts based on prior experience.

INCOME TAXES The income tax provision is calculated under the balance sheet approach in accordance with Statement of Financial Accounting Standards (SFAS) 109 "Accounting for Income Taxes." Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are net unrealized gains/losses on securities, loss reserves, unearned premiums reserves, deferred acquisition costs and non-deductible accruals. The Company reviews its deferred tax assets for recoverability. At December 31, 2003, the Company is able to demonstrate that the benefit of its deferred tax assets is fully realizable and, therefore, no valuation allowance is recorded.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES Loss reserves represent the estimated liability on claims reported to the Company, plus reserves for losses incurred but not yet reported (IBNR). These estimates are reported net of amounts recoverable from salvage and subrogation. Loss adjustment expense reserves represent the estimated expenses required to settle these claims and losses. The methods of making estimates and establishing these reserves are reviewed regularly, and resulting adjustments are reflected in income currently. Such loss and loss adjustment expense reserves could be susceptible to significant change in the near term.

REINSURANCE The Company's reinsurance transactions include premiums written under state-mandated involuntary plans for commercial vehicles (Commercial Auto Insurance Procedures–CAIP), for which the Company retains no loss indemnity risk (see *Note 6 – Reinsurance* for further discussion). In addition, the Company cedes auto premiums to state-provided reinsurance facilities and premiums in its non-auto programs to limit its exposure in those particular markets. Prepaid reinsurance premiums were recognized on a pro rata basis over the period of risk, primarily using a mid-month convention and consistent with premiums written. Beginning in 2004, prepaid reinsurance premiums will be earned based on a daily earnings convention. Because the Company's primary line of business, auto insurance, is written at relatively low limits of liability, the Company does not believe that it needs to mitigate its risk through voluntary reinsurance.

EARNINGS PER SHARE Basic earnings per share are computed using the weighted average number of Common Shares outstanding. Diluted earnings per share include common stock equivalents assumed outstanding during the period. The Company's common stock equivalents include stock options and qualified restricted stock awards.

DEFERRED ACQUISITION COSTS Deferred acquisition costs include commissions, premium taxes and other variable underwriting and direct sales costs incurred in connection with writing business. These costs are deferred and amortized over the policy period in which the related premiums are earned. The Company considers anticipated investment income in determining the recoverability of these costs. Management believes that these costs will be fully recoverable in the near term. The Company does not defer advertising costs.

GUARANTY FUND ASSESSMENTS The Company is subject to state guaranty fund assessments which provide for the payment of covered claims or other insurance obligations of insurance companies deemed insolvent. These assessments are accrued after a formal determination of insolvency has occurred and the Company has written the premiums on which the assessments will be based.

SERVICE REVENUES AND EXPENSES Service revenues consist primarily of fees generated from processing business for involuntary plans and are earned on a pro rata basis over the term of the related policies. Acquisition expenses are deferred and amortized over the period in which the related revenues are earned.

STOCK COMPENSATION The Company follows the provisions of SFAS 123 "Accounting for Stock-Based Compensation," to account for its stock compensation activity in the financial statements. Prior to January 1, 2003, the Company followed the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," to account for its stock option activity.

The change to the fair value method of accounting was applied prospectively to all non-qualified stock option awards granted, modified, or settled after January 1, 2003. No stock options were granted after December 31, 2002. As a result, there is no compensation cost for stock options included in net income for 2003; however, compensation expense would have been recognized if the fair value method had been used for all awards since the original effective date of SFAS 123 (January 1, 1995). Prior to 2003, the Company granted all options currently outstanding at an exercise price equal to the market price at the date of grant and, therefore, under APB 25, no compensation expense was recorded.

Beginning in 2003, the Company began issuing restricted stock awards. Compensation expense for restricted stock awards is recognized over the vesting period. The current year expense is not representative of the effect on net income for future years since each subsequent year will reflect expense for additional awards.

The following table is presented in accordance with SFAS 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" and shows the effects on net income and earnings per share had the fair value method been applied to all outstanding and unvested stock option awards for the periods presented. The Company uses the Black-Scholes pricing model to calculate the fair value of the options awarded as of the date of grant.

(millions, except per share amounts)	2003	2002	2001
Net income, as reported	$ 1,255.4	$ 667.3	$ 411.4
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(12.8)	(16.9)	(15.4)
Net income, pro forma	$ 1,242.6	$ 650.4	$ 396.0
Earnings per share			
Basic – as reported	$ 5.79	$ 3.05	$ 1.86
Basic – pro forma	5.73	2.97	1.79
Diluted – as reported	$ 5.69	$ 2.99	$ 1.83
Diluted – pro forma	5.65	2.92	1.76

The current year pro forma expense is not representative of the effect on net income for future years since the Company stopped issuing non-qualified stock option awards as of December 31, 2002.

SUPPLEMENTAL CASH FLOW INFORMATION Cash includes only bank demand deposits. The Company paid income taxes of $579.0 million, $392.0 million and $127.3 million in 2003, 2002 and 2001, respectively. Total interest paid was $99.0 million during 2003, $64.4 million during 2002 and $51.3 million during 2001. Non-cash activity includes the liability for deferred restricted stock compensation and the changes in net unrealized appreciation on investment securities.

The Company effected a 3-for-1 stock split in the form of a dividend to shareholders on April 22, 2002. The Company issued its Common Shares by transferring $147.0 million from retained earnings to the Common Share account. All share and per share amounts and stock prices were adjusted to give effect to the split. Treasury shares were not split.

NEW ACCOUNTING STANDARDS The accounting standards recently issued by the Financial Accounting Standards Board, Statements of Position and Practice Bulletins issued by the American Institute of Certified Public Accountants and consensus positions of the EITF, which are not reflected within this Annual Report, are currently not applicable to the Company, and therefore, would have no impact on the Company's financial condition, cash flows or results of operations.

- 2 - INVESTMENTS

The composition of the investment portfolio at December 31 was:

(millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	% of Total Portfolio
2003					
Available-for-sale:					
U.S. government obligations	$ 1,307.9	$ 7.3	$ (3.0)	$ 1,312.2	10.5%
State and local government obligations	2,841.7	94.6	(6.1)	2,930.2	23.4
Foreign government obligations	13.9	.7	—	14.6	.1
Corporate and U.S. agency debt securities	1,763.1	73.9	(3.2)	1,833.8	14.6
Asset-backed securities	2,972.4	83.4	(13.2)	3,042.6	24.3
	8,899.0	259.9	(25.5)	9,133.4	72.9
Preferred stocks	751.3	34.9	(7.4)	778.8	6.2
Common equities	1,590.6	390.3	(8.8)	1,972.1	15.7
Short-term investments	648.0	—	—	648.0	5.2
	$ 11,888.9	$ 685.1	$ (41.7)	$ 12,532.3	100.0%
2002					
Available-for-sale:					
U.S. government obligations	$ 1,619.6	$ 27.3	$ —	$ 1,646.9	16.0%
State and local government obligations	1,900.3	76.2	(.5)	1,976.0	19.2
Foreign government obligations	25.6	.8	—	26.4	.3
Corporate and U.S. agency debt securities	1,443.1	75.6	(5.9)	1,512.8	14.7
Asset-backed securities	2,420.8	140.1	(10.5)	2,550.4	24.8
	7,409.4	320.0	(16.9)	7,712.5	75.0
Preferred stocks	631.9	35.1	(10.3)	656.7	6.4
Common equities	1,425.3	55.3	(133.3)	1,347.3	13.1
Short-term investments	567.8	—	—	567.8	5.5
	$ 10,034.4	$ 410.4	$ (160.5)	$ 10,284.3	100.0%

See *Note 10 – Other Comprehensive Income* for changes in the net unrealized gains (losses) during the period.

At December 31, 2003, bonds in the principal amount of $79.6 million were on deposit with various regulatory agencies to meet statutory requirements. The Company did not have any securities of one issuer with an aggregate cost or market value exceeding ten percent of total shareholders' equity at December 31, 2003 or 2002.

The components of net investment income for the years ended December 31 were:

(millions)		2003	2002	2001
Available-for-sale:	fixed maturities	$ 369.5	$ 379.4	$ 335.0
	preferred stocks	53.0	45.1	53.8
	common equities	31.1	22.8	14.2
Short-term investments		11.7	7.9	10.6
Investment income		465.3	455.2	413.6
Investment expenses		11.5	11.5	12.7
Net investment income		$ 453.8	$ 443.7	$ 400.9

The components of net realized gains (losses) for the years ended December 31 were:

(millions)		2003	2002	2001
Gross realized gains:				
Available-for-sale:	fixed maturities	$ 108.4	$ 159.4	$ 63.0
	preferred stocks	7.4	12.0	4.2
	common equities	19.0	35.3	119.7
Short-term investments		.1	—	.1
		134.9	206.7	187.0
Gross realized losses:				
Available-for-sale:	fixed maturities	(40.5)	(85.6)	(51.9)
	preferred stocks	(4.1)	(.1)	(31.0)
	common equities	(77.6)	(199.6)	(216.0)
		(122.2)	(285.3)	(298.9)
Net realized gains (losses) on securities:				
Available-for-sale:	fixed maturities	67.9	73.8	11.1
	preferred stocks	3.3	11.9	(26.8)
	common equities	(58.6)	(164.3)	(96.3)
Short-term investments		.1	—	.1
		$ 12.7	$ (78.6)	$ (111.9)
Per share		$ .04	$ (.23)	$ (.32)

For 2003, 2002 and 2001, net realized gains (losses) on securities include $50.3 million, $136.5 million and $36.0 million, respectively, of write downs in securities determined to have an other than temporary decline in market value for securities held at December 31.

The components of gross unrealized losses at December 31, 2003, in accordance with EITF Issue 03-1, "The Meaning of Other-Than-Temporary Impairments," were:

			Unrealized Losses		
(millions)		Total Market Value	Total	Less than 12 Months	12 months or greater
Available-for-sale:	fixed maturities	$ 2,004.9	$ (25.5)	$ (22.9)	$ (2.6)
	preferred stocks	132.3	(7.4)	(2.2)	(5.2)
	common equities	179.2	(8.8)	(2.2)	(6.6)
		$ 2,316.4	$ (41.7)	$ (27.3)	$ (14.4)

The market value for securities in an unrealized loss position for 12 months or greater was $165.1 million.

None of these securities was deemed to have any fundamental issues that would lead the Company to believe that they were other than temporarily impaired. The Company has the intent and ability to hold the fixed-maturity securities and preferred stocks to maturity/redemption, and will do so, as long as their relative value is greater than comparable investment opportunities with similar investment risk characteristics. The Company will retain the common stocks to maintain correlation to the Russell 1000 index as long as the portfolio and index correlation remain similar. If the Company's strategy were to change and these securities were impaired, the Company would recognize a write down in accordance with its stated policy.

Trading securities are accounted for separately in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." At December 31, 2003 and 2002, the Company did not hold any trading securities. Derivatives used for trading purposes are discussed below. Net realized gains (losses) on trading securities for the years ended December 31, 2003, 2002 and 2001 were $.1 million, $0 and $(6.5) million, respectively. Trading securities are not material to the Company's financial condition, cash flows or results of operations and are reported within the available-for-sale portfolio, rather than separately disclosed.

The composition of fixed maturities by maturity at December 31, 2003 was:

(millions)	Cost	Market Value
Less than one year	$ 629.3	$ 643.5
One to five years	4,540.8	4,645.4
Five to ten years	3,661.2	3,774.2
Ten years or greater	67.7	70.3
	$ 8,899.0	$ 9,133.4

Asset-backed securities are reported based upon their projected cash flows. All other securities which do not have a single maturity date are reported at average maturity. Actual maturities may differ from expected maturities because the issuers of the securities may have the right to call or prepay obligations.

The Company records derivative instruments at fair value on the balance sheet, with changes in value reflected in income during the current period. This accounting treatment did not change when SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," became effective January 1, 2001; therefore, no transition adjustment was required.

Derivative instruments are generally used to manage the Company's risks and enhance the yields of the available-for-sale portfolio. This is accomplished by modifying the basis, duration, interest rate or foreign currency characteristics of the portfolio, hedged securities or hedged cash flows. During 2003 and 2002, the Company did not hold any open risk management derivative positions; during 2001, the Company recognized net losses of $2.7 million.

During 2002, the Company entered into a cash flow hedge in anticipation of its $400 million debt issuance, of which $150 million was originally expected to be a 10-year issuance and $250 million a 30-year issuance. The decision to issue all 30-year debt made the 10-year hedge a discontinued hedge and the loss recognized on closing the hedge of $1.5 million was realized in income in accordance with SFAS 133. The debt issuance hedges are described further in *Note 4 – Debt*.

Derivative instruments may also be used for trading purposes. At December 31, 2003, the Company held two derivative instruments used for trading purposes, with a net market value of $5.7 million. During 2003, the Company sold credit default protection related to two issuers, using credit default swaps. The Company matched the notional value of the positions with Treasury notes with an equivalent principal value and maturity to replicate a cash bond position. The net market value of the derivatives and the Treasury notes was $103.2 million as of December 31, 2003. Net gains (losses) on the position were $4.9 million in 2003, including $(.8) million on the Treasury notes. Net gains (losses) on positions were $(.1) million in 2002 and $1.9 million in 2001 and are included in the available-for-sale portfolio.

- 3 - INCOME TAXES

The components of the Company's income tax provision (benefit) were as follows:

(millions)	2003	2002	2001
Current tax provision	$ 543.6	$ 404.9	$ 176.6
Deferred tax (benefit) expense	60.7	(90.8)	(.4)
Total income tax provision	$ 604.3	$ 314.1	$ 176.2

The provision for income taxes in the accompanying consolidated statements of income differed from the statutory rate as follows:

(millions)	2003		2002		2001	
Income before income taxes	$ 1,859.7		$ 981.4		$ 587.6	
Tax at statutory rate	$ 650.9	35%	$ 343.5	35%	$ 205.7	35%
Tax effect of:						
Exempt interest income	(26.9)	(1)	(15.6)	(2)	(14.7)	(3)
Dividends received deduction	(16.6)	(1)	(12.9)	(1)	(12.6)	(2)
Other items, net	(3.1)	—	(.9)	—	(2.2)	—
	$ 604.3	33%	$ 314.1	32%	$ 176.2	30%

At December 31, 2003 and 2002, net income taxes payable were $15.3 million and $75.6 million, respectively.

In July 2003, the Company received notice from the Internal Revenue Service that the Joint Committee of Taxation of Congress had completed its review of a Federal income tax settlement agreed to by the Internal Revenue Service, primarily attributable to the amount of loss reserves deductible for tax purposes. As a result, the Company will receive an income tax refund of approximately $58 million, which is reflected as a tax recoverable as a component of the Company's "Income Taxes" item on the balance sheet. In addition, as of December 31, 2003, the Company estimated that it will receive $31.2 million, or $.09 per share, of interest; interest will continue to accrue thereafter until payment is received.

Deferred income taxes reflect the effect for financial statement reporting purposes of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At December 31, 2003 and 2002, the components of the net deferred tax assets were as follows:

(millions)	2003	2002
Deferred tax assets:		
Unearned premium reserve	$ 268.4	$ 230.7
Non-deductible accruals	84.5	79.2
Loss reserves	113.1	149.6
Write-downs on securities	34.7	50.7
Other	—	5.6
Deferred tax liabilities:		
Deferred acquisition costs	(144.3)	(127.2)
Unrealized gains	(225.2)	(87.5)
Hedges on forecasted transactions	(5.8)	(6.3)
Other	(28.5)	—
Net deferred tax assets	$ 96.9	$ 294.8

- 4 - DEBT

Debt at December 31 consisted of:

(millions)	2003 Cost	2003 Market Value	2002 Cost	2002 Market Value
6.60% Notes due 2004 (issued: $200.0, January 1994)	$ 200.0	$ 200.3	$ 199.8	$ 208.1
7.30% Notes due 2006 (issued: $100.0, May 1996)	99.9	110.8	99.8	110.9
6.375% Senior Notes due 2012 (issued: $350.0, December 2001)	347.5	382.6	347.2	370.4
7% Notes due 2013 (issued: $150.0, October 1993)	148.8	171.0	148.7	165.5
6⅝% Senior Notes due 2029 (issued: $300.0, March 1999)	294.0	312.5	294.0	295.8
6.25% Senior Notes due 2032 (issued: $400.0, November 2002)	393.6	408.8	393.5	432.2
Other debt	6.0	6.0	6.0	6.0
	$ 1,489.8	$ 1,592.0	$ 1,489.0	$ 1,588.9

Debt includes amounts the Company has borrowed and contributed to the capital of its insurance subsidiaries or borrowed for other long-term purposes. Market values are obtained from publicly quoted sources. Interest on all debt is payable semiannually and all principal is due at maturity. There are no restrictive financial covenants.

The 6.25% Senior Notes, the 6.375% Senior Notes and the 6 ⅝% Senior Notes (collectively, "Senior Notes") may be redeemed in whole or in part at any time, at the option of the Company, subject to a "make whole" provision. All other debt is noncallable.

Prior to issuance of the Senior Notes, the Company entered into forecasted debt issuance hedges against possible rises in interest rates. Upon issuance of the applicable debt securities, the hedges were closed. Pursuant to SFAS 133, the Company recognized, as part of accumulated other comprehensive income, a $5.1 million unrealized gain associated with the 6.25% Senior Notes and an $18.4 million unrealized gain associated with the 6.375% Senior Notes. In addition, in 2001, the Company reclassified the remaining $4.2 million unrealized loss associated with the 6 ⅝% Senior Notes from a deferred asset account, in accordance with SFAS 80, "Accounting for Futures Contracts," to accumulated other comprehensive income. The gain (loss) on these hedges is recognized as an adjustment to interest expense over the life of the related debt issuances.

In May 1990, the Company entered into a revolving credit arrangement with National City Bank, which is reviewed by the bank annually. Under this agreement, the Company has the right to borrow up to $10.0 million. By selecting from available credit options, the Company may elect to pay interest at rates related to the London interbank offered rate, the bank's base rate or at a money market rate. A commitment fee is payable on any unused portion of the committed amount at the rate of .125% per annum. The Company had no borrowings under this arrangement at December 31, 2003 or 2002.

Aggregate principal payments on debt outstanding at December 31, 2003, are $206.0 million for 2004, $0 for 2005, $100.0 million for 2006, $0 for 2007, $0 for 2008 and $1.2 billion thereafter.

- 5 - LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the loss and loss adjustment expense reserves, prepared in accordance with GAAP, is summarized as follows:

(millions)	2003	2002	2001
Balance at January 1	$ 3,813.0	$ 3,238.0	$ 2,986.4
Less reinsurance recoverables on unpaid losses	180.9	168.3	201.1
Net balance at January 1	3,632.1	3,069.7	2,785.3
Incurred related to:			
Current year	7,696.5	6,295.6	5,363.1
Prior years	(56.1)	3.5	(99.0)
Total incurred	7,640.4	6,299.1	5,264.1
Paid related to:			
Current year	5,065.4	4,135.0	3,570.4
Prior years	1,860.7	1,601.7	1,409.3
Total paid	6,926.1	5,736.7	4,979.7
Net balance at December 31	4,346.4	3,632.1	3,069.7
Plus reinsurance recoverables on unpaid losses	229.9	180.9	168.3
Balance at December 31	$ 4,576.3	$ 3,813.0	$ 3,238.0

The Company's objective is to establish case and IBNR reserves that are adequate to cover all loss costs, while sustaining minimal variation from the date that the reserves are initially established until losses are fully developed. The Company's reserves developed favorably in 2003 and 2001. In addition to favorable claims settlement during 2003, the Company benefited from a change in its estimate of the Company's future operating losses due to business assigned from the New York Automobile Insurance Plan.

Because the Company is primarily an insurer of motor vehicles, it has limited exposure to environmental, asbestos and general liability claims. The Company has established reserves for these exposures, in amounts which it believes to be adequate based on information currently known. The Company does not believe that these claims will have a material effect on the Company's liquidity, financial condition, cash flows or results of operations.

The Company writes personal and commercial auto insurance in the coastal states, which could be exposed to natural catastrophes. Although the occurrence of a major catastrophe could have a significant affect on the Company's monthly or quarterly results, the Company believes such an event would not be so material as to disrupt the overall normal operations of the Company. The Company is unable to predict if any such events will occur in the near term.

- 6 - REINSURANCE

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies.

As of December 31, 2003, almost 60% of the "prepaid reinsurance premiums" and approximately 55% of the "reinsurance recoverables" are comprised of CAIP, compared to approximately 55% for both items in 2002, for which the Company retains no loss indemnity risk.

The effect of reinsurance on premiums written and earned for the years ended December 31 was as follows:

	2003		2002		2001	
(millions)	Written	Earned	Written	Earned	Written	Earned
Direct premiums	$ 12,187.9	$ 11,597.5	$ 9,665.7	$ 9,078.1	$ 7,379.2	$ 7,299.0
Ceded	(274.5)	(256.5)	(213.8)	(194.7)	(119.2)	(137.3)
Assumed	—	—	.1	.1	.1	.1
Net premiums	$ 11,913.4	$ 11,341.0	$ 9,452.0	$ 8,883.5	$ 7,260.1	$ 7,161.8

Losses and loss adjustment expenses are net of reinsurance ceded of $185.8 million in 2003, $131.8 million in 2002 and $102.4 million in 2001.

- 7 - STATUTORY FINANCIAL INFORMATION

At December 31, 2003, $492.7 million of consolidated statutory policyholders' surplus represents net admitted assets of the Company's insurance subsidiaries and affiliates that are required to meet minimum statutory surplus requirements in such entities' states of domicile. The companies may be licensed in states other than their states of domicile, which may have higher minimum statutory surplus requirements. Generally, the net admitted assets of insurance companies that, subject to other applicable insurance laws and regulations, are available for transfer to the parent company cannot include the net admitted assets required to meet the minimum statutory surplus requirements of the states where the companies are licensed.

During 2003, the insurance subsidiaries paid aggregate cash dividends of $516.2 million to the parent company. Based on the dividend laws currently in effect, the insurance subsidiaries may pay aggregate dividends of $967.2 million in 2004 without prior approval from regulatory authorities.

Statutory policyholders' surplus was $4,538.3 million and $3,370.2 million at December 31, 2003 and 2002, respectively. Statutory net income was $1,260.5 million, $557.4 million and $469.5 million for the years ended December 31, 2003, 2002 and 2001, respectively.

- 8 - EMPLOYEE BENEFIT PLANS

RETIREMENT PLANS The Company has a two-tiered Retirement Security Program. The first tier is a defined contribution pension plan covering all employees who meet requirements as to age and length of service. Contributions vary from 1% to 5% of annual eligible compensation up to the Social Security wage base, based on years of eligible service. Company contributions were $15.4 million in 2003, $13.0 million in 2002 and $10.7 million in 2001.

The second tier is a long-term savings plan under which the Company matches, up to a maximum of 3% of the employee's eligible compensation, amounts contributed to the plan by an employee. Effective April 1, 2002, Company matching contributions may be invested by a participant in any of the investment funds available under the plan. Previously, such matching contributions were required to be invested in the Company stock fund until fully vested. Company matching contributions were $19.9 million in 2003, $16.9 million in 2002 and $14.4 million in 2001.

POSTEMPLOYMENT BENEFITS The Company provides various postemployment benefits to former or inactive employees who meet eligibility requirements, their beneficiaries and covered dependents. Postemployment benefits include salary continuation and disability-related benefits, including workers' compensation, and, if elected, continuation of health-care benefits. The Company's liability was $12.3 million at December 31, 2003, compared to $10.0 million in 2002.

POSTRETIREMENT BENEFITS The Company provides postretirement health and life insurance benefits to all employees who met requirements as to age and length of service at December 31, 1988. This group of employees represents less than one-half of one percent of the Company's current workforce. The Company's funding policy is to contribute annually the maximum amount that can be deducted for Federal income tax purposes. Contributions are intended to provide not only for benefits attributed to services to date, but also for those expected to be earned in the future.

DEFERRED COMPENSATION The Company maintains The Progressive Corporation Executive Deferred Compensation Plan (Deferral Plan), which permits eligible executives to defer receipt of some or all of their annual bonuses or restricted stock awards. These deferred amounts are deemed invested in one or more investment funds, including Common Shares of the Company, offered under the Deferral Plan. All distributions from the Deferral Plan will be made in cash. Prior to January 2004, distributions representing amounts deemed invested in Common Shares were made in Common Shares. The Company reserved 900,000 Common Shares for issuance under the Deferral Plan. Included in the Company's balance sheets is an irrevocable grantor trust established to provide a source of funds to assist the Company in meeting its liabilities under the Deferral Plan. At December 31, 2003 and 2002, the trust held assets of $41.3 million and $23.6 million, respectively, of which $7.1 million and $5.2 million were held in Common Shares, to cover its liabilities.

INCENTIVE COMPENSATION PLANS The Company's incentive compensation plans include executive cash bonus programs for key members of management, a cash gainsharing program for all other employees and other stock-based compensation plans for key members of management and the non-employee directors. The amounts charged to income for cash incentive compensation plans were $233.5 million in 2003, $169.4 million in 2002 and $128.3 million in 2001. The amount charged to income for time-based and performance-based restricted stock awards was $11.0 million in 2003.

The Company's 2003 Incentive Plan and the Company's 1995 Incentive Plan, which provide for the granting of stock-based awards, including stock options and restricted stock awards, to key employees of the Company, has 5 million and 15 million shares authorized, respectively. The 1989 Incentive Plan has expired; however, awards made under the plan prior to expiration are still in effect.

Beginning in 2003, the Company began issuing restricted stock awards in lieu of stock options. The restricted stock awards were issued as either time-based or performance-based awards. The time-based awards vest in equal installments upon the lapse of a period of time, typically over 3, 4 and 5 year periods. The restriction period must be a minimum of six months and one day. The performance-based awards vest upon the achievement of predetermined performance criteria. The restricted stock awards are expensed pro rata over the vesting period based on the market value of the non-deferred awards at the time of grant, while the deferred awards are based on the current market value at the end of the reporting period.

Prior to 2003, the Company issued nonqualified stock options, which were granted for periods up to ten years, become exercisable at various dates not earlier than six months after the date of grant, and remain exercisable for specified periods thereafter. All options granted had an exercise price equal to the market value of the Common Shares on the date of grant. All option exercises are settled in Common Shares.

A summary of all employee restricted stock activity during the year ended December 31, 2003, follows:

	2003	
Restricted Shares	Number of Shares	Weighted Average Grant Price
Beginning of year	—	—
Add (deduct):		
Granted	553,290	$ 65.81
Vested	(655)	65.55
Cancelled	(2,987)	65.55
End of year	549,648	$ 65.81

A summary of all employee stock option activity during the years ended December 31 follows:

Options Outstanding	2003 Number of Shares	2003 Weighted Average Exercise Price	2002 Number of Shares	2002 Weighted Average Exercise Price	2001 Number of Shares	2001 Weighted Average Exercise Price
Beginning of year	11,947,271	$ 27.44	12,682,380	$ 23.81	13,576,176	$ 20.53
Add (deduct):						
Granted	—	—	1,194,192	52.17	2,012,082	30.89
Exercised	(2,826,420)	17.47	(1,464,862)	15.11	(2,437,755)	10.47
Cancelled	(395,814)	32.66	(464,439)	30.81	(468,123)	28.58
End of year	8,725,037	$ 30.43	11,947,271	$ 27.44	12,682,380	$ 23.81
Exercisable, end of year	3,749,453	$ 25.49	4,542,722	$ 17.19	4,206,609	$ 13.19
Available, end of year[1]	11,825,903		6,988,479		7,739,682	

[1]Represents total shares available under both the 1995 and 2003 Incentive Plans, after the granting of stock options and restricted stock awards.

The following employee stock options were outstanding or exercisable as of December 31, 2003:

Range of Exercise Prices	Options Outstanding: Number of Shares	Options Outstanding: Weighted Average Remaining Contractual Life	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number of Shares	Options Exercisable: Weighted Average Exercise Price
$ 10 < 15	298,700	1.00 year	$ 12.74	298,700	$ 12.74
15 < 20	2,899,812	4.82 years	18.20	1,415,373	17.13
20 < 30	1,004,239	3.43 years	23.12	880,246	22.86
30 < 40	1,811,047	6.92 years	30.81	268,595	31.13
40 < 50	1,574,415	4.64 years	44.83	696,285	41.81
50 < 60	1,136,824	7.98 years	52.21	190,254	52.11
$ 10 < 60	8,725,037			3,749,453	

In addition to the employee incentive plans disclosed above, the Company registered 350,000 Common Shares for the 2003 Directors Equity Incentive Plan, which provides for the granting of equity-based incentive awards to non-employee directors of the Company, and 600,000 Common Shares under the 1998 Directors' Stock Option Plan. During 2003, the Company granted 16,102 time-based restricted stock awards, which vest within one year from the date of grant. During 2002 and 2001, the Company granted options for 23,571 shares and 38,853 shares, respectively, to the non-employee directors. These awards have the same vesting, exercise and contract terms as the employee stock option awards. As of December 31, 2003, 2002 and 2001, the directors stock options outstanding and exercisable were 311,061 shares, 343,044 shares and 385,473 shares, respectively.

Under SFAS 123, the Company uses the modified Black-Scholes pricing model to calculate the fair value of the options awarded as of the date of grant, including 62,424 options awarded to the non-employee directors during 2002 and 2001, using the following assumptions:

	2002	2001
Option Term	6 years	6 years
Annualized Volatility Rate	39.5%	37.7%
Risk-Free Rate of Return	4.66%	5.24%
Dividend Yield	.25%	.30%
Black-Scholes Value	44.6%	44.5%

The Company elected to account for terminations when they occur rather than include an attrition factor into its model.

In 2002 and 2001, the Company granted options to certain senior managers, which in addition to having a fixed vesting date, contain a provision for accelerated vesting based on achieving predetermined objectives. To calculate the fair value of these options awarded, the Company used an eight-year option term, based on the exercise pattern of this group of employees, as well as the other assumptions listed above. These assumptions produced a Black-Scholes value of 51.5% and 51.1% for 2002 and 2001, respectively.

- 9 - SEGMENT INFORMATION

The Company writes personal automobile and other specialty property-casualty insurance and provides related services throughout the United States. The Company's Personal Lines segment writes insurance for private passenger automobiles and recreation vehicles, and is generated either by an agency or written directly by the Company. The Personal Lines-Agency channel includes business written by the Company's network of more than 30,000 independent insurance agencies, brokers and strategic alliance business relationships (other insurance companies, financial institutions, employers and national brokerage agencies). The Personal Lines-Direct channel includes business written through 1-800-PROGRESSIVE, online at progressive.com and on behalf of affinity groups. The Personal Lines segment, which includes both the Agency and Direct channels, are managed at a local level and structured into six regions per channel. Each region has a business leader and a product team, with local product managers at the state level.

The Company's Commercial Auto segment writes primary liability, physical damage and other auto-related insurance for automobiles and trucks owned by small businesses. During 2002, the Company began separately reporting the Commercial Auto business from its other businesses and restated all prior periods discussed in this report.

The Company's other businesses primarily include directors' and officers' liability insurance and providing insurance-related services, primarily processing CAIP business. The other businesses are also managing the wind-down of the Company's lender's collateral protection program.

All revenues are generated from external customers and the Company does not have a reliance on any major customer.

The Company evaluates segment profitability based on pretax underwriting and service profit (loss). Expense allocations are based on certain assumptions and estimates; stated segment operating results would change if different methods were applied. The Company does not allocate assets, investment income, interest expense or income taxes to operating segments. In addition, the Company does not separately identify depreciation and amortization expense by segment and such disclosure would be impracticable. Companywide depreciation and amortization expense was $89.3 million in 2003, $83.9 million in 2002 and $81.0 million in 2001. The accounting policies of the operating segments are the same as those described in *Note 1 – Reporting and Accounting Policies.*

Following are the operating results for the years ended December 31:

(millions)	2003 Revenues	2003 Pretax Profit (Loss)	2002 Revenues	2002 Pretax Profit (Loss)	2001 Revenues	2001 Pretax Profit (Loss)
Personal Lines – Agency	$6,948.0	$ 836.0	$5,542.7	$ 388.0	$4,706.8	$ 251.2
Personal Lines – Direct	3,103.0	383.0	2,365.1	203.8	1,787.0	40.9
Total Personal Lines[1]	10,051.0	1,219.0	7,907.8	591.8	6,493.8	292.1
Commercial Auto Business	1,226.7	214.2	880.0	80.0	552.3	45.7
Other businesses[2]	136.3	55.5	130.0	19.1	140.4	13.0
Investments[3]	478.0	466.5	376.6	365.1	301.7	289.0
Interest expense	—	(95.5)	—	(74.6)	—	(52.2)
	$11,892.0	$ 1,859.7	$ 9,294.4	$ 981.4	$7,488.2	$ 587.6

[1]Personal automobile insurance accounted for 93% of the total Personal Lines segment net premiums written in 2003, 2002 and 2001.

[2]For 2003, both revenues and pretax profit include $31.2 million of estimated interest income related to an income tax refund the Company will receive. See *Note 3 – Income Taxes* for further discussion.

[3]Revenues represent recurring investment income and net realized gains (losses) on securities; pretax profit is net of investment expenses.

- 10 - OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended December 31 were as follows:

(millions)	2003 Pretax	2003 Tax (Provision) Benefit	2003 After Tax	2002 Pretax	2002 Tax (Provision) Benefit	2002 After Tax	2001 Pretax	2001 Tax (Provision) Benefit	2001 After Tax
Unrealized gains (losses) arising during period:									
Available-for-sale:									
fixed maturities	$ 2.8	$ (.9)	$ 1.9	$ 240.9	$ (84.3)	$ 156.6	$ 17.0	$ (5.9)	$ 11.1
equity securities	431.6	(151.1)	280.5	(137.8)	48.2	(89.6)	40.9	(14.3)	26.6
Reclassification adjustment:[1]									
Available-for-sale:									
fixed maturities	(71.5)	25.0	(46.5)	(13.8)	4.7	(9.1)	16.7	(5.8)	10.9
equity securities	30.6	(10.7)	19.9	(26.2)	9.2	(17.0)	5.2	(1.8)	3.4
Net unrealized gains (losses)	393.5	(137.7)	255.8	63.1	(22.2)	40.9	79.8	(27.8)	52.0
Net unrealized gains on forecasted transactions[2]	(1.5)	.5	(1.0)	3.8	(1.3)	2.5	14.2	(5.0)	9.2
Foreign currency translation adjustment[3]	.9	—	.9	—	—	—	—	—	—
Other comprehensive income	$ 392.9	$ (137.2)	$ 255.7	$ 66.9	$ (23.5)	$ 43.4	$ 94.0	$ (32.8)	$ 61.2

[1]Represents adjustments for gains (losses) realized in net income for securities held in the portfolio at December 31 of the preceding year.

[2]Entered into for the purpose of managing interest rate risk associated with debt issuances. See *Note 4 – Debt*. The Company expects to reclassify $1.6 million into income within the next 12 months.

[3]Foreign currency translation adjustments have no tax effect.

-11 - LITIGATION

The Company is named as defendant in various lawsuits arising out of its insurance operations. All legal actions relating to claims made under insurance policies are considered by the Company in establishing its loss and loss adjustment expense reserves.

In addition, the Company is named as defendant in a number of class action or individual lawsuits. Other insurance companies face many of these same issues. The lawsuits discussed below are in various stages of development. The Company plans to contest these suits vigorously, but may pursue settlement negotiations in appropriate cases. The outcomes of these cases are uncertain at this time. In accordance with GAAP, the Company is only permitted to establish loss reserves for lawsuits when it is probable that a loss has been incurred and the Company can reasonably estimate its potential exposure (referred to as a loss that is both "probable and estimable" in the discussion below). As to lawsuits that do not satisfy both parts of this GAAP standard, the Company has not established reserves at this time. However, in the event that any one or more of these cases results in a judgment against or settlement by the Company, the resulting liability could have a material impact on the Company's financial condition, cash flows and results of operations.

As required by the GAAP standard, the Company has established loss reserves for lawsuits as to which the Company has determined that a loss is both probable and estimable. Certain of these cases are mentioned in the discussion below. Based on currently available information, the Company believes that its reserves for these lawsuits are reasonable and that the amounts reserved did not have a material impact on the Company's financial condition or results of operations. However, if any one or more of these cases results in a judgment against or settlement by the Company for an amount that is significantly greater than the amount so reserved, the resulting liability could have a material impact on the Company's financial condition, cash flows and results of operations.

There are currently three putative class action lawsuits challenging the Company's use of certain automated database vendors to assist in the adjustment of bodily injury claims. Plaintiffs allege that these databases systematically undervalue the claims. The Company does not consider a loss from these cases to be probable and estimable, and is unable to estimate a range of loss, if any, at this time.

There are currently five putative class action lawsuits challenging the Company's installment fee programs. The Company has successfully defended similar cases in the past and does not consider a loss to be probable and estimable, and is unable to estimate a range of loss, if any, at this time.

There are currently four putative class action lawsuits challenging the Company's practice of specifying aftermarket (non-original equipment manufacturer) replacement parts in the repair of insured or claimant vehicles. Plaintiffs in these cases generally allege that aftermarket parts are inferior to replacement parts manufactured by the vehicle's original manufacturer and that the use of such parts fails to restore the damaged vehicle to its "pre-loss" condition, as required by their insurance policies. The Company does not consider a loss from these cases to be probable and estimable, and is unable to estimate a range of loss, if any, at this time.

There are currently four putative class action lawsuits, and one individual bad faith case, pending against the Company in Florida, challenging the legality of the Company's payment of preferred provider rates on personal injury protection (PIP) claims. The primary issue is whether the Company violated Florida law by paying PIP medical expense claims at preferred provider rates. The Company does not consider a loss to be probable and estimable, and is unable to estimate a range of loss, if any, at this time.

There are currently three putative class action lawsuits challenging the Company's use of certain automated database vendors to assist in the evaluation of total loss claims. Plaintiffs allege that these databases systematically undervalue total loss claims to the detriment of insureds. The Company has been engaged in extensive settlement negotiations concerning these cases over a prolonged period of time and has established a loss reserve for these cases.

There are currently six class action lawsuits challenging certain aspects of the Company's use of credit information and notice requirements under the federal Fair Credit Reporting Act. One of these cases is a state-specific class action that was certified in December 2002. A loss reserve has been established for that case. The Company does not consider a loss from the other five cases to be probable and estimable, and is unable to estimate a range of loss, if any, at this time.

The Company is defending four putative class action lawsuits, in various Texas state courts, alleging that the Company is obligated to reimburse insureds for the inherent diminished value of their vehicles under their auto policies. Plaintiffs define

inherent diminished value as the difference between the market value of the insured automobile before an accident and the market value after proper repair. The Supreme Court of Texas has recently ruled that diminished value recovery is not available under the Texas automobile policy. The Company believes that the ruling should result in the termination of the four pending Texas cases, mentioned above. In February 2002, the Company reached an agreement to settle its Georgia diminution of value case for $19.8 million, plus administrative costs. The claims process was completed in early 2003. The Company believes that Georgia law on diminution of value is an anomaly and has successfully defended several of these cases in other jurisdictions.

The Company is currently defending one federal collective action lawsuit and five state class action lawsuits involving worker classification issues. These lawsuits challenge the Company's exempt employee classification under the federal Fair Labor Standards Act and/or various state laws. In November 2002, the Company reached an agreement to settle its lawsuit relating to the classification of the Company's California claims employees as exempt workers for purposes of state wage and hour laws for $10 million. The claims process for the California case was completed in early 2003. That class action lawsuit was based on California-specific law. The Company continues to believe that its classification of claim representatives as exempt workers is appropriate under federal and state laws. Accordingly, the Company does not consider a loss from the remaining cases to be probable and estimable, and is unable to estimate a range of loss, if any, at this time.

In July 2002, the Company settled a nationwide class action lawsuit challenging one of the Company's claim adjustment practices, known as the charging of "betterment." Specifically, it was alleged that the Company made improper adjustments for depreciation and physical condition in the adjustment of first party physical damage claims. This settlement has received trial court approval and the claims process was completed in early 2003.

The Company is currently defending two groups of individual cases, one in Alabama and one in Mississippi, challenging the subsidiaries' alternative commissions programs. Under these programs, the Company's independent insurance agents were able to offer its insurance products at different commission levels. In July 2002, the Company reached a nationwide settlement of a class action lawsuit challenging the alternative commission programs. The settlement resulted in the payment of approximately $60 million, including the costs of settlement and attorneys' fees. The claims process for that settlement was completed in early 2003. The two groups of cases mentioned above are comprised of individuals that opted out of the national class action settlement. The Company has established a loss reserve for these cases.

The Company is defending one putative class action lawsuit alleging that the Company's rating practices at renewal are improper. The Company does not consider a loss from this case to be probable and estimable, and is unable to establish a range of loss, if any, at this time.

There is currently one national putative class action lawsuit brought on behalf of medical providers disputing the legality of the Company's practice of paying first party medical benefits pursuant to a preferred provider agreement. The Company does not consider a loss to be probable and estimatable, and is unable to estimate a range of loss, if any, at this time.

- 12 - COMMITMENTS AND CONTINGENCIES

The Company has operating lease commitments and service agreements with terms greater than one year, some with options to renew at the end of the contract periods.

The minimum commitments under noncancelable agreements at December 31, 2003, are as follows:

(millions)

Year	Operating Leases	Service Contracts	Total
2004	$ 77.4	$ 76.6	$ 154.0
2005	57.0	41.4	98.4
2006	42.3	1.4	43.7
2007	31.9	1.4	33.3
2008	19.7	1.4	21.1
Thereafter	43.3	2.2	45.5

Total expense incurred by the Company was:

(millions) Year	Operating Leases	Service Contracts	Total
2003	$ 101.6	$ 80.1	$ 181.7
2002	71.0	77.5	148.5
2001	69.9	49.9	119.8

During 2003, the Company incurred $12.2 million of guaranty fund assessments, compared to $21.2 million in 2002 and $14.6 million in 2001. At December 31, 2003 and 2002, the Company had $10.1 million and $17.9 million, respectively, reserved for future assessments on current insolvencies. The Company believes that any assessment in excess of its current reserves will not materially affect the Company's financial condition, cash flows or results of operations.

As of December 31, 2003, the Company had open investment funding commitments of $28.4 million. The Company had no uncollateralized lines or letters of credit as of December 31, 2003 or 2002.

- 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Information about specific valuation techniques and related fair value detail is provided in *Note 1 — Reporting and Accounting Policies, Note 2 — Investments* and *Note 4 — Debt*. The cost and market value of the financial instruments as of December 31 are summarized as follows:

	2003		2002	
(millions)	Cost	Market Value	Cost	Market Value
Investments:				
Available-for-sale: fixed maturities	$ 8,899.0	$ 9,133.4	$ 7,409.4	$ 7,712.5
preferred stocks	751.3	778.8	631.9	656.7
common equities	1,590.6	1,972.1	1,425.3	1,347.3
Short-term investments	648.0	648.0	567.8	567.8
Debt	(1,489.8)	(1,592.0)	(1,489.0)	(1,588.9)

- 14 - RELATED PARTY TRANSACTIONS

The following table summarizes the Company's repurchase of its Common Shares, $1.00 par value, from Peter B. Lewis, the Company's Chairman of the Board, or through an entity owned and controlled, directly or indirectly, by Mr. Lewis. The prices per share equaled the then current market price of the Company's stock as quoted on the New York Stock Exchange. These transactions are part of the Company's ongoing repurchase program to eliminate the effect of dilution created by equity compensation awards.

Date of Purchase	Number of Shares	Price per Share[1]
September 2003	200,000	$ 71.00
January 2003	400,000	52.23
March 2002	6,182	53.92
October 2001	30,866	47.82

[1]Per share amounts were adjusted for the April 22, 2002, 3-for-1 stock split.