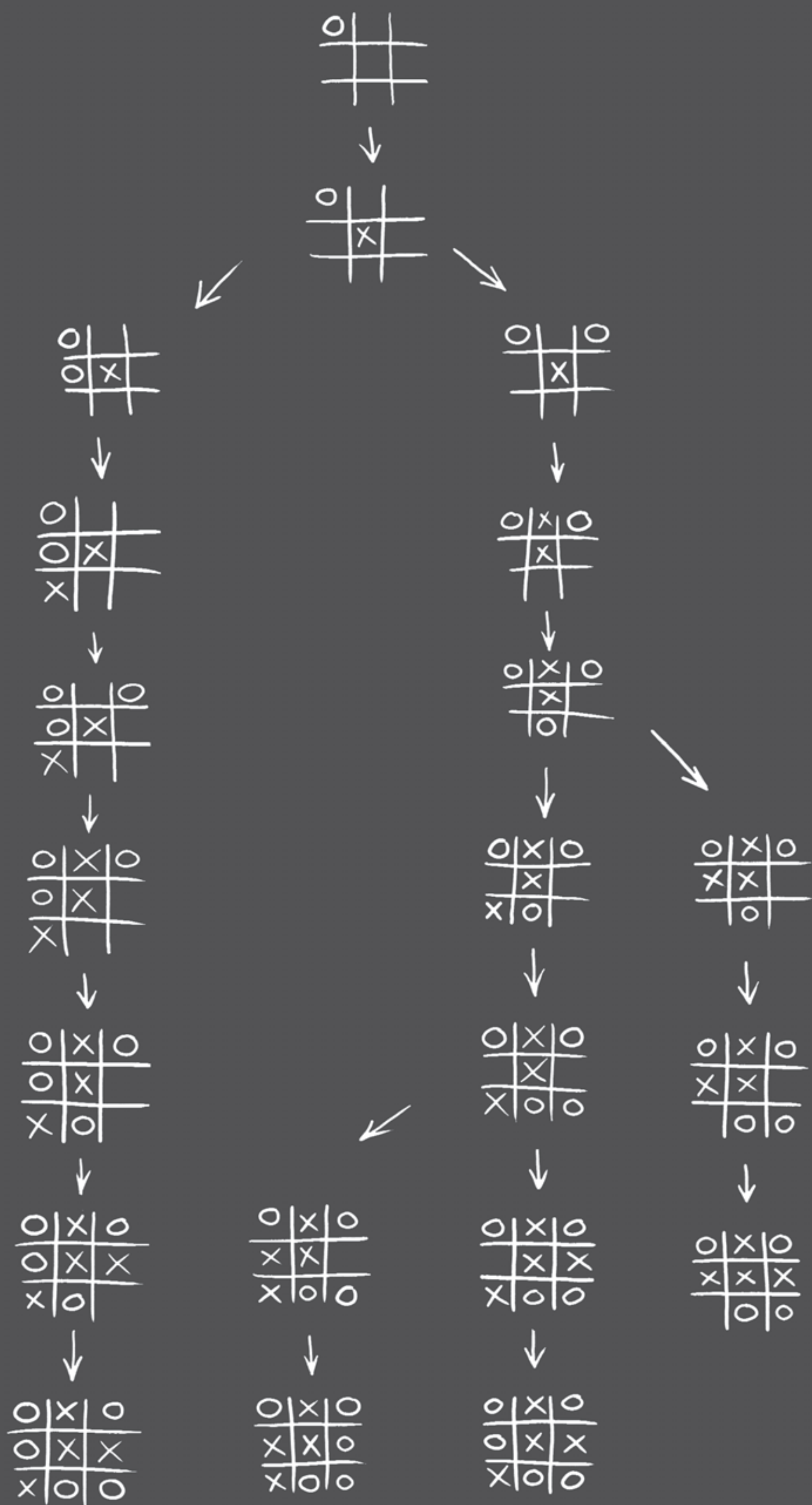
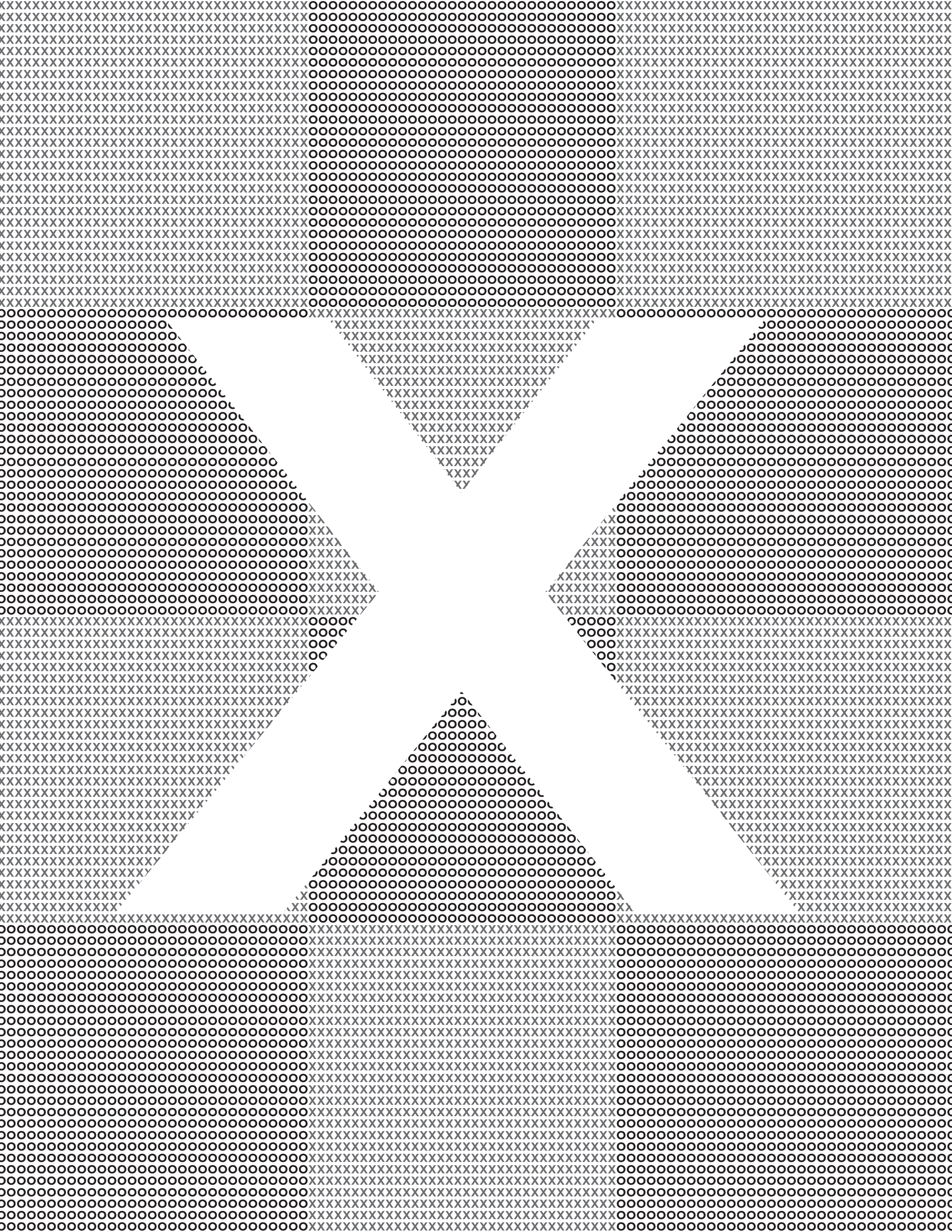
The Progressive Corporation 2007 Annual Report





What's the Next Move?

The Progressive Group of Insurance Companies, in business since 1937, is the country's third largest auto insurance group and largest seller of motorcycle and personal watercraft policies based on premiums written, and is a market leader in commercial auto insurance. Progressive is committed to becoming consumers' #1 choice for auto insurance by providing competitive rates and products that meet drivers' needs throughout their lifetimes, superior online and in-person customer service, and best-in-class, 24-hour claims service, including its concierge level of claims service available at service centers located in major metropolitan areas throughout the United States. X Progressive offers consumers choices in how to shop for, buy and manage their auto insurance policies. The Company offers its products, including personal and commercial auto, motorcycle, boat and recreational vehicle insurance, through more than 30,000 independent insurance agencies throughout the U.S. and online and by phone directly from the Company. X For this year's annual report, Progressive selected "strategy" as the theme and commissioned 25 artists to visually respond to this idea, while considering the question, "What's the next move?" The work of Laura Battle, Tim Bavington, Louise Belcourt, Terry Berlier, Sarah Brenneman, Diana Cooper, Chris Duncan, Mark L. Emerson, Tayo Heuser, Kysa Johnson, Károly Keserü, Scott King, Andrew Masullo, Ed Mieczkowski, Julian Pozzi, Jonathan Schipper, Jered Sprecher, Daniel Sturgis, Hadi Tabatabai, Dannielle Tegeder, Sarah Walker, David Wetzl, Michael Whittle, Will Yackulic, and Daniel Zeller can be found throughout this report and will join Progressive's growing collection of contemporary art.

Five-Year Financial Highlights

(billions–except per share amounts)

	2007	2006	2005	2004	2003
FOR THE YEAR					
Net premiums written	$ 13.8	$ 14.1	$ 14.0	$ 13.4	$ 11.9
Growth over prior year	(3)%	1%	5%	12%	26%
Net premiums earned	$ 13.9	$ 14.1	$ 13.8	$ 13.2	$ 11.3
Growth over prior year	(2)%	3%	5%	16%	28%
Total revenues	$ 14.7	$ 14.8	$ 14.3	$ 13.8	$ 11.9
Net income	$ 1.18	$ 1.65	$ 1.39	$ 1.65	$ 1.26
Underwriting margin	7.4%	13.3%	11.9%	14.9%	12.7%
Net income per share (diluted basis)	$ 1.65	$ 2.10	$ 1.74	$ 1.91	$ 1.42

(billions–except shares outstanding, per share amounts and policies in force)

	2007	2006	2005	2004	2003
AT YEAR-END					
Common Shares outstanding (millions)	680.2	748.0	789.3	801.6	865.8
Book value per share	$ 7.26	$ 9.15	$ 7.74	$ 6.43	$ 5.81
Consolidated shareholders' equity	$ 4.9	$ 6.8	$ 6.1	$ 5.2	$ 5.0
Market capitalization	$ 13.0	$ 18.1	$ 23.0	$ 17.0	$ 18.1
Return on average shareholders' equity	19.5%	25.3%	25.0%	30.0%	29.1%
Policies in Force (thousands)					
Personal Lines					
Agency–Auto	4,396.8	4,433.1	4,491.4	4,244.9	3,965.7
Direct–Auto	2,598.5	2,428.5	2,327.7	2,084.1	1,852.2
Special Lines	3,120.3	2,879.5	2,674.9	2,351.3	1,990.0
Total Personal Lines	10,115.6	9,741.1	9,494.0	8,680.3	7,807.9
Growth over prior year	4%	3%	9%	11%	19%
Commercial Auto	539.2	503.2	468.2	420.2	365.1
Growth over prior year	7%	7%	11%	15%	26%
Market share[1]	7.2%	7.4%	7.5%	7.3%	6.8%
Industry net premiums written[2]	$ 160.8	$ 160.2	$ 159.6	$ 157.3	$ 151.2

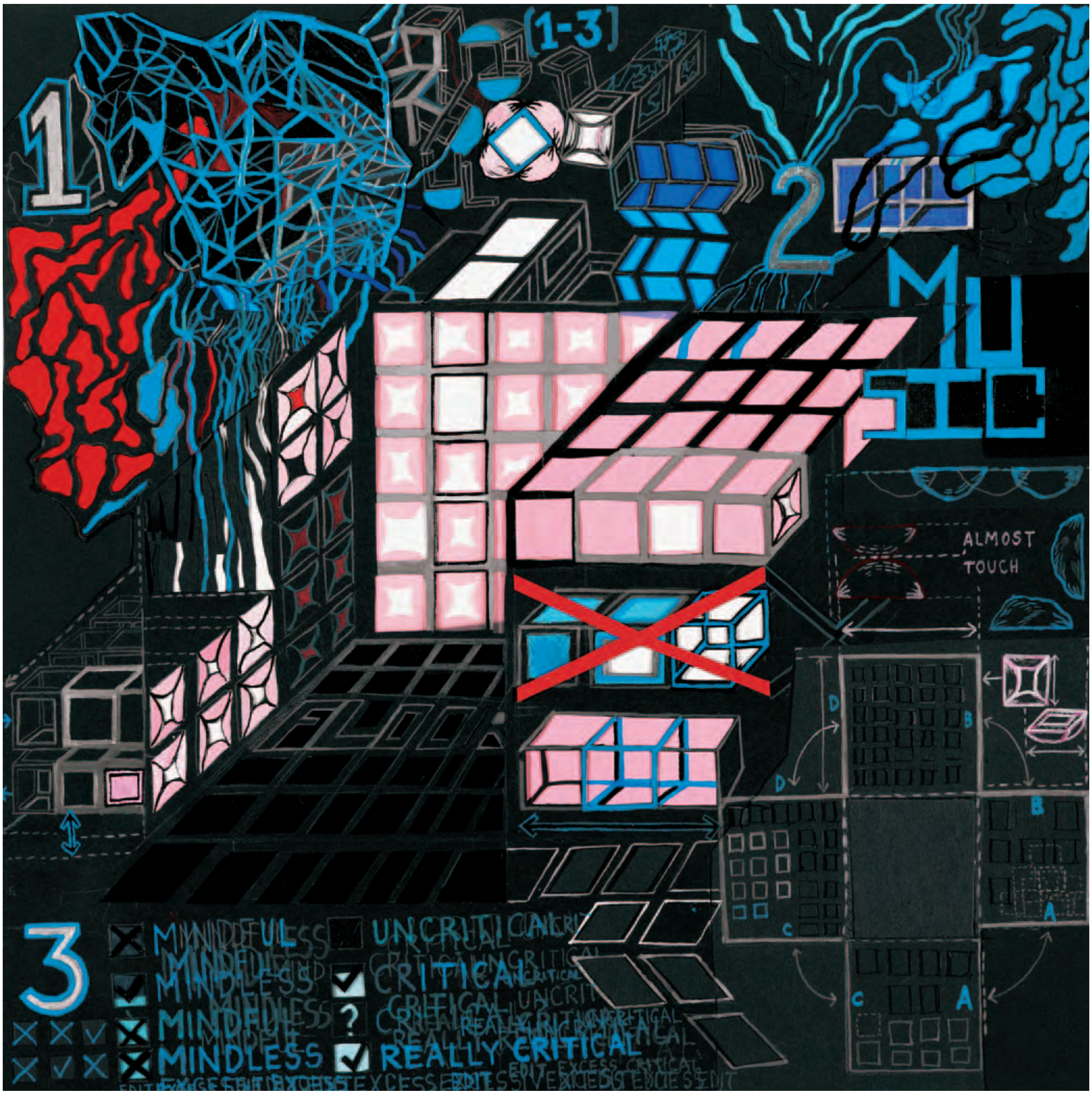
	1-Year	3-Year	5-Year
STOCK PRICE APPRECIATION (DEPRECIATION)[3]			
Progressive	(12.6)%	0%	11.3%
S&P 500	5.5%	8.6%	12.8%

[1]Represents Progressive's personal auto business as a percent of the U.S. personal auto insurance market; 2007 is estimated.

[2]Represents U.S. personal auto insurance market net premiums written as reported by A.M. Best Company, Inc.; 2007 is estimated.

[3]Represents average annual compounded rate of increase (decrease) and assumes dividend reinvestment.

All share and per share amounts were adjusted for the May 18, 2006, 4-for-1 stock split.



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Vision and Values

Communicating a clear picture of Progressive by stating what we try to achieve (Vision), how we interact with customers (Customer Value Proposition) and what guides our behavior (Core Values) permits all people associated with us to understand what we expect of ourselves and each other and how we conduct our business.

VISION

We seek to be an excellent, innovative, growing and enduring business by cost-effectively and profitably reducing the human trauma and economic costs of auto accidents and other mishaps, and by building a recognized, trusted, admired, business-generating brand. We seek to maximize shareholder value and to provide a positive environment that attracts quality people who develop and achieve ambitious growth plans.

CUSTOMER VALUE PROPOSITION

Our Customer Value Proposition provides a litmus test for customer interactions and relationships and innovation.

Fast, Fair, Better That's what you can expect from Progressive. Everything we do recognizes the needs of busy consumers, who are cost-conscious, increasingly savvy about insurance and ready for new, easy ways to quote, buy and manage their policies, including claims service that respects their time and reduces the trauma and inconvenience of loss.

CORE VALUES

Progressive's Core Values serve as the foundation for our corporate culture. They govern our decisions and define the manner in which we conduct our business and how we interact with all interested parties. We want them understood and embraced by all Progressive people. Growth and change provide new perspective, requiring regular refinement of Core Values.

Integrity We revere honesty. We adhere to the highest ethical standards, provide timely, accurate and complete financial reporting, encourage disclosing bad news and welcome disagreement.

Golden Rule We respect all people, value the differences among them and deal with them in the way we want to be dealt with. This requires us to know ourselves and to try to understand others.

Objectives We strive to communicate clearly Progressive's ambitious objectives and our people's personal and team objectives. We evaluate performance against all these objectives.

Excellence We strive constantly to improve in order to meet and exceed the highest expectations of our customers, agents, shareholders and people. We teach and encourage our people to improve performance and to reduce the costs of what they do for customers. We base their rewards on results and promotion on ability.

Profit The opportunity to earn a profit is how the competitive free-enterprise system motivates investment to enhance human health and happiness. Profits reflect our customers' and claimants' increasingly positive view of Progressive.

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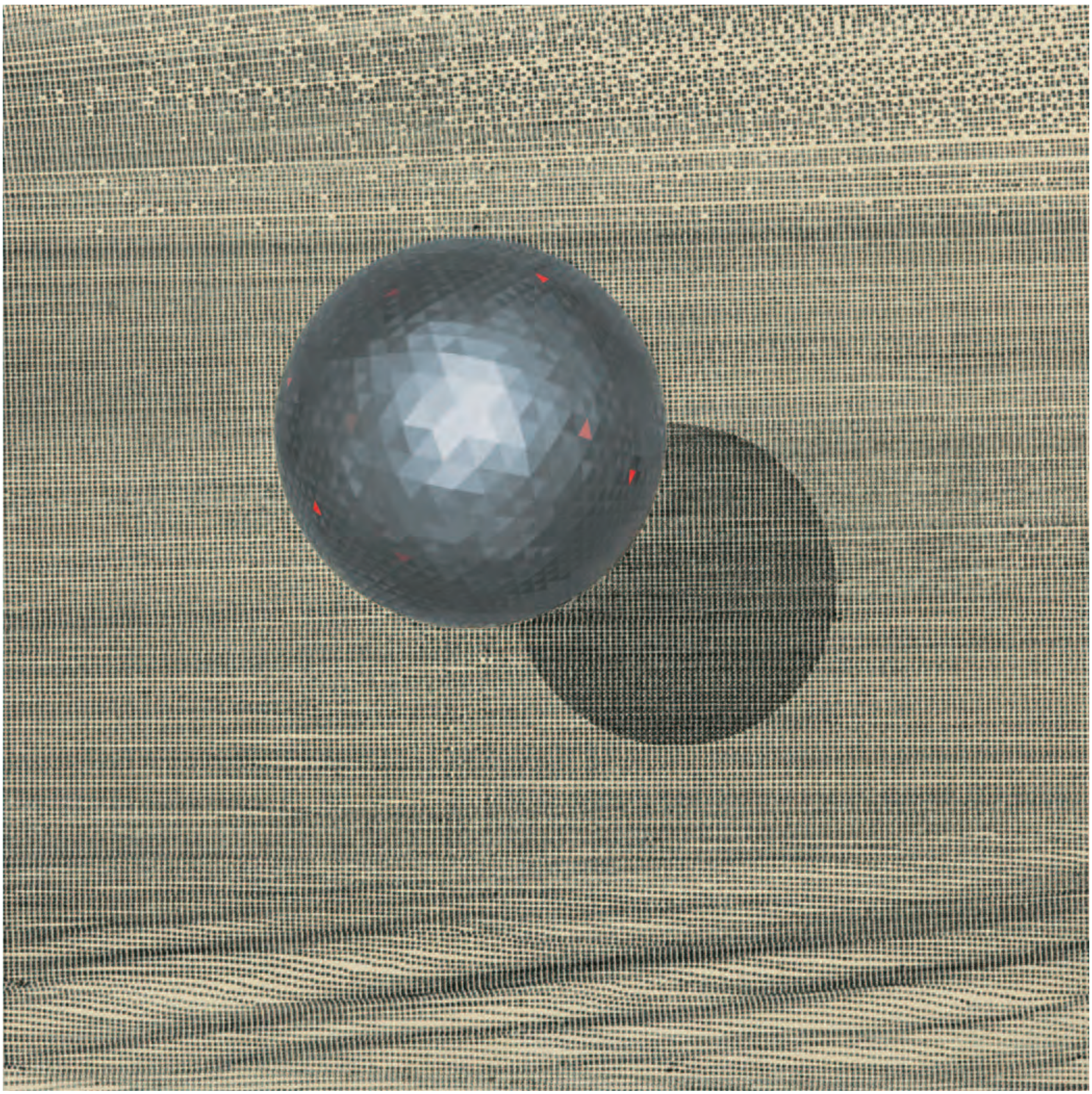
In 1988, California consumers sent a strong message to the industry on how dissatisfied they were with insurance companies and how difficult it was to shop for car insurance and make effective comparisons. In response, we implemented 24/7 customer and claims service and started offering free apples-to-apples auto insurance rate comparisons by phone.



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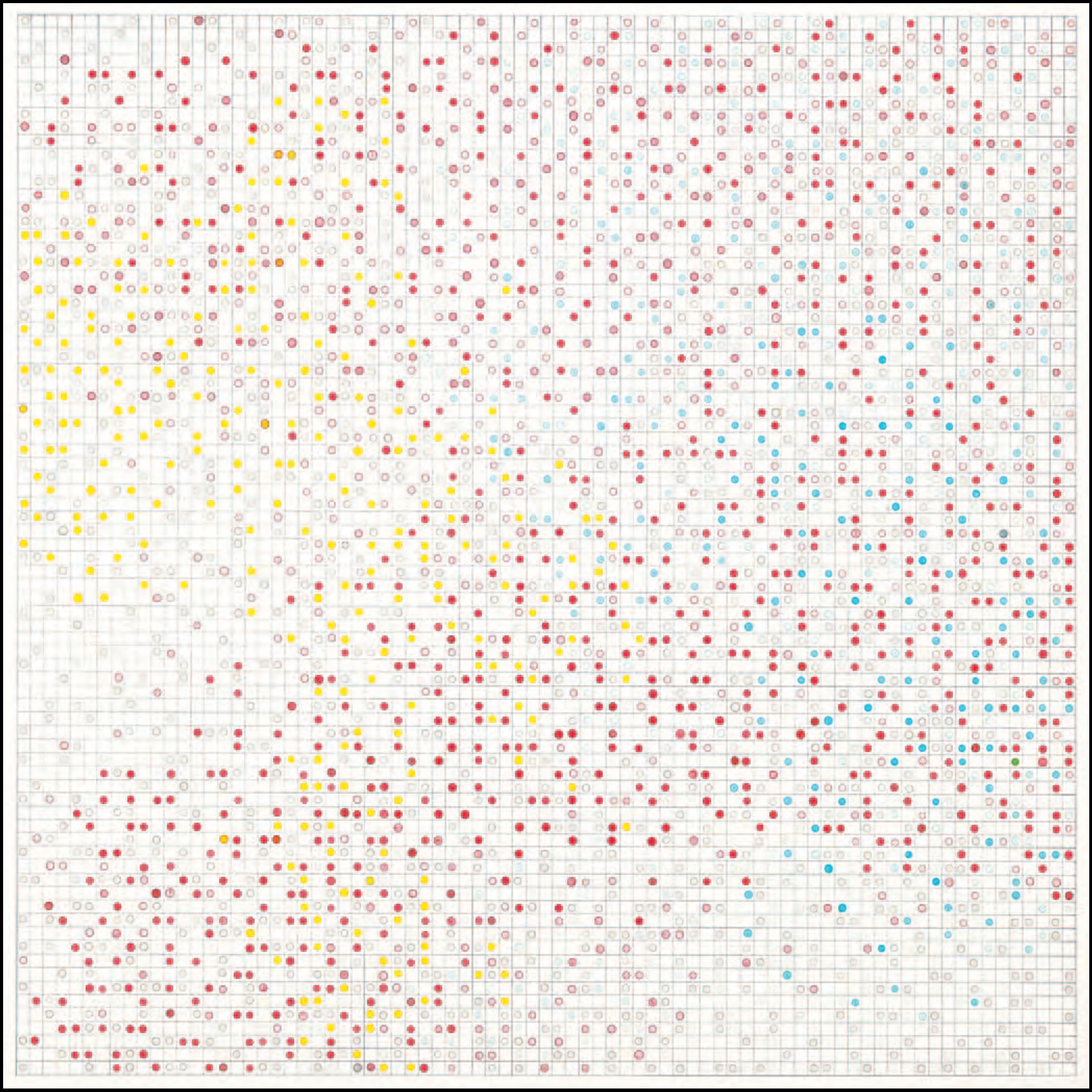
Realizing the power of the Internet and changing consumer behavior, in 1995, we became the first major auto insurer in the U.S. to go online—reaching more potential customers than ever before and offering our comparison rates conveniently on our Web site. In 1997, we became the first auto insurer to sell online in "real-time" and, in 2007, we introduced the industry's first Web 2.0 site.



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2007, by Progressive growth standards, was slower going than any of us would like. While growth is appropriately the headline story for the year, it is important to reiterate our commitment to profitable growth as the only growth we find acceptable. This is a commitment which almost certainly will take on more relevance in 2008 as margins more closely approximate our 96 combined ratio goal than at any time in the past several years. Profitability for 2007 exceeded our goal, with a combined ratio of 92.6 contributing to net income just short of $1.2 billion.

In comparison with prior years, profitability and premium growth are both down and they directly reflect the pricing strategy we enacted in mid-2006 when we began reducing prices to grow policies in force as fast as possible. Our transition from wide margins to current conditions did not produce the aggregate revenue growth we had hoped for.

We are confident that, long-term, we are best served providing product for our customers at our target profitability levels and, consistent with our culture, attempting to grow our customer base as fast as possible.

GROWTH

Using the measure of growth we care about most — number of policies in force — we ended the year with more customers than any prior year in each major product line (Personal Auto, Special Lines and Commercial Auto). On the other hand, more traditional measures of growth — written and earned premium — fell short of 2006 by 3% and 2%, respectively, with rate decreases not fully offset by the increase in policies. We estimate that for 2007, written premiums in the private passenger auto industry will remain relatively flat.

Personal auto's policy growth of 2% for the year reflects a decline in our agency-produced business of 1% and a gain of 7% in our directly acquired customers. Our preference would be for healthy growth in all business areas. However, customers acquired directly through the Internet remain our fastest personal auto growth segment; we believe this reflects, in part, changing consumers' preferences.

In light of our rate changes, the Agency business results were a disappointment for the year.

The reality is that the standard of pricing sophistication among our most important competitors has improved, as has the technology used to present rates and make the sale. More often, our Agency rates are being presented to consumers alongside competitors'.

This means that it is imperative that we redouble our efforts to lead in the application of rating and segmentation skills, while maintaining our low-cost position for non-claims expenses and excellent claims resolution quality.

Our Direct business had more favorable outcomes from our rate reductions. The percentage of shoppers who became customers after seeking a quote increased, as did the expected tenure of current customers. As we better understand this channel and the consumers who favor it, our activities fall into two primary areas of opportunity:

One is to maximize the likelihood of having the customer buy. We can do this by providing a clear presentation of the options available, without overwhelming them, and better meeting their needs for related products, such as homeowners insurance, even if they are not "manufactured" by Progressive.

The second is to increase the overall number of shoppers seeking a Progressive quote. Our brand development efforts, while producing many encouraging signs in 2007, have not yet put Progressive consistently at the top-of-mind levels for consumers that we believe will be necessary to meet our growth aspirations.

Policy growth in Special Lines and Commercial Auto was 8% and 7%, respectively. While we would take more growth in a heartbeat, each of these lines has products with market-leading share positions, making growth just that much harder to come by. It is also abundantly clear that these two successful parts of our business face increasingly intense competition. This forces us to challenge ourselves continuously to ensure our leadership in product design and exceptional service delivery.

I believe that Progressive, and many of our competitors, have now almost fully adjusted pricing to reflect the favorable accident frequency of the past several years and rates and losses now appear to be coming more in balance.

We have openly communicated that we expect to see a higher likelihood of increasing rates to match inflation in our claims costs, primarily driven by bodily injury severities. This is in contrast to what has been a period of about a year and a half of widespread reductions in insurance rates. If this holds true, we will be operating in what I would call more normal conditions.

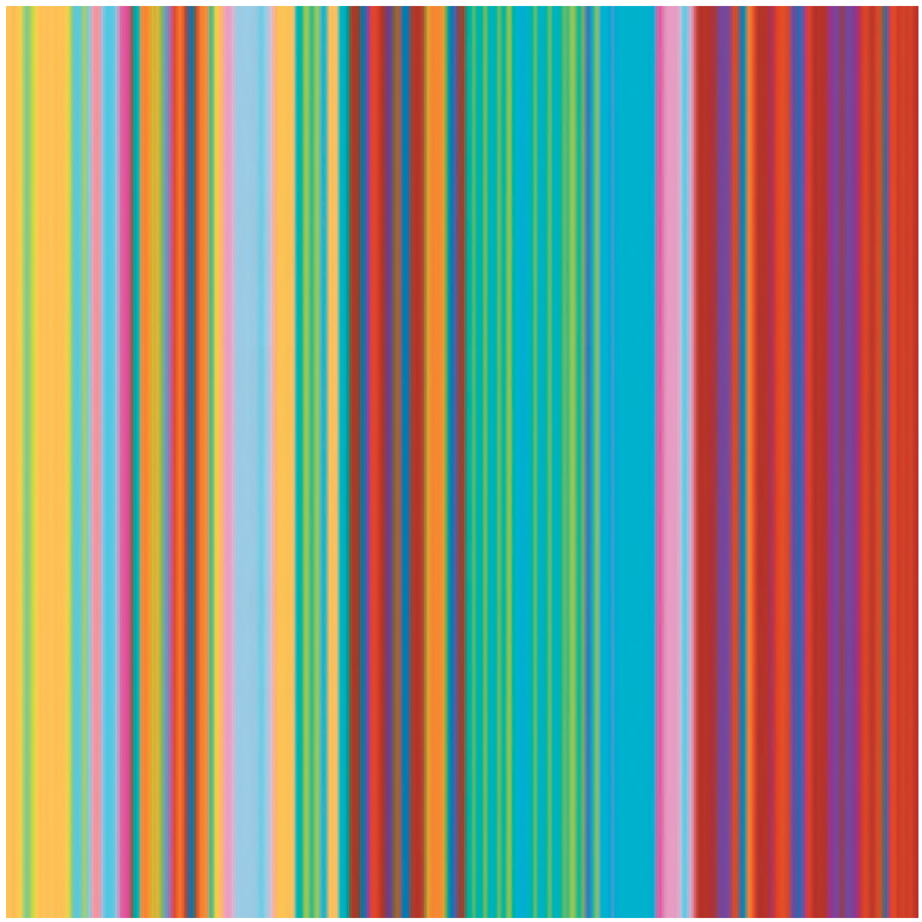
Under these conditions, the challenge is to price accurately and react quickly to market trends, something that has traditionally been a strength for us. We enter this market with the added benefit of the investments we've made in Claims over the past several years that are now producing high-quality claims resolutions, better customer experiences and impressive productivity advances.

COMPETITIVE DYNAMICS

Few would challenge that the competitive dynamics of our industry are changing. As a result, the skills we require of ourselves and the experiences our customers expect of us are evolving, in many cases, rapidly.

The challenges we face each day force us to think about "What's the next move?" It is this constant questioning—how do we do things better tomorrow than we did today—that makes Progressive, *Progressive*. The art in this year's annual report represents 25 artists' responses to the same challenge.

2007 was a year with notable and important progress on many fronts. I'll highlight four areas of competitive focus for Progressive that reflect part of our response to the changing dynamics.



1 Continued Focus on Customer Satisfaction and Loyalty

In this letter last year, I reported on the companywide deployment of a "Net Promoter® Score" (NPS), which can provide substantial insight about those customers who identify themselves as promoters, detractors, or simply indifferent based on their willingness to refer us to others.

Introducing such a measure has given us a sharper read on how our customers perceive us. A referral, or willingness to refer, speaks volumes about an individual's attitude toward us. How we treat our customers is completely within our control, which drives what they think, feel and say about our service.

A particularly pleasing 2007 result is the measurable progress we made in advancing our Net Promoter Score. Overall scores from customers in most of our product lines increased in 2007, with big gains in our auto offerings sold through agents and direct.

Our claims service, including our concierge level of service, continues to be one of the most valued customer experiences we offer and has high measured satisfaction.

In addition to macro measures, more targeted views of NPS have become an excellent diagnostic tool for many aspects of the customer experience and I'm thrilled with how enthusiastically this measure has been embraced throughout the company and the value it helps drive.

Our culture is willingly expanding to embrace the subtleties of really great customer experiences. This began several years ago with the highly differentiated

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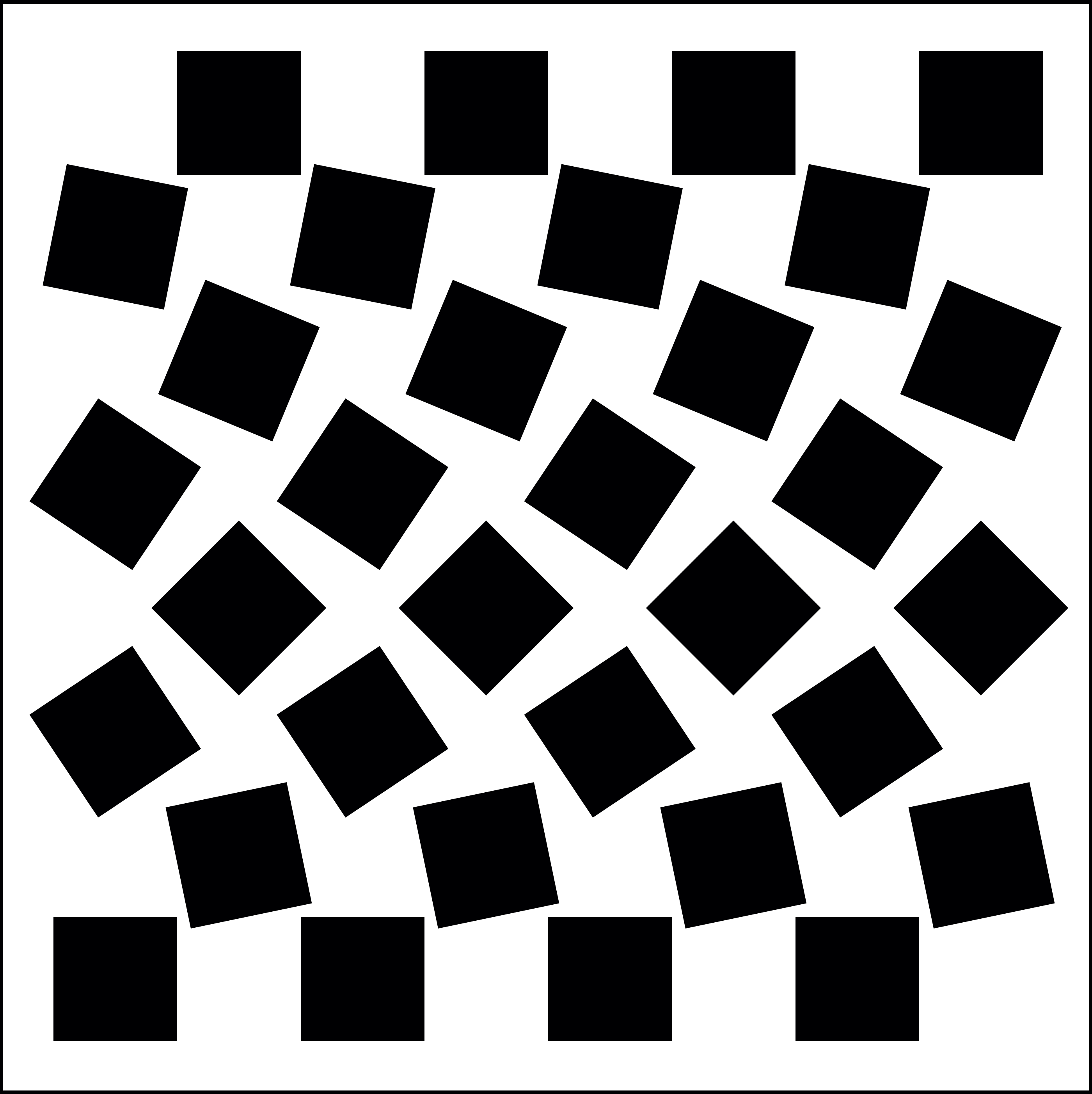
Responding quickly and effectively when a claim is reported helps reduce the human trauma associated with auto accidents. In 1990, we introduced our Immediate Response® claims service and encouraged all customers to call immediately after an incident so we could make face-to-face contact within a few hours. Today, we still have 24/7 claims service for reporting an accident and online tracking so you know exactly where your claim stands.



We also realized that managing the vehicle repair process following a crash is time-consuming. By some accounts, it can take up to as much as four days of a person's time. Realizing the value of a person's time, in 2003, we introduced a concierge level of claims service available at Progressive Service Centers. What used to take four days, now takes only 15 minutes.

and, we think, superior concierge level of claims service. More recently, we are focusing on more effective and consistent customer communication, with a voice that accurately reflects who we are and how we think our customers would best understand what we have to say.

The ultimate reward for our efforts is measured by customer actions. The consistently increasing gains in customer tenure we have experienced throughout the year in both our Agency and Direct businesses, and across product lines, is our best and most meaningful outcome. So far, I like what I see and believe our actions and customer behavior changes are related, even if our math is less precise on exactly how.

Perhaps confirming that we are heading in the right direction, the J.D. Power National Auto Insurance Study reported this year that we had climbed in their rankings of customer service. In fact, over the past five years, we made the largest gain in customer satisfaction in our industry grouping. Full disclosure requires me to acknowledge we started at a low point, and are now more in the middle of the pack. While we can't change history, acceptance of that reported perception and corresponding action will shape our future.

2 The Explosive Influence of Brand Building and Advertising

Perhaps influenced by the last five years of industry underwriting profit on the heels of many years of underwriting losses, one of the most visible signs of the changing competitive dynamic is the focus among industry leaders on brand development and consumer communication.

In 2007, we made several significant "foundation" decisions regarding our brand and advertising efforts. We completed our announced move to a single Progressive brand and consolidated our two brand groups into a centralized marketing group. We also re-established our Immediate Response Vehicle as our icon and made necessary, and extensive, progress on our visual identity. These efforts will allow for greater consistency in future branding efforts than we have had in recent years and each will be further developed and built upon in 2008.

During the year, we strengthened our marketing team and got more in sync with our ad agency. We have challenged our teams to produce campaigns that have thematic continuity, make real breakthroughs in generating interest and have a strong call to action. Early work on new campaigns and ideas looks encouraging for building our momentum on this front.

Our introduction in the latter part of the year of Pet Injury Coverage—recognizing that for many customers, pets are often a valued passenger in the vehicle—is another first from Progressive. For the target group, this was a fresh and appealing message and reaction was surprisingly positive. This type of activity can be very beneficial to our awareness efforts and is something we expect to continue.

In January of 2008, we announced a naming rights and sponsorship deal with the Cleveland Indians Major League Baseball team. Progressive Field is the new name for the ballpark and Progressive is the exclusive auto insurer of the team. This relationship reallocates about 1% of our annual media spend and is intended to generate greater exposure for Progressive reaching an estimated 120 million baseball fans each year.

❸ The Increasing Role of Technology

We are observing the reach of the Internet well beyond the initial quote and sale to now facilitating more post-sale transactions.

Both our Agency and Direct offerings are using e-signature and e-fulfillment as an efficient means to complete the sales transaction. We have put considerable effort into making this effective and valued.

Beyond the sale, customers are increasingly using online service to make changes in their policy, check policy status and make payments. We are actively working toward increasing the number of customers who accept paperless as their preferred means of interacting with us. A trend of decreasing calls per policy and increasing clicks per policy is very acceptable, allowing our representatives and agents to focus on more complex customer needs.

Recognizing the role the Internet plays in every aspect of the insurance transaction for consumers and the essential interface it provides between us and our agents is a critical priority. Leadership in this area is our objective and, while not a specific measure, we were happy to be recognized as "Best Insurance Web Site" by the Web Marketing Association and for receiving the #1 rank in auto insurance Web sites from Keynote Competitive Research, a position we've maintained in 11 out of 12 ranking periods since 2000.

As I write this letter, we have our first customers using new technology that supplies us with vehicle activity data wirelessly and routinely, supporting our unique usage-based insurance offering. We have been experimenting with vehicle-provided data

for some time and using that new and relevant data to provide customers with rates that best reflect their actual driving behaviors. The challenge of changing consumers' comfort level with this form of insurance rating is not something we underestimate, but we believe the concept of more customized rating can become an interesting and powerful part of who we are, building on our long-time association with innovation in the industry. The new technology better matches the concept and makes for a very interesting outlook beginning in 2008.

4 The Importance of Low Cost and Speed to Market

Falling average premium per policy during the course of 2007 deleveraged some of the gains we had made in our non-claims expense ratio and we ended the year with a 21.1 expense ratio. Although it is up from the prior year's 20.2, it is still notably one of the better ratios in the industry.

While this is only a part of the total cost and value proposition we offer consumers, we view low cost as a necessary condition to being extremely competitive. To that end, in 2007, we reviewed our structure and made organizational changes designed to increase our ability to execute on key strategies, eliminate redundancies, lower our non-claims expense ratio and foster growth through more competitive pricing and improved customer retention.

Our technology efforts are a critical part of everything we do and we are appropriately proud of them. In late 2007, and continuing in 2008, additional effort is focused on getting the maximum value for the organization by ensuring greater speed to market of our most important initiatives. Based on what we see, we are confident there are more gains to be made.

Our collective focus on every area of cost management, combined with our retention initiatives, gives me confidence that, over time, we can expect levels of non-claims expense better than we have achieved to date.

CAPITAL MANAGEMENT AND INVESTING

2007 was an active year in restructuring our capital position. Consistent with our long-standing and continuing position on capital management — to repurchase shares when our capital balances, view of the future and the stock's price make it attractive to do so — we continued to repurchase shares in the first half of the year.

After a number of years of strong profitability, however, we had accumulated capital in excess of our immediate business needs and believed a more comprehensive review of capitalization was warranted.

In June, we announced a recapitalization plan, the key elements of which were: a return of capital to shareholders via a one-time extraordinary cash dividend of $2 per share; the issuance of $1 billion of hybrid debt securities; and, a reconfirmation of our intention to repurchase our shares in the open market and through a 10b5-1 plan, which extended the availability of our buying window. We were very happy with the execution of this plan, which resulted in the return of approximately $3 billion to shareholders in 2007 through dividend and repurchase activity.

We enter 2008 in a strong, well-balanced capital position, with reduced shareholder equity and an increased level of long-term debt. Our debt-to-total capital ratio of 30.6% was slightly over our published policy of maintaining debt-to-total capital below 30%. We expect the ratio to fluctuate somewhat, but our policy remains our benchmark.

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We do not believe in providing earnings guidance, but realized that reporting financial results on a quarterly basis often left unanswered questions. To address these questions, in 2001 we began reporting operating results on a monthly basis.

No quarterly dividends were paid in 2007, since this is the first year of the annual variable dividend documented in prior reports. This annual dividend was declared by the Board of Directors on December 14 using year-end results for after-tax underwriting income and the final Gainshare factor of .74. The dividend, paid on January 31, was 14.5 cents per share, compared to 2006 total dividends of 3.25 cents per share.

The Board has established a 20% target of after-tax underwriting income as the base to which the 2008 Gainshare factor will be applied for the 2008 calendar year dividend calculation. We anticipate no substantive change in the dividend format or calculation, but will add the pragmatic constraint that if our comprehensive income (which includes investment income and realized and unrealized gains and losses) is less than after-tax underwriting income, no dividend will be payable.

The Gainshare calculation is recalibrated every year, but the structure generally remains similar. Last year, we introduced greater accountability for the new and renewal business components of growth in our Direct business. We are very comfortable with the calibration and approach and will extend that structure to all business units in 2008 consistent with our efforts to maximize retention of our customers.

If 2007 was a year of "adjustment" for auto insurance rates, it pales in comparison to the "adjustment" in the mortgage-backed investment markets. Our strategy of maintaining a high-quality investment portfolio served us well during the disruptions that emerged in

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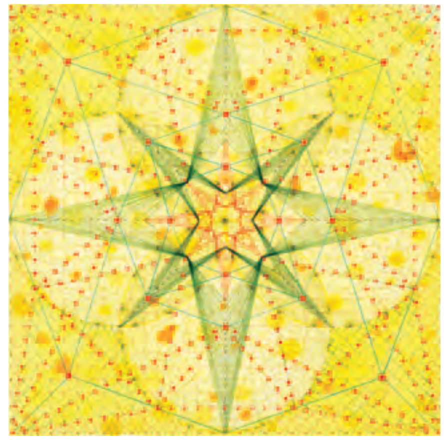
In the spirit of transparency, we realized that we had more information available monthly than just underwriting activity. That is why in 2003 we decided to expand our monthly disclosures to report consolidated financial statements and in 2004 added monthly commentary to our releases. We remain the only public company providing this level of information monthly.

the second half of the year. However, relying on bond ratings and largely avoiding direct exposure to sectors that performed poorly was not enough in 2007.

While our direct exposure to sub-prime related instruments was small (less than 2% of the portfolio at any point during the year), we do have exposure to many of the largest banks and financial institutions that have taken significant losses from their positions in similar holdings. We invest in the bonds and preferred stocks of these institutions. The market value of these investments has declined as the underlying credit quality of these institutions deteriorated and many needed to raise capital.

We ended the year with net unrealized gains on the overall portfolio of $715.4 million, and a total return of 4.7% for the year.

Reflecting the generally heightened interest of investors, we have increased our disclosure on individual asset classes in our annual reporting.



LOOKING FORWARD

We are continuously motivated by our aspiration of becoming Consumers' # 1 Choice for Auto Insurance throughout their insurable lives.

Our opportunities are clear and exciting and include:

- Building a stronger brand and communicating it well;
- Building on our retention gains and providing continuity of coverage throughout a customer's lifetime;
- Maintaining a focus on operating at a lower cost than competitors, while providing remarkable service;
- Creating more responsive product and service offerings for the consumers we currently do not reach; and, as always,
- Continuing to be innovative in all we do.

In March of 2007, we celebrated 70 years in business. Many things have changed during that time, and our challenges and opportunities have evolved. The important constants are the contributions of Progressive people and the independent insurance agents who choose to represent us. Our achievements are a result of their efforts and we sincerely thank them.

Equally important are the customers we are privileged to serve and the shareholders who support what we are doing. Thank you.

Glenn M. Renwick
President and Chief Executive Officer

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Objectives, Policies and Operations Summary

Consistent achievement of superior results requires that our people understand Progressive's objectives and their specific roles, and that their personal objectives dovetail with Progressive's. Our objectives are ambitious, yet realistic. We recognize that the dynamics of each distribution channel are very different and, therefore, have established a product management system responsible for achieving stated financial objectives over rolling five-year periods. Progressive monitors its financial policies continuously and strives to meet these targets annually. Experience always clarifies objectives and illuminates better policies. We constantly evolve as we monitor the execution of our policies and progress toward achieving our objectives.

OBJECTIVES

Profitability Progressive's most important goal is for our insurance subsidiaries to produce an aggregate calendar-year underwriting profit of at least 4%. Our business is a composite of many product offerings defined in part by product type, distribution channel, geography, customer tenure and underwriting grouping. Each of these products has targeted operating parameters based on level of maturity, underlying cost structures, customer mix and policy life expectancy. Our aggregate goal is the balanced blend of these individual performance targets in any calendar year.

Growth Our goal is to grow as fast as possible, constrained only by our profitability objective and our ability to provide high-quality customer service. Progressive is a growth-oriented company and management incentives are tied to profitable growth.

We report Personal Lines and Commercial Auto results separately. We further break down our Personal Lines' results by channel (Agency and Direct) to give shareholders a clearer picture of the business dynamics of each distribution method and their respective rates of growth. Aggregate expense ratios and aggregate growth rates disguise the true nature and performance of each business.

FINANCIAL POLICIES

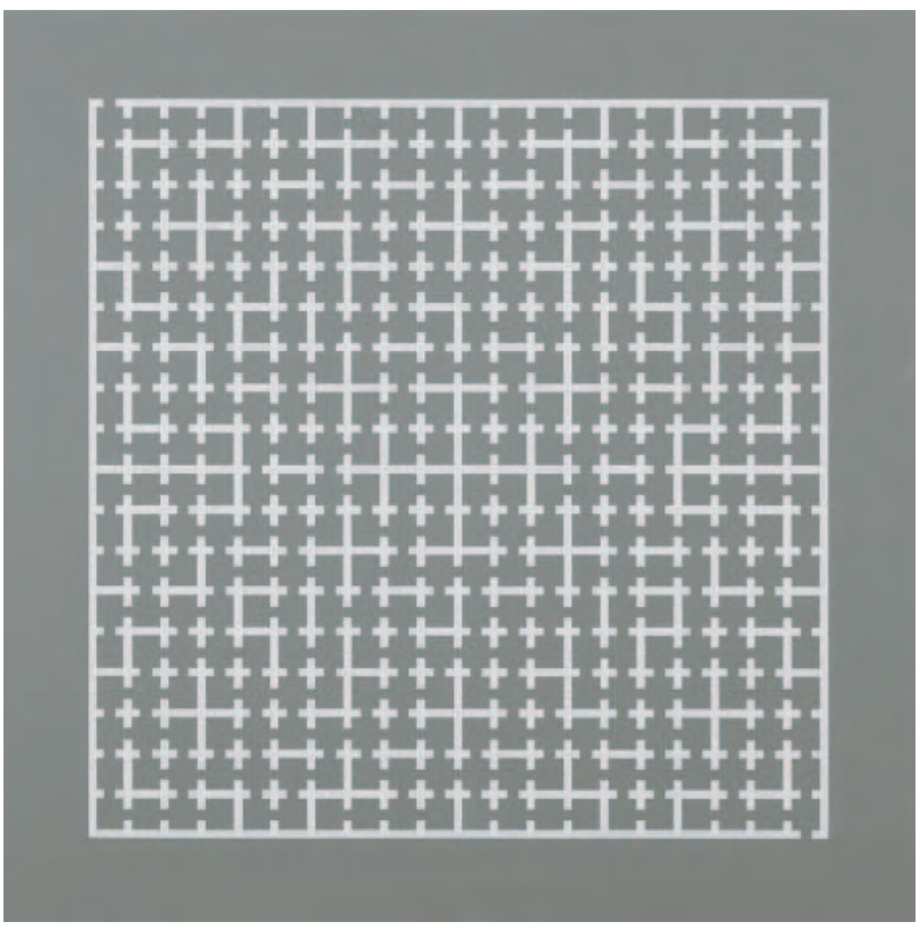
Progressive balances operating risk with risk of investing and financing activities in order to have sufficient capital to support all the insurance we can profitably underwrite and service. Risks arise in all operational and functional areas, and therefore must be assessed holistically, accounting for the offsetting and compounding effects of the separate sources of risk within Progressive.

We use risk management tools to quantify the amount of capital needed, in addition to surplus, to absorb consequences of foreseeable events such as unfavorable loss reserve development, litigation, weather-related catastrophes and investment-market corrections. Our financial policies define our allocation of risk and we measure our performance against them. If, in our view, future opportunities meet our financial objectives and policies, we will invest capital in expanding business operations. Underleveraged capital will be returned to investors. We expect to earn a return on equity greater than its cost. Presented is an overview of Progressive's Operating, Investing and Financing policies.

OPERATING

Monitor pricing and reserving discipline

- Manage profitability targets and operational performance at our lowest level of product definition
- Sustain premiums-to-surplus ratios at efficient levels, and below applicable state regulations, for each insurance subsidiary
- Ensure loss reserves are adequate and develop with minimal variance



INVESTING

Maintain a liquid, diversified, high-quality investment portfolio

- Manage on a total return basis
- Target an allocation of 75% to 100% for fixed-income securities with the balance in common equities
- Manage interest rate, credit, prepayment, extension and concentration risk

FINANCING

Maintain sufficient capital to support insurance operations

- Maintain debt below 30% of total capital at book value
- Neutralize dilution from equity-based compensation in the year of issuance through share repurchases
- Return underleveraged capital through share repurchases and a variable dividend program based on annual underwriting results

OBJECTIVES AND POLICIES SCORECARD

Financial Results	Target	2007	2006	2005	5 Years[1]	10 Years[1]
Underwriting margin – Progressive	4%	7.4%	13.3%	11.9%	12.0%	9.3%
– Industry[2]	na	2.5%	4.5%	4.9%	3.9%	(.2)%
Net premiums written growth	(a)	(3)%	1%	5%	8%	11%
Policies in force growth – Personal Auto	(a)	2%	1%	8%	7%	11%
– Special Lines	(a)	8%	8%	14%	14%	14%
– Commercial Auto	(a)	7%	7%	11%	13%	20%
Companywide premiums-to-surplus ratio	(b)	3.0	2.8	3.0	na	na
Investment allocation – fixed:equity	(c)	83%:17%	84%:16%	85%:15%	na	na
Debt-to-total capital ratio	< 30%	30.6%	14.8%	17.4%	na	na
Return on average shareholders' equity (ROE)[3]	(d)	19.5%	25.3%	25.0%	25.5%	21.3%
Comprehensive ROE[4]	(d)	17.7%	28.4%	24.1%	26.6%	22.2%

(a)Grow as fast as possible, constrained only by our profitability objective and our ability to provide high-quality customer service.

(b)Determined separately for each insurance subsidiary.

(c)Allocate 75% to 100% in fixed-income securities with the balance in common equities.

(d)Progressive does not have a predetermined target for ROE.

na = not applicable

1Represents results over the respective time period; growth represents average annual compounded rate of increase.

2Represents the U.S. personal auto insurance industry; 2007 is estimated.

3Based on net income.

4Based on comprehensive income. Comprehensive ROE is consistent with Progressive's policy to manage on a total return basis and better reflects growth in shareholder value. For a reconciliation of net income to comprehensive income and for the components of comprehensive income, see Progressive's *Consolidated Statements of Changes in Shareholders' Equity* and *Note 10 — Other Comprehensive Income*, respectively, which can be found in the complete Consolidated Financial Statements and Notes included in Progressive's 2007 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2008 Proxy Statement.

ACHIEVEMENTS

We are convinced that the best way to maximize shareholder value is to achieve these financial objectives and policies consistently. A shareholder who purchased 100 shares of Progressive for $1,800 in our first public stock offering on April 15, 1971, owned 92,264 shares on December 31, 2007, with a market value of $1,767,778, for a 21.0% compounded annual return, compared to the 7.6% return achieved by investors in the Standard & Poor's 500 during the same period. In addition, the shareholder received a $2.00 per common share special dividend of $184,528 in 2007, bringing total dividends received to $221,846 since the shares were purchased.

In the ten years since December 31, 1997, Progressive shareholders have realized compounded annual returns, including dividend reinvestment, of 8.0%, compared to 5.9% for the S&P 500. In the five years since December 31, 2002, Progressive shareholders' returns were 11.3%, compared to 12.8% for the S&P 500. In 2007, the returns were (12.6)% on Progressive shares and 5.5% for the S&P 500.

Over the years, when we have had adequate capital and believed it to be appropriate, we have repurchased our shares. In addition, as our Financial Policies state, we will repurchase shares to neutralize the dilution from equity-based compensation programs and return any underleveraged capital to investors. During 2007, we announced a recapitalization plan that included a significant repurchase of our common shares, in conjunction with the issuance of $1 billion of debt and the payment of a $2.00 per common share special dividend, which totaled $1.4 billion. In accordance with our policy and recapitalization plan, we repurchased 72,886,215 common shares during 2007. The total cost to repurchase these shares was $1.5 billion, with an average cost of $21.24 per share. Since 1971, we have spent $6.2 billion repurchasing our shares, at an average cost of $5.73 per share.

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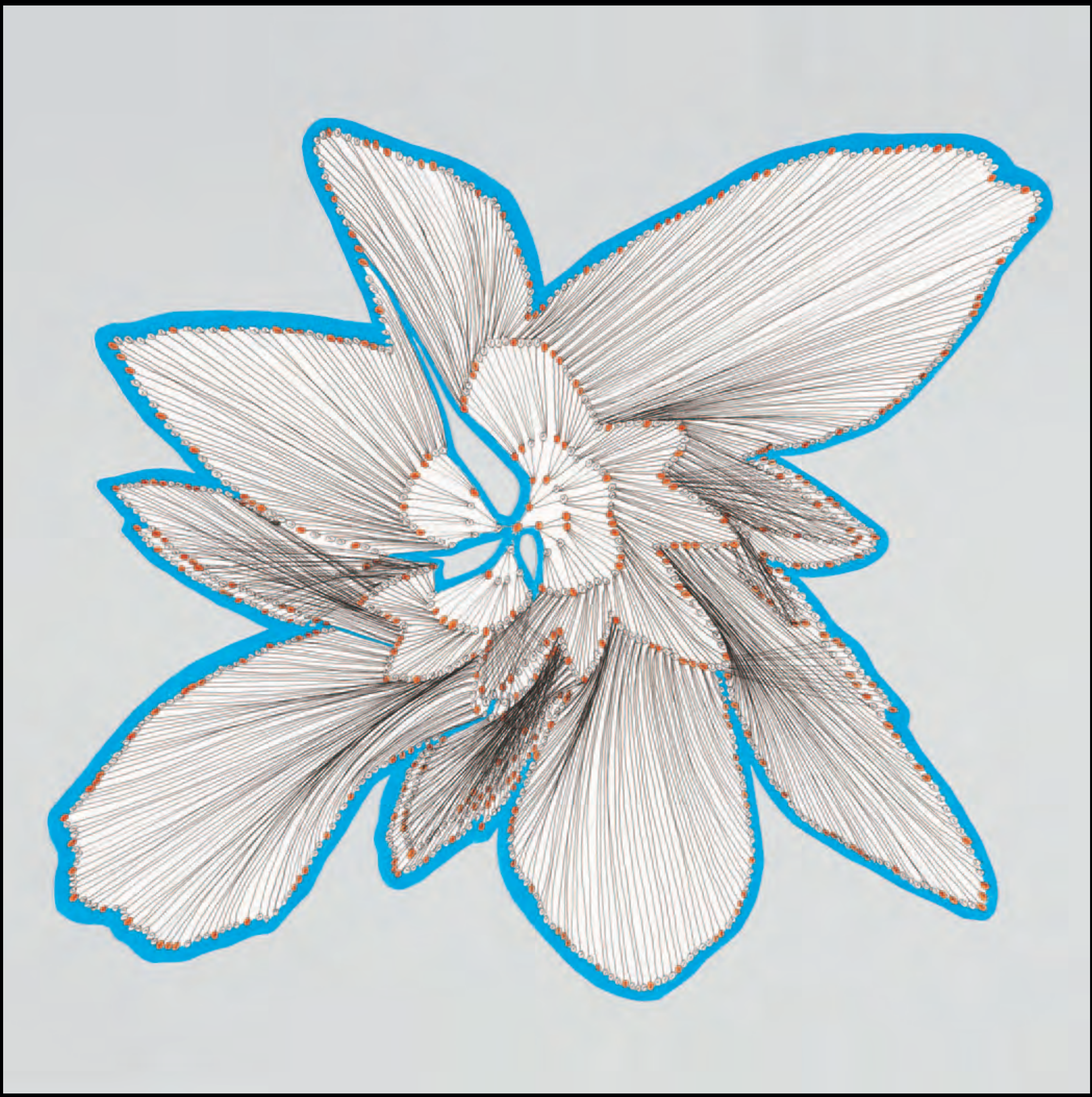
As an insurer of motor vehicles, we realized we might be missing a segment of the population who liked to bundle their insurance needs. To help meet consumers' needs, in 2000 we started offering Progressive-underwritten homeowners insurance in several states.



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We soon realized that underwriting, pricing and servicing homeowners insurance was not our area of expertise. Nevertheless, we understand consumers' desire for more coverages from one company. That is why in 2006 we introduced a Personal Umbrella product and partnered with third-party providers to integrate their homeowners product into our offerings creating a virtual auto/home package.

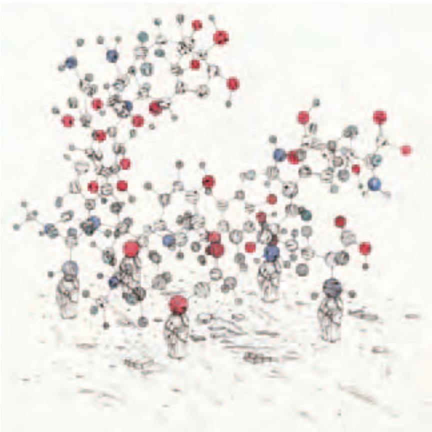
OPERATIONS SUMMARY

Personal Lines In September, we announced a reorganization of our Personal Lines businesses. Instead of operating parallel business units focusing on Agency and Direct customers, we combined these two businesses to form one Personal Lines organization. By doing so, we expect to achieve a lower non-claims expense ratio and foster growth through more competitive pricing, improved customer retention and by getting our best ideas to market faster for all customers. By the end of 2007, we had largely merged our Agency and Direct product and IT organizations.

Our objective for the Personal Lines business remains the same, which is to grow policies in force as fast as we can while pricing to a 96 combined ratio. This focus led us to undertake rate reductions in many states throughout the year. For the year, our average written premium per auto policy was down 5%. Toward year's end, we had largely moved our prices to levels consistent with our 96 combined ratio target. Recognizing flattening frequency of claims and slightly increasing severity, we will react to make rate level changes that reflect those expected loss trends. During the year, we also introduced new rating approaches to help ensure we remain a leader in rating segmentation.

The full year combined ratio for Personal Lines was 93.0, inclusive of 93.5 for Agency and 92.2 for Direct. We ended 2007 with 4% more policies in force than at year-end 2006. Total net premiums written for the year were down 2% resulting from a decrease of 4% in Agency and a very slight increase in Direct. Our 2007 expense ratio of 21.2 was up .9 points relative to 2006. Costs per policy in force were slightly lower in 2007 than in 2006, but the lower average premium per policy drove our expense ratio up. Our goal is to continue to lower our underwriting expense structure in Personal Lines.

	2007	2006	Change
Net premiums written (in billions)	$ 11.9	$ 12.2	(2)%
Net premiums earned (in billions)	$ 12.0	$ 12.2	(2)%
Loss and loss adjustment expense ratio	71.8	67.4	4.4 pts.
Underwriting expense ratio	21.2	20.3	.9 pts.
Combined ratio	93.0	87.7	5.3 pts.
Policies in force (in thousands)	10,115.6	9,741.1	4%



New business applications were up 2% in the aggregate, with a decrease in Agency auto offset by increases in Direct auto and special lines products. Toward the end of the third quarter, we restricted agent and broker production of new auto policies on unprofitable business in California and New York, which led to a decrease in Agency new auto business applications of more than 5% in the fourth quarter. We are taking steps to remedy the profitability issues and expect to accept new business within these areas in the first quarter of 2008.

Shopping and quoting patterns for personal lines insurance continued to change in 2007. On the Direct side, an even greater proportion of customers are shopping and buying online. While Direct auto new customer quotes were down for the year, in the fourth quarter we saw a slight increase of new quotes versus the fourth quarter of 2006. Expenditures on advertising rose 21% over 2006, led by a 75% increase in online Direct advertising spend. Conversion of Direct quotes continued to improve, especially online.

In our agents' offices, the shift towards quoting on vendor supplied multi-carrier quoting platforms continues. Almost half of Progressive Agency quotes now originate from multi-carrier quoting applications. While this shift in agent quoting method helps ensure agents provide consumers more choices, it frequently positions us head-to-head versus competitors based more on rate than on product and service differentiators. The frequency of Progressive rates being quoted in agents' offices increased in 2007, yet the conversion of those quotes into policies declined.

Customer retention has remained our #1 priority in Personal Lines and we are pleased to report that we are making headway. By year-end, both our Agency and Direct businesses were enjoying average policyholder tenure levels greater than the same period in 2006. In addition to more competitive rates, we implemented a number of process changes during the year that positively affected customer experience. As previously reported, the Net Promoter® Score (NPS) is our key measure of customer satisfaction. NPS was up notably across our Personal Lines business over the course of the year.

A key operating tactic for Progressive is to maintain leadership in the online personal lines insurance arena. Toward that end, we redesigned progressive.com in 2007 to incorporate more interactive Web 2.0 functionality, more prominently position the ability to find an agent, and incorporate our new brand standards. We also elevated the ability for our auto customers to have virtually all of their policy forms sent electronically and continue to offer the ability for customers to hear from us via system generated text messages.

As we head into 2008, we are working to improve our products and services for those customers who intend to maintain their insurance coverage. The most readily apparent action taken to date is offering customers non-vehicle related insurance products, which creates the opportunity for customers to bundle their insurance products with Progressive. During 2007, we added Umbrella insurance to our product offerings in eight more states, bringing the total number of states to 13. For Homeowners insurance, we intend to employ third-party providers and have integrated their products into our offerings. At year end, we had this capability available to Direct customers in 46 states and for our Agency customers in six states, with plans for many more in 2008.

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Every driver should pay an auto insurance premium amount equal to the risk they present. We have always led the industry in collecting and analyzing data to get to the most accurate rate. In 1992, we, along with others, started to use credit history information to produce even more accurate rates. Today, more than 95% of all companies use similar information.

Commercial Lines The commercial auto insurance industry remained very competitive in 2007. It was characterized by softening prices throughout the year and a corresponding increase in the industry's calendar year combined ratio, which we anticipate will be around 95. This marked the second consecutive year of declining profitability for the commercial auto sector, a year in which total premiums written will likely be down as well.

Additionally, our Commercial Auto business has a relatively strong correlation to the construction sector of the U.S. economy. Slow downs in construction have served to reduce our near-term opportunities somewhat in both the business auto (e.g., contractors, plumbers) and specialty truck markets (e.g., dirt, sand and gravel haulers).

Progressive's Commercial Auto business lowered rates in 2007, consistent with our plan to price our commercial products to our combined ratio target. In the face of a challenging competitive environment, we grew Commercial Auto policies in force by 7% and achieved a combined ratio of 89.9.

Net premiums written declined 4% for the year driven by the rate reductions and disproportionate growth in our business auto product, which carries lower average premiums per policy than specialty truck.

Our underwriting expense ratio increased one point to 20.2, a product of the negative premium trend and significant investments in agency distribution and direct marketing capability.

We saw several positive milestones achieved for Commercial Auto in 2007. We successfully entered Massachusetts in January 2007 and results are currently meeting all expectations. We continued to see strong and profitable growth in New Jersey, a state we entered in December 2005, which has quickly become one of our most important Commercial Auto markets.

A new Commercial Auto product model was introduced in the second quarter targeting preferred business auto and trucking risks. Market response to the new product has been strong in the seven states where it is active and we are seeing both incremental growth in policies and a favorable shift toward more preferred business. We will continue the new product's deployment in 2008.

During the year, we also introduced limited non-auto coverages to a select business class. We now provide local and

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In our continuing effort to make rates even more accurate for each driver, we introduced usage-based insurance in 1998, basing rates, in part, on how much, when and where you drive. Then in 2004, we took things a step further by introducing a second generation usage-based product, basing rates, in part, on how much, how fast and when the vehicle is driven.

intermediate for-hire trucking risks the opportunity to purchase cargo coverage and truckmens' general liability coverage in three states. Once again, market response has been favorable, and we will move to state expansion of these new coverages in 2008. Our expectation is that offering these additional coverages to meet the specific needs of a target customer group will expand our reach and improve retention with for-hire truckers.

All of these actions contributed to a return to growth in new business applications that started in the second quarter and strengthened through the remainder of the year. New business applications were up 3% for 2007. Customer retention stabilized with increases in policy renewal rates being somewhat offset by increases in mid-term policy cancellations that are tied to the slow down in the construction sector of the economy.

We look forward to building on this past year's momentum created by new markets and products. Continued focus on the needs of our commercial auto customers and remaining vigilant and responsive to changes in the marketplace will guide us in 2008.

	2007	2006	Change
Net premiums written (in billions)	$ 1.8	$ 1.9	(4)%
Net premiums earned (in billions)	$ 1.8	$ 1.9	—%
Loss and loss adjustment expense ratio	69.7	61.0	8.7 pts.
Underwriting expense ratio	20.2	19.2	1.0 pts.
Combined ratio	89.9	80.2	9.7 pts.
Policies in force (in thousands)	539.2	503.2	7%

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Consolidated Financial Statements

Basis of Presentation The accompanying consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries and affiliate. These financial statements should be read in conjunction with the complete Consolidated Financial Statements, including complete Notes to the Consolidated Financial Statements, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations and Supplemental Information, which are included in Progressive's 2007 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2008 Proxy Statement.

Consolidated Statements of Income

(millions—except per share amounts)

For the years ended December 31,	2007	2006	2005
REVENUES			
Net premiums earned	$ 13,877.4	$ 14,117.9	$ 13,764.4
Investment income	680.8	647.8	536.7
Net realized gains (losses) on securities	106.3	(9.7)	(37.9)
Service revenues	22.3	30.4	40.2
Total revenues	14,686.8	14,786.4	14,303.4
EXPENSES			
Losses and loss adjustment expenses	9,926.2	9,394.9	9,364.8
Policy acquisition costs	1,399.9	1,441.9	1,448.2
Other underwriting expenses	1,526.2	1,402.8	1,312.2
Investment expenses	12.4	11.9	12.1
Service expenses	20.5	24.4	24.6
Interest expense	108.6	77.3	82.6
Total expenses	12,993.8	12,353.2	12,244.5
NET INCOME			
Income before income taxes	1,693.0	2,433.2	2,058.9
Provision for income taxes	510.5	785.7	665.0
Net income	**$ 1,182.5**	**$ 1,647.5**	**$ 1,393.9**
COMPUTATION OF EARNINGS PER SHARE			
Basic:			
Average shares outstanding	710.4	774.3	787.7
Per share	$ 1.66	$ 2.13	$ 1.77
Diluted:			
Average shares outstanding	710.4	774.3	787.7
Net effect of dilutive stock-based compensation	8.1	9.5	11.6
Total equivalent shares	718.5	783.8	799.3
Per share	$ 1.65	$ 2.10	$ 1.74

All share and per share amounts were adjusted for the May 18, 2006, 4-for-1 stock split.

See notes to the complete consolidated financial statements included in Progressive's 2007 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2008 Proxy Statement.

Consolidated Balance Sheets

(millions)

December 31,	2007	2006
ASSETS		
Investments – Available-for-sale, at fair value:		
Fixed maturities (amortized cost: $9,135.6 and $9,959.6)	$ 9,184.9	$ 9,958.9
Equity securities:		
Preferred stocks (cost: $2,578.1 and $1,761.4)	2,270.3	1,781.0
Common equities (cost: $1,361.0 and $1,469.0)	2,327.5	2,368.1
Short-term investments (amortized cost: $382.4 and $581.0)	382.4	581.2
Total investments	14,165.1	14,689.2
Cash	5.8	5.6
Accrued investment income	142.1	134.4
Premiums receivable, net of allowance for doubtful accounts of $118.1 and $122.0	2,395.1	2,498.2
Reinsurance recoverables, including $47.6 and $72.4 on paid losses	335.1	433.8
Prepaid reinsurance premiums	69.8	89.5
Deferred acquisition costs	426.3	441.0
Income taxes	106.0	16.8
Property and equipment, net of accumulated depreciation of $605.7 and $557.0	1,000.4	973.4
Other assets	197.4	200.2
Total assets	**$ 18,843.1**	**$ 19,482.1**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unearned premiums	$ 4,210.4	$ 4,335.0
Loss and loss adjustment expense reserves	5,942.7	5,725.0
Accounts payable, accrued expenses and other liabilities[1]	1,580.6	1,390.0
Debt[2]	2,173.9	1,185.5
Total liabilities	13,907.6	12,635.5
Shareholders' equity:		
Common Shares, $1.00 par value (authorized 900.0; issued 798.1 and 798.7, including treasury shares of 117.9 and 50.7)	680.2	748.0
Paid-in capital	834.8	847.4
Accumulated other comprehensive income:		
Net unrealized gains on securities	465.0	596.8
Net unrealized gains on forecasted transactions	27.8	7.5
Retained earnings	2,927.7	4,646.9
Total shareholders' equity	4,935.5	6,846.6
Total liabilities and shareholders' equity	**$ 18,843.1**	**$ 19,482.1**

[1] See *Note 11 — Litigation* and *Note 12 — Commitments and Contingencies,* in Progressive's 2007 Annual Report to Shareholders, for further discussion.

[2] Consists of long-term debt. See *Note 4 — Debt*, in Progressive's 2007 Annual Report to Shareholders, for further discussion.

See notes to the complete consolidated financial statements included in Progressive's 2007 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2008 Proxy Statement.

Consolidated Statements of Changes in Shareholders' Equity

(millions—except per share amounts)

For the years ended December 31,	2007		2006		2005	
RETAINED EARNINGS						
Balance, Beginning of year	$4,646.9		$4,726.0		$3,812.9	
Net income	1,182.5	$ 1,182.5	1,647.5	$ 1,647.5	1,393.9	$ 1,393.9
Cash dividends declared on Common Shares ($2.1450, $.0325 and $.0300 per share)[1]	(1,507.6)		(25.0)		(23.7)	
Treasury shares purchased[2]	(1,388.4)		(1,111.6)		(457.0)	
Capitalization of stock spilt	—		(585.9)		—	
Other, net[3]	(5.7)		(4.1)		(.1)	
Balance, End of year	$2,927.7		$4,646.9		$4,726.0	
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX						
Balance, Beginning of year	$ 604.3		$ 398.7		$ 444.8	
Changes in:						
Net unrealized gains on securities		(131.8)		206.7		(45.0)
Net unrealized gains on forecasted transactions		20.3		(1.1)		(1.1)
Other comprehensive income	(111.5)	(111.5)	205.6	205.6	(46.1)	(46.1)
Balance, End of year	$ 492.8		$ 604.3		$ 398.7	
Comprehensive Income		**$ 1,071.0**		**$ 1,853.1**		**$ 1,347.8**
COMMON SHARES, $1.00 PAR VALUE						
Balance, Beginning of year	$ 748.0		$ 197.3		$ 200.4	
Stock options exercised	3.4		3.7		1.6	
Treasury shares purchased[2]	(72.9)		(39.1)		(5.2)	
Restricted stock issued, net of forfeitures	1.7		.2		.5	
Capitalization of stock split	—		585.9		—	
Balance, End of year	$ 680.2		$ 748.0		$ 197.3	
PAID-IN CAPITAL						
Balance, Beginning of year	$ 847.4		$ 848.2		$ 743.3	
Stock options exercised	27.4		39.6		42.6	
Tax benefits from exercise/vesting of stock-based compensation	15.5		38.8		41.2	
Treasury shares purchased[2]	(87.1)		(63.8)		(20.6)	
Restricted stock issued, net of forfeitures	(1.7)		(.2)		41.7	
Amortization of stock-based compensation	28.0		27.8		—	
SFAS 123(R) reclass[4]	—		(51.5)		—	
Other[3]	5.3		8.5		—	
Balance, End of year	$ 834.8		$ 847.4		$ 848.2	
UNAMORTIZED RESTRICTED STOCK						
Balance, Beginning of year	$ —		$ (62.7)		$ (46.0)	
Restricted stock issued, net of forfeitures	—		—		(42.2)	
Restricted stock market value adjustment	—		—		(8.2)	
Amortization of restricted stock	—		—		33.7	
SFAS 123(R) reclass[4]	—		62.7		—	
Balance, End of year	$ —		$ —		$ (62.7)	
Total Shareholders' Equity	**$4,935.5**		**$6,846.6**		**$ 6,107.5**	

[1] All per share amounts were adjusted for the May 18, 2006, 4-for-1 stock split.

[2] Progressive did not split its treasury shares in conjunction with the May 18, 2006, 4-for-1 stock split. In 2006, we repurchased 3,182,497 common shares prior to the stock split and 35,887,246 common shares subsequent to the stock split.

[3] Primarily reflects activity associated with our deferred compensation plans.

[4] Upon adoption of SFAS 123(R), companies were required to eliminate any unearned compensation (i.e., contra-equity) accounts against the appropriate equity accounts. As a result, as of January 1, 2006, we were required to reclassify $62.7 million of "Unamortized restricted stock," of which $51.5 million related to equity awards and $11.2 million related to liability awards.

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 the complete consolidated financial statements included in Progressive's 2007 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2008 Proxy Statement.

Consolidated Statements of Cash Flows

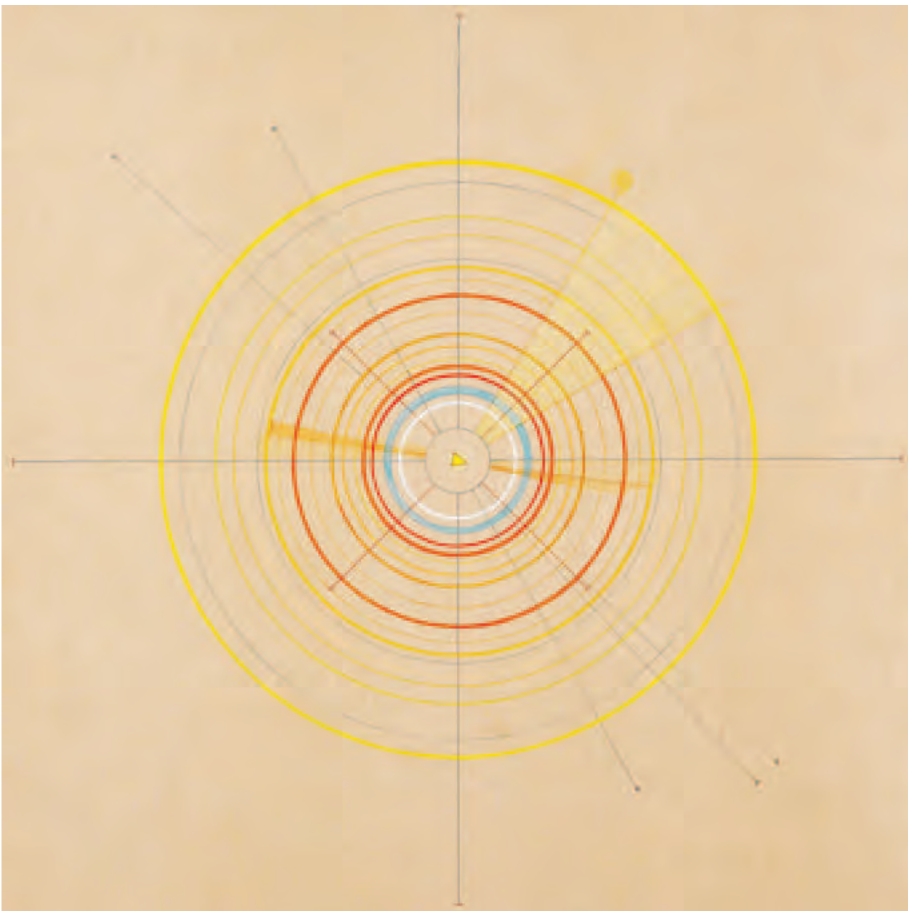
(millions)

For the years ended December 31,	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,182.5	$ 1,647.5	$ 1,393.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	106.9	103.4	92.4
Amortization of fixed maturities	284.1	225.6	189.6
Amortization of stock-based compensation	26.5	27.6	33.7
Net realized (gains) losses on securities	(106.3)	9.7	37.9
Net loss on disposition of property and equipment	.4	.9	—
Changes in:			
Premiums receivable	103.1	2.5	(213.5)
Reinsurance recoverables	98.7	(28.1)	(24.1)
Prepaid reinsurance premiums	19.7	14.2	16.1
Deferred acquisition costs	14.7	3.8	(12.6)
Income taxes	(30.3)	10.1	(140.0)
Unearned premiums	(124.6)	(.1)	227.1
Loss and loss adjustment expense reserves	217.7	64.7	374.7
Accounts payable, accrued expenses and other liabilities	2.4	7.1	49.5
Tax benefits from exercise/vesting of stock-based compensation[1]	—	—	41.2
Other, net	(4.5)	(64.3)	(71.9)
Net cash provided by operating activities	1,791.0	2,024.6	1,994.0
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases:			
Fixed maturities	(8,184.6)	(6,294.9)	(9,154.4)
Equity securities	(1,490.3)	(1,131.6)	(852.9)
Short-term investments — auction rate securities	(7,156.6)	(2,999.3)	(7,935.3)
Sales:			
Fixed maturities	8,327.6	5,668.2	7,068.6
Equity securities	775.2	323.1	152.3
Short-term investments — auction rate securities	7,325.4	3,215.5	8,053.4
Maturities, paydowns, calls and other:			
Fixed maturities	557.9	686.1	572.6
Equity securities	10.7	223.5	114.4
Net sales (purchases) of short-term investments — other	30.0	(22.3)	491.8
Net unsettled security transactions	35.1	(116.6)	126.6
Purchases of property and equipment	(136.3)	(334.3)	(219.3)
Sale of property and equipment	2.0	15.4	36.1
Net cash provided by (used in) investing activities	96.1	(767.2)	(1,546.1)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of stock options	30.8	43.3	44.2
Tax benefits from exercise/vesting of stock-based compensation[1]	15.5	38.8	—
Proceeds from debt[2]	1,021.7	—	—
Payment of debt	—	(100.0)	—
Dividends paid to shareholders	(1,406.5)	(25.0)	(23.7)
Acquisition of treasury shares	(1,548.4)	(1,214.5)	(482.8)
Net cash used in financing activities	(1,886.9)	(1,257.4)	(462.3)
Increase (decrease) in cash	.2	—	(14.4)
Cash, Beginning of year	5.6	5.6	20.0
Cash, End of year	**$ 5.8**	**$ 5.6**	**$ 5.6**

[1]Reclassified as required under SFAS 123(R).

[2]Includes a $34.4 million pretax gain received upon closing a forecasted debt issuance hedge. See *Note 4 — Debt* in Progressive's 2007 Annual Report to Shareholders, for further discussion.

See notes to the complete consolidated financial statements included in Progressive's 2007 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2008 Proxy Statement.



INTERNAL CONTROL OVER FINANCIAL REPORTING

Progressive's management is responsible for establishing and maintaining adequate internal control over financial reporting. Based on Progressive's evaluation under the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), management concluded that Progressive's internal control over financial reporting was effective as of December 31, 2007. The complete "Management's Report on Internal Control over Financial Reporting," as required by Section 404 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations, along with the related report of PricewaterhouseCoopers LLP, is presented in the 2007 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2008 Proxy Statement.

CEO AND CFO CERTIFICATIONS

Glenn M. Renwick, President and Chief Executive Officer of The Progressive Corporation, and Brian C. Domeck, Vice President and Chief Financial Officer of The Progressive Corporation, have issued the certifications required by Sections 302 and 906 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations with respect to Progressive's 2007 Annual Report on Form 10-K, including the financial statements provided in this Report and in the 2007 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2008 Proxy Statement. Among other matters required to be included in those certifications, Mr. Renwick and Mr. Domeck have each certified that, to the best of his knowledge, the financial statements, and other financial information included in the Annual Report on Form 10-K, fairly present in all material respects the financial condition, results of operations and cash flows of Progressive as of, and for, the periods presented. See Exhibits 31 and 32 to Progressive's Annual Report on Form 10-K for the complete Section 302 and 906 certifications, respectively.

In addition, Mr. Renwick submitted his annual certification to the New York Stock Exchange (NYSE) on May 18, 2007, stating that he was not aware of any violation by Progressive of the NYSE corporate governance listing standards, as required by Section 303A.12(a) of the NYSE Listed Company Manual.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of The Progressive Corporation:

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Progressive Corporation and its subsidiaries as of December 31, 2007 and December 31, 2006, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2007 (not presented herein) appearing in The Progressive Corporation's 2007 Annual Report to Shareholders, which is attached as an Appendix to The Progressive Corporation's 2008 Proxy Statement.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

Cleveland, Ohio
February 27, 2008

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

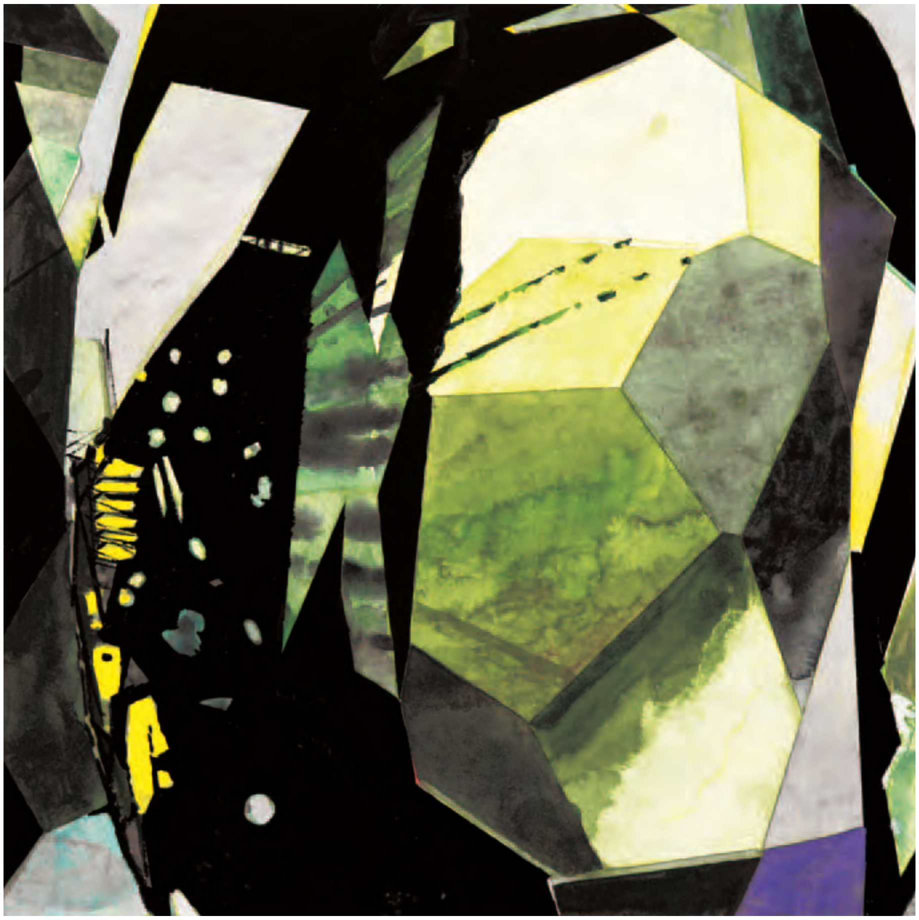
Statements in this report that are not historical fact are forward-looking statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed herein. These risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions and projections generally; inflation and changes in economic conditions (including changes in interest rates and financial markets); the accuracy and adequacy of our pricing and loss reserving methodologies; the competitiveness of our pricing and the effectiveness of our initiatives to retain more customers; initiatives by competitors and the effectiveness of our response; our ability to obtain regulatory approval for requested rate changes and the timing thereof; the effectiveness of our brand strategy and advertising campaigns relative to those of competitors; legislative and regulatory developments; disputes relating to intellectual property rights; the outcome of litigation pending or that may be filed against us; weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail and winter conditions); changes in driving patterns and loss trends; acts of war and terrorist activities; our ability to maintain the uninterrupted operation of our facilities, systems (including information technology systems) and business functions; court decisions and trends in litigation and health care and auto repair costs; and other matters described from time to time in our releases and publications, and in our periodic reports and other documents filed

with the United States Securities and Exchange Commission. In addition, investors should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for one or more contingencies. Reported results, therefore, may appear to be volatile in certain accounting periods.

COMMON SHARES

The Progressive Corporation's common shares (symbol PGR) are traded on the New York Stock Exchange. Progressive currently has an annual variable dividend policy. We expect the Board to declare the next annual variable dividend in December 2008, with a record date in January 2009 and payment shortly thereafter.

A complete description of our annual variable dividend policy can be found at: progressive.com/dividend.



Quarter	Stock Price High	Stock Price Low	Stock Price Close	Rate of Return	Dividends Declared per Share
2007					
1	$ 24.75	$ 20.91	$ 21.82		$ —
2	25.16	21.55	23.93		2.0000
3	24.10	18.88	19.41		—
4	20.50	17.26	19.16		.1450
	$ 25.16	**$ 17.26**	**$ 19.16**	**(12.6)%**	**$ 2.1450**
2006					
1	$ 30.09	$ 25.25	$ 26.07		$ .00750
2	27.86	25.25	25.71		.00750
3	25.84	22.18	24.54		.00875
4	25.54	22.19	24.22		.00875
	$ 30.09	**$ 22.18**	**$ 24.22**	**(17.0)%**	**$ .03250**

Corporate Information

Annual Meeting The Annual Meeting of Shareholders will be held at the offices of The Progressive Corporation, 6671 Beta Drive, Mayfield Village, Ohio 44143 on April 18, 2008, at 10 a.m. eastern time. There were 3,851 shareholders of record on December 31, 2007.

Principal Office
The Progressive Corporation
6300 Wilson Mills Road
Mayfield Village, Ohio 44143

440-461-5000

progressive.com

Counsel Baker & Hostetler LLP, Cleveland, Ohio

Corporate Governance Progressive's Corporate Governance Guidelines and Board committee charters are available at: progressive.com/governance, or may be requested in print by writing to: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, Ohio 44143.

Charitable Contributions Progressive contributes annually to The Progressive Insurance Foundation, which provides: (i) financial support to the Insurance Institute for Highway Safety to further its work in reducing the human trauma and economic costs of auto accidents, and (ii) matching funds to eligible 501(c)(3) charitable organizations to which Progressive employees contribute.

Registered Trademarks Progressive® is a registered trademark.
Net Promoter® is a registered trademark of Satmetrix Systems, Inc.

Online Annual Report and Proxy Statement Our 2007 Annual Report to Shareholders, in an interactive format, can be found at: progressive.com/annualreport.

We have also posted copies of our 2008 Proxy Statement and 2007 Annual Report to Shareholders, in a "PDF" format, at: progressiveproxy.com.

Contact Non-Management Directors Interested parties have the ability to contact the non-management directors as a group by sending a written communication clearly addressed to the non-management directors and sent to any of the following:

Peter B. Lewis, Chairman of the Board, The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, Ohio 44143 or e-mail: peter_lewis@progressive.com.

Charles E. Jarrett, Corporate Secretary, The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, Ohio 44143 or e-mail: chuck_jarrett@progressive.com.

The recipient will forward communications so received to the non-management directors.

Accounting Complaint Procedure Any employee or other interested party with a complaint or concern regarding accounting, internal accounting controls or auditing matters relating to Progressive may report such complaint or concern directly to the Chairman of the Audit Committee, as follows:

Stephen R. Hardis, Chairman of the Audit Committee, stephen_hardis@progressive.com.

Any such complaint or concern also may be reported anonymously over the following toll-free Alert Line: 1-800-683-3604. Progressive will not retaliate against any individual by reason of his or her having made such a complaint or reported such a concern in good faith. View the complete procedures at progressive.com/governance.

Whistleblower Protections Progressive will not retaliate against any officer or employee of Progressive because of any lawful act done by the employee to provide information or otherwise assist in investigations regarding conduct that the employee reasonably believes to be a violation of Federal Securities Laws or of any rule or regulation of the Securities and Exchange Commission or Federal Securities Laws relating to fraud against shareholders. View the complete Whistleblower Protections at progressive.com/governance.

Transfer Agent and Registrar
REGISTERED SHAREHOLDERS If your Progressive shares are registered in your name, contact National City Bank regarding questions or changes to your account:
National City Bank, Shareholder Services Operations Dept. 5352, P.O. Box 92301, Cleveland, Ohio 44193-0900.
Phone: 1-800-622-6757 or e-mail: shareholder.inquiries@nationalcity.com.

BENEFICIAL SHAREHOLDERS If your Progressive shares are held in a brokerage or other financial institution account, contact your broker or financial institution directly regarding questions or changes to your account.

Shareholder/Investor Relations Progressive does not maintain a mailing list for distribution of shareholders' reports. To view Progressive's publicly filed documents, shareholders can access our Web site: progressive.com/sec. To view our earnings and other releases, access progressive.com/investors.

To request copies of Progressive's publicly filed documents free of charge, write to: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, Ohio 44143, e-mail: investor_relations@progressive.com or call: 440-395-2258.

For financial-related information, call:
440-395-2222 or e-mail: investor_relations@progressive.com.

For all other Company information, call:
440-461-5000 or e-mail: webmaster@progressive.com.

Directors and Officers

DIRECTORS

Charles A. Davis[3,5,6]
Chief Executive Officer,
Stone Point Capital LLC
(private equity investing)

Stephen R. Hardis[1,2,5,6]
Lead Director,
Axcelis Technologies, Inc.
(manufacturing)

Bernadine P. Healy, M.D.[1,6]
Health Editor and Medical Columnist,
U.S. News & World Report
(publishing)

Jeffrey D. Kelly[2,4,6]
Vice Chairman and
Chief Financial Officer,
National City Corporation
(commercial banking)

Abby F. Kohnstamm[6]
President and Chief Executive Officer,
Abby F. Kohnstamm & Associates, Inc.
(marketing consulting)

Peter B. Lewis[2,4,6,7]
Chairman of the Board

Norman S. Matthews[3,5,6]
Consultant,
formerly President,
Federated Department Stores, Inc.
(retailing)

Patrick H. Nettles, Ph.D.[1,6]
Executive Chairman,
Ceina Corporation
(telecommunications)

Glenn M. Renwick[2]
President and Chief Executive Officer

Donald B. Shackelford[4,6]
Chairman,
Fifth Third Bank, Central Ohio
(commercial banking)

Bradley T. Sheares, Ph.D.[3,6]
formerly Chief Executive Officer,
Reliant Pharmaceuticals, Inc.
(pharmaceuticals)

[1]Audit Committee member
[2]Executive Committee member
[3]Compensation Committee member
[4]Investment and Capital Committee member
[5]Nominating and Governance Committee member
[6]Independent director
[7]Non-executive chairman

CORPORATE OFFICERS

Glenn M. Renwick
President and Chief Executive Officer

Brian C. Domeck
Vice President and Chief Financial Officer

Charles E. Jarrett
Vice President, Secretary
and Chief Legal Officer

Thomas A. King
Vice President and Treasurer

Jeffrey W. Basch
Vice President and Chief Accounting Officer

Peter B. Lewis
Chairman of the Board
(non-executive)

24-Hour Claims Reporting and Customer Service

	Private passenger autos, motorcycles and recreational vehicles	Commercial autos/trucks
TO REPORT A CLAIM	1-800-274-4499	1-800-274-4499
FOR CUSTOMER SERVICE If you bought your policy through an independent agent or broker	1-800-925-2886 (1-800-300-3693 in California) progressiveagent.com	1-800-444-4487 progressivecommercial.com
If you bought your policy directly through Progressive online or by phone	1-800-PROGRESSIVE (1-800-776-4737) progressive.com	1-800-895-2886 progressivecommercial.com

A R T

3 Diana Cooper
A Random Walk, 2007, paper, ink, vinyl, velour paper and acrylic on paper

6 Will Yackulic
Unitary Cause & Manifold, 2007, gouache, watercolor and typewriter on paper

7 Károly Keserü
Untitled (1311071), 2007, graphite, ink and watercolor on paper

11 Tim Bavington
Voodoo Child, 2007, digital drawing—inkjet print on paper

12 Scott King
Chess Board (0-90 Degrees), 2007, digital print

17 Laura Battle
Untitled, 2007, mixed media, ink and pencil

20 Hadi Tabatabai
DF-30 (Maze #1), 2007, acrylic paint and coloring pencil on drafting film

22 Terry Berlier
Untitled from the Things Fall Apart Series, 2007, pen and pencil on paper

23 Chris Duncan
The Process of Processing, 2007, mixed media on paper

24 Michael Whittle (left)
Transmitters, 2007, ink on paper with color pencil

14 Mark L. Emerson (upper left)
Go Ask Alice, 2007, polymer on paper

14 Sarah Brenneman (center)
Over and Out, 2007, watercolor on paper

14 Julian Pozzi (lower left)
Ranch, 2007, watercolor, ink, gouache, acrylic on paper

14 Daniel Sturgis (lower right)
The Next Move, 2007, acrylic on paper

16 Jonathan Schipper
Technical Junk Yard, 2007, pen and ink on paper from pen plotter

24 Ed Mieczkowski (center)
Progression, 2007, acrylic on paper on canvas

24 Andrew Masullo (right)
4785, 2007, colored pencil on paper

25 Sarah Walker
The Last Best Thing, 2007, acrylic on paper

26 Daniel Zeller
Symbiotic Conglomeration, 2007, ink and acrylic on paper

27 Kysa Johnson
Blow Up 85 (Battle 5)—Staph, Penicillin, Super-Staph after Tiepolo, 2007, graphite and watercolor on board

Design
Nesnadny + Schwartz,
Cleveland + New York + Toronto

Printing
AGS Custom Graphics

The paper in this annual report is recycled and recyclable.

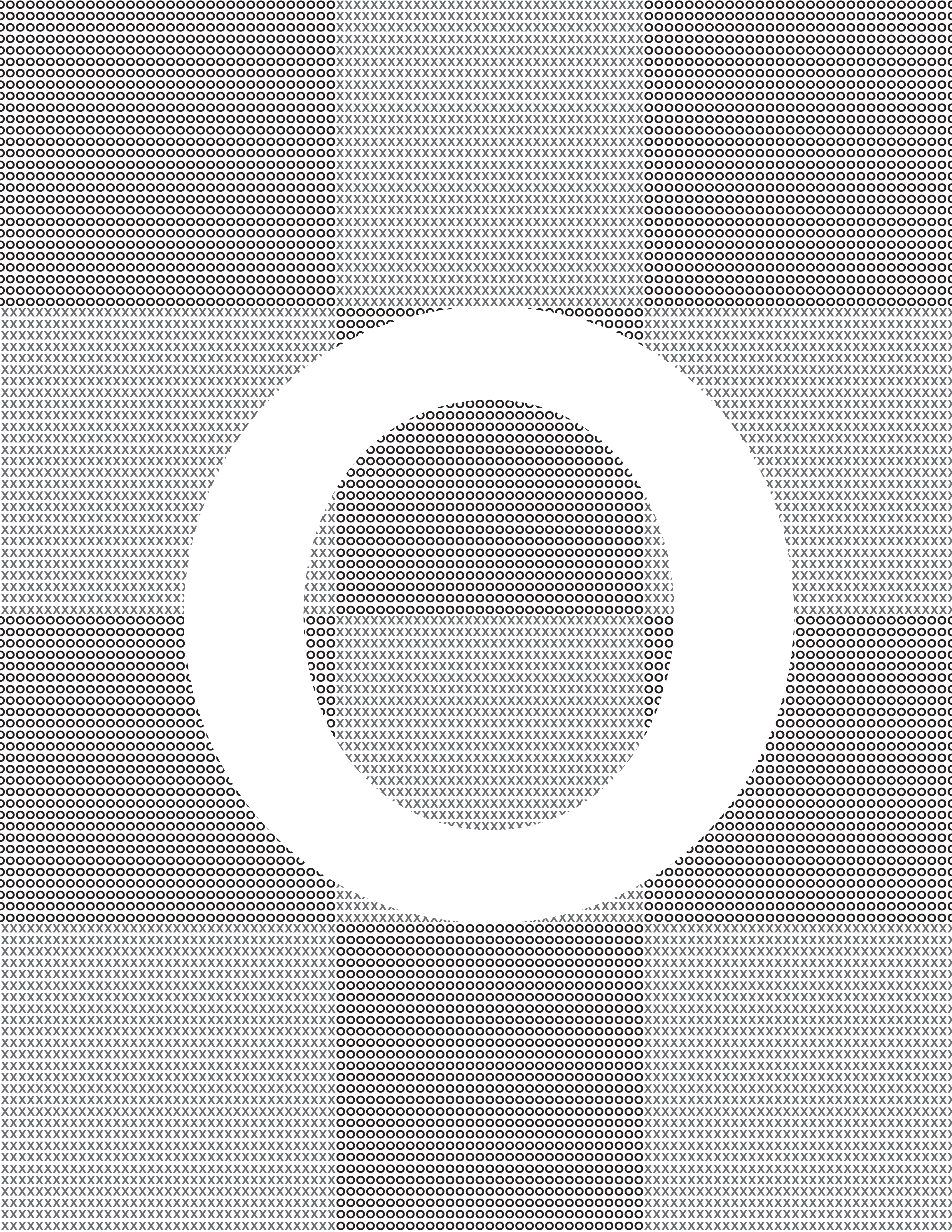
34 Tayo Heuser
Modus Operandi, 2007, ink on gampi paper

35 Dannielle Tegeder
Sleoconia: Turbulent Atomic Landscape, 2007, ink, colored pencil, on Fabriano Murillo paper

36 Louise Belcourt (top)
Hedge, Building #1, 2007, gouache on paper with collage elements

36 David Wetzl (bottom)
Silli-Carb Hybrid Zone, 2007, mixed media (acrylic and photo collage)

37 Jered Sprecher
Transposition, 2007, watercolor and gouache on paper



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