



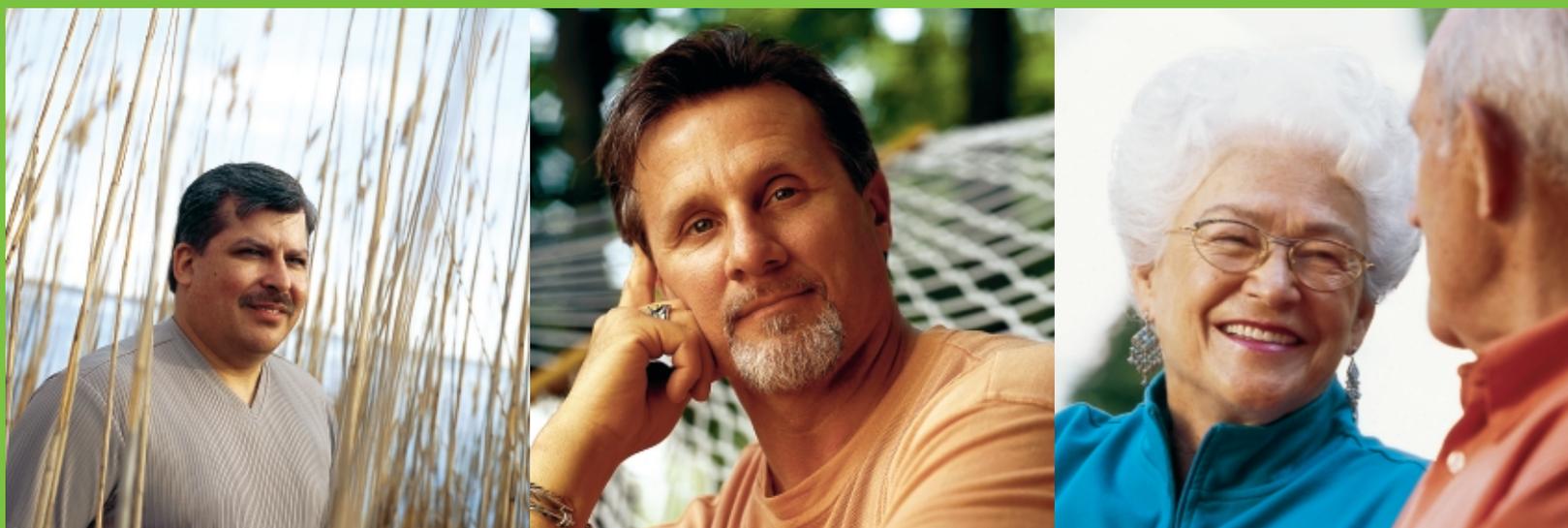
H&R BLOCK

2003 ANNUAL REPORT

Ken Olivo, *below left*, took the Double Check Challenge — and is glad he did. Tax professional Bobby Kassick, at H&R Block's Shirley, New York office, examined Ken's tax returns filed for three previous years and found that Ken was entitled to an additional \$10,000 in state and federal income tax refunds. The money couldn't have come at a better time, says Ken, who recently retired on disability. "It was a godsend. My disability hadn't gone through yet, so I had a lot of bills to pay. From now on, I don't trust anyone else to do my taxes."

Doug Dorman, *below center*, a psychologist in Glassboro, New Jersey, responded to a mailing he received from H&R Block Mortgage Corp. "About nine months ago, I got in touch with loan officer Josh Winston," says Doug. "Now Josh has worked on three loans for me — for my home, a rental property, and the beach house I've had since 1995. Josh has given me good advice. With the latest package he put together, I'll save \$2,300 a month and about \$500,000 in scheduled interest by going from a 30- to a 15-year note. It's good to know that H&R Block does more than taxes. It's great to work with someone like Josh. He did wonders for me and was very helpful."

Ed and Maxine Vanderlind, *below right*, opened an investment account with a national company after they sold their business and retired to Florida more than four years ago. It wasn't exactly the relationship they'd hoped for. In search of more responsive service, the Vanderlinds turned to H&R Block Financial Advisors Inc. Today, the Vanderlinds rely upon financial advice from Jakey Winters of H&R Block's Venice, Florida office. "He leaves no stone unturned. He explains everything, and he's gained our trust. We have complete confidence in him," says Ed. "We think he's by far the best we've ever worked with."



H&R Block

H&R Block helps millions of clients benefit from all of the deductions and credits available to them and build a better financial future.

We're the leader in tax services — the only major company that offers a full range of software, online and retail office tax solutions, combined with basic financial advice that is customized for each client. We also offer mortgage and investment services that enable clients to put our advice into action, as well as business advice and business services under the RSM McGladrey brand.

Our long-term mission is to help clients achieve their financial objectives by serving as their tax and financial partner. Our clients' stories illustrate the progress we're making.

SELECTED FINANCIAL HIGHLIGHTS

Amounts in thousands, except per share amounts and number of shareholders

April 30	2003	2002	2001	2000	1999
FOR THE YEAR:					
Total revenues	\$ 3,779,767	\$ 3,317,736	\$ 2,981,337	\$ 2,425,685	\$ 1,619,577
Net earnings from continuing operations	\$ 580,064	\$ 434,405	\$ 276,748	\$ 251,895	\$ 237,795
Net income	\$ 580,064	\$ 434,405	\$ 281,162	\$ 251,895	\$ 215,366
AT YEAR END:					
Total assets	\$ 4,603,905	\$ 4,230,791	\$ 4,113,705	\$ 5,700,146	\$ 1,903,923
Long-term debt	\$ 822,302	\$ 868,387	\$ 870,974	\$ 872,396	\$ 249,725
Stockholders' equity	\$ 1,663,709	\$ 1,369,420	\$ 1,173,741	\$ 1,218,589	\$ 1,061,987
Shares outstanding	179,601	181,126	183,608	196,070	195,258
Number of shareholders	30,716	31,094	31,523	33,557	34,624
MEASUREMENTS:					
Per basic share of common stock:					
Net earnings from continuing operations	\$ 3.23	\$ 2.38	\$ 1.50	\$ 1.28	\$ 1.19
Net earnings	\$ 3.23	\$ 2.38	\$ 1.53	\$ 1.28	\$ 1.08
Per diluted share of common stock:					
Net earnings from continuing operations	\$ 3.15	\$ 2.31	\$ 1.49	\$ 1.27	\$ 1.18
Net earnings	\$ 3.15	\$ 2.31	\$ 1.52	\$ 1.27	\$ 1.07
Other per share data:					
Cash dividends declared	\$ 0.70	\$ 0.63	\$ 0.59	\$ 0.54	\$ 0.48
Net book value	\$ 9.26	\$ 7.56	\$ 6.39	\$ 6.22	\$ 5.44
Return on total revenues	15.3%	13.1%	9.3%	10.4%	14.7%
Return on stockholders' equity	45.2%	41.1%	29.7%	25.1%	22.0%
Return on average assets	14.0%	9.9%	5.3%	7.0%	9.0%
Working capital ratio	1.45	1.19	1.14	1.10	1.97
Debt to total capital ratio	34.5%	40.4%	44.0%	50.1%	23.2%
Total equity to total assets	.36	.32	.29	.21	.56
Dividend yield	1.8%	1.6%	2.1%	2.6%	2.0%
Dividend payout ratio	21.7%	26.6%	38.5%	41.9%	44.1%

Mark A. Ernst, H&R Block chairman, president and chief executive officer, meets in his office with a group of district managers, including Carlos Perozo from Washington D.C.



dearshareholder

By traditional measures of performance, H&R Block delivered strong results in 2003 — another year of record revenues and net income, in which we met our growth objectives for revenue, earnings per share and return on equity.

Revenues grew 13.9 percent to \$3.8 billion. Earnings increased 33.5 percent to \$580.1 million. Earnings per diluted share grew 36.4 percent to \$3.15. We managed our capital levels prudently, allowing us to post return on equity of 45.2 percent while strengthening our capital position. We returned significant value to shareholders by repurchasing 6.6 million shares for \$316.6 million. And the company declared its 164th consecutive quarterly dividend, returning \$125.9 million to shareholders in dividend payments in 2003.

These numbers describe a company that performed very well in a challenging economic

environment. Our results show the strength of our strategy and the resilience of our mix of businesses in a weak economy, as well as the depth of commitment our associates have to client service.

However, we are not satisfied with these results. The financial performance of our mortgage business was outstanding, but several other business units had results that were disappointing. We have substantial opportunity for future growth through improved execution within our existing mix of businesses. And that execution is crucial to achieving our ultimate goal — *to serve as our clients' tax and financial partner.*

U.S. Tax Services

We saw progress against several of our longer-term strategic objectives in the U.S. tax business last year. We made important

advances in implementing our plans to offer consumers a fuller range of products and services — online, software and retail office solutions — under the H&R Block brand. We are uniquely positioned as the only national tax services company that can blend together e-solutions and in-office solutions to meet clients' needs.

Our e-solutions are introducing the H&R Block brand to a new generation of consumers who previously have not used our products and services, enabling us to broaden the appeal of a brand that is already one of the strongest in American business.

Our products and services are attracting a broader range of consumers, including higher-fee clients with more complex tax situations. This success is reflected in the 8.2 percent increase in average fee per tax return to \$119.40 in 2003.



Jeffery W. Yabuki, executive vice president and chief operating officer, speaks with a group of district managers, including Lena Baca from Dallas, at a skill building seminar.

And clients are seeing more value in their relationship with us because of the progress we have made in our efforts to serve as their tax and financial partner. Clients reported increased satisfaction with the value received for the price they paid, which indicates that the basic — but customized — financial advice we include with our tax services is strengthening our market position. Clients appreciate suggestions that can help them achieve financial objectives such as buying a home, saving for retirement, or simply getting every tax advantage available to them today.

However, we were disappointed by a 3.7 percent decline in clients served by our retail office business, which was adversely affected by the weak economic environment. Many of the lower- and middle-income taxpayers who are at the heart of our traditional client base were unemployed or worked fewer hours and had lower income. They either didn't file a return

or didn't see the value of our professional tax assistance this year.

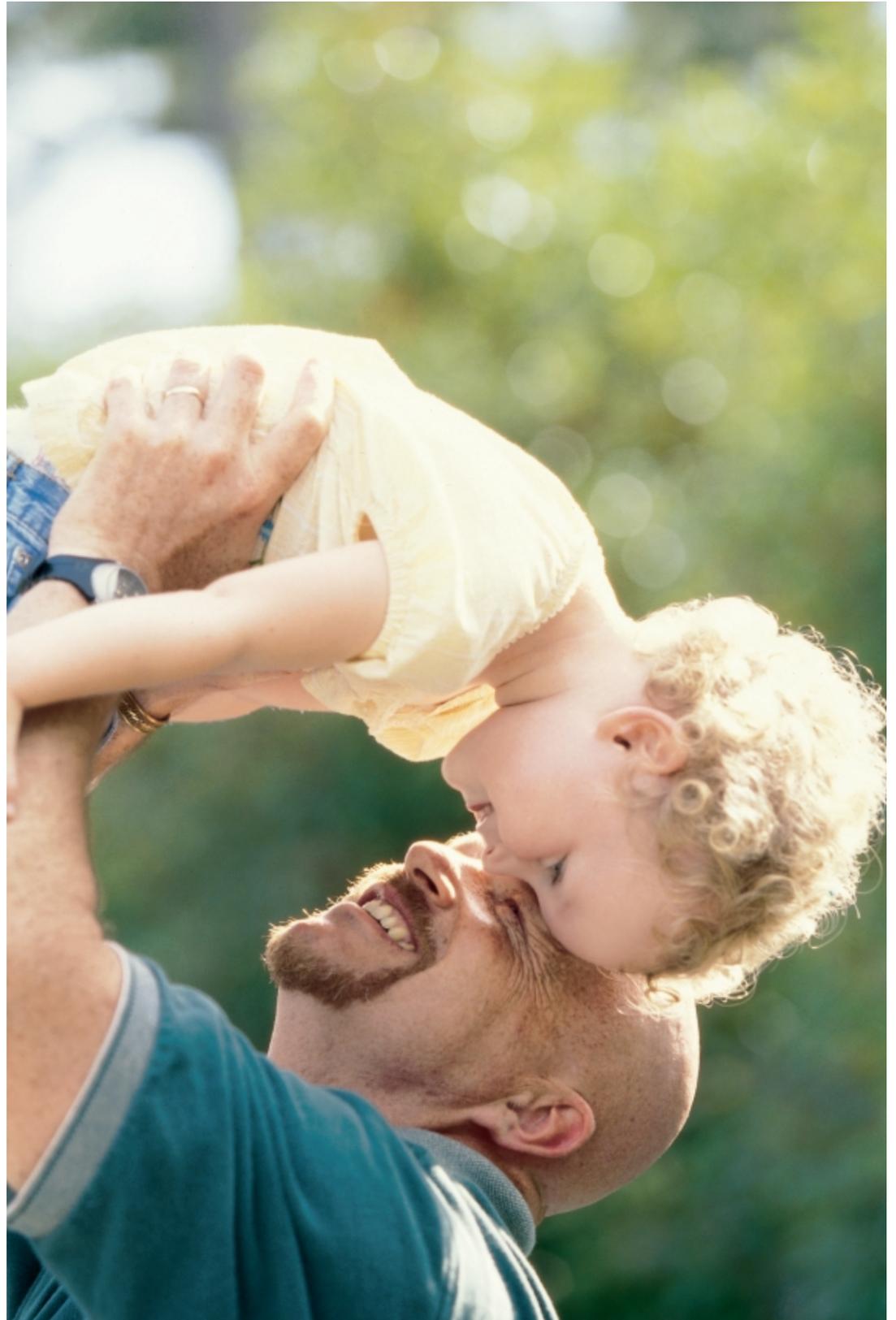
Our long-term challenges are to continuously find ways to add value to the client experience, build on the competitive advantages that differentiate us from our competitors, and effectively communicate how we can help clients in ways that our competitors can't. The softness in the economy exacerbated these challenges in 2003. But despite the economic environment, H&R Block served nearly 18.7 million clients in the United States last year, thanks to the strength of our multi-channel strategy and the rapid growth in software and online clients.

For the year, pretax income grew 2.6 percent to \$547 million. U.S. tax revenues increased 1.6 percent to \$1.9 billion. These financial results were notably reduced by a \$41.7 million charge that we recorded in the second quarter

Consolidated Revenues



Steve Hoback loves the convenience of filing his tax return with an online solution from H&R Block. "I really enjoy doing my taxes this way. It's extremely easy. You can stop at any time and then come back to it. If you run into problems, solutions are available," he says. An online client for four years, the Columbia, South Carolina resident speaks highly of H&R Block's client support. "They addressed my concerns promptly and professionally," he says. "It was really impressive. That's why I'll be a customer for life."





An MBA candidate at New York University, Tom van Oosterom, *left*, worked during the day in the computer industry and attended school at night. Then he lost his job. Wilma Hayes, *right*, tax professional and financial advisor, prepared Tom's tax returns and developed a plan to fund his education. "It was a difficult time, and Wilma was able to help me make some important decisions," Tom says. "She provided me with peace of mind, both with Uncle Sam and with the funding of my education. The trust, the relationship and the approach that she represented have been tremendous."

for the settlement of a seven-year-old class action lawsuit related to refund anticipation loans (RAL) in Texas. We don't believe that this settlement will determine how remaining RAL cases will ultimately be resolved.

We plan to continue our RAL business. Helping our clients to receive their tax refunds or refund loans more quickly remains an important element of what many clients want from H&R Block.

Mortgage Services

Our mortgage businesses — operated under the Option One and H&R Block Mortgage names — delivered outstanding financial results in 2003. Pretax income grew 104.5 percent to \$694 million.

Total revenues increased 63.3 percent to \$1.2 billion. Total mortgage origination volume

increased 44.7 percent to \$16.6 billion. Loan servicing revenues increased 14.4 percent to \$168.4 million.

Option One's income included a \$130.9 million gain on the sale of net interest margin residuals. This transaction not only allowed us to improve our balance sheet, but also demonstrated the value of these assets. We continue to approach the mortgage business with the intent to optimize cash flows and minimize risk retained on our balance sheet.

Our strategy to serve clients as their tax and financial partner is one factor that contributed to the unit's growth in 2003. Nearly half of our retail mortgage loans — 48.7 percent — were to H&R Block tax clients. Retail loan originations increased 46.2 percent to \$2.9 billion.

Option One's exceptional financial performance was the result of effective management and

careful planning, although low interest rates were a contributing factor. In 2003, Option One increased the number of sales associates and loan officers 23.2 percent. This increase helped drive a 24.4 percent increase in the number of loan applications.

We were able to improve our closing ratio to 53.5 percent. And an increased average loan size contributed to a 44.7 percent rise in loan origination volume and a 43.2 percent rise in gains on loan sales.

We believe strong performance in this segment will continue with minimal risk. Our originations remain very healthy. We are beginning to benefit from the economic advantages of the mortgage business' link to the H&R Block tax client-base. And we believe that the minimal risk we have retained on our balance sheet is appropriately — yet conservatively — valued.



Philadelphia-based Michel's Bakery bakes more than 100 products for nationwide distribution, from brownies to pound cakes. Owner Jon Liss needed a system that could produce accurate and timely production reports on everything from the amount of ingredients used to the number of cakes produced per hour. He consulted with RSM McGladrey associates Jim McGrane and Eric Proie, who identified and documented every step in the bakery process. The RSM McGladrey study "made all the difference in the world. It helps us keep our quality high and has improved efficiency. The system's simple design makes it easy to transfer to all of our production lines," Jon says.

Business Services

Business Services serves mid-sized companies and their owners under the RSM McGladrey brand. Our strategy for this segment is to expand and deepen client relationships that are primarily based on tax and accounting services. We now have the resources in place to offer clients a wider range of services, including retirement plan services, business consulting, payroll, business valuation and capital markets support. We are building a unique business, designed to serve our middle market clients unlike any other professional services firm.

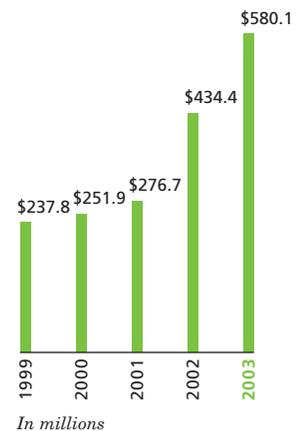
During 2003, Business Services revenues increased 4.1 percent to \$434.1 million. The increase was driven by growth in our core accounting and tax services and the addition of valuation and capital markets services. The cautious business environment remains

a key challenge to this segment, along with the need to effectively integrate the new range of services that we offer to clients.

Business Services experienced a pretax loss of \$14.1 million, compared to pretax income of \$22.7 million in the previous year. This loss was partially the result of a non-cash charge of \$11.8 million related to our integrated payroll and benefits processing business acquired in December 2001. Our valuation and capital markets business also recorded losses due to the challenges of adding resources in response to the rapid growth that we have been experiencing in this business.

We've restructured these business units to manage their resources more effectively. This year we will focus on energetically executing our strategy. We do not plan any significant acquisitions or substantial investments in this segment this year.

Consolidated Net Earnings
from continuing operations





Frank J. Cotroneo, *left*, H&R Block senior vice president and chief financial officer, discusses a project with Terry Dunn, president and chief executive officer of J.E. Dunn Construction, the largest commercial contractor in Kansas City, Missouri and a member of the J.E. Dunn Group, which includes five construction companies in 15 offices across the country. J.E. Dunn is currently constructing a building that will become home to RSM McGladrey's Kansas City office and has been awarded a contract to work on H&R Block's planned World Headquarters expansion project.

Investment Services

Investment Services, primarily operating as H&R Block Financial Advisors Inc. (HRBFA), reported disappointing financial results for the third consecutive year. The weak economy, low investor confidence and declining stock market valuations continued to depress retail trading activity, commission revenue, net interest margin revenue and revenue based on assets. In 2003, the business unit reported a \$128.3 million loss, which included non-cash charges of \$24 million in goodwill impairment and \$29.3 million in amortization of intangibles. Revenues, net of interest expense, declined 16.9 percent to \$196 million.

Despite the difficult environment, HRBFA made progress in several areas that position us well for the future. We have worked to transform the traditional, transaction-based equity orientation of the business into an

advice-based, client-centered consultative resource that is consistent with the company's strategy to become our clients' tax and financial partner. During the year, we added more than 250 experienced financial advisors. We also upgraded the technology supporting our advisors and restructured and improved our investment research and support group.

Even as we have made these improvements, we still need to better integrate HRBFA with the opportunity to serve more H&R Block tax clients. We are implementing new plans to build stronger relationships between financial advisors and tax professionals. This integration will take time, but we are committed to making meaningful progress in the year ahead. We know that when we execute our strategy well, clients value the expanded relationship that they can have with H&R Block. Our challenge is to make that expanded relationship equally valuable for our shareholders.

Consolidated Net Earnings

per diluted share from continuing operations



Mark Mahfoud, *right*, president of Pacific Coast Funding Inc., discusses the mortgage business with Bob Dubrish, *far right*, president and chief executive officer of Option One Mortgage Corp. Predictability is one of Option One's competitive advantages, in Mark's opinion. Other underwriters are not always so clear about their guidelines and requirements, he says. "It's a lot easier to work with Option One, and a lot quicker. Plus, they're great to communicate with. If you have a question, from top to bottom, they'll respond very quickly." Pacific Coast Funding, based in Irvine, California, began brokering Option One loans five years ago. Now it is originating its own nonprime paper and selling it back to Option One, which works to build broad client relationships.



Anthony Kellum, *left*, president of Kellum Mortgage Financial Services Inc., considers Option One his trusted partner in providing mortgages to new homeowners in the Detroit area. "It's a relief for me to be able to offer Option One's product because I know the company has integrity and character. I also know we can get our clients qualified and get the loan completed. Option One's customer service is just phenomenal. It's truly a pleasure to work with them," Anthony says. Last year, Anthony invited Option One to strengthen its relationship with the community by sponsoring a Habitat for Humanity home in Detroit. Option One agreed. "They've shown wonderful corporate leadership. I take my hat off to them."



Mary Yarak, *near right*, a graphics designer in Melbourne, Australia, depends on H&R Block tax professional Dimwa Derbas, *far right*. With Dimwa's help, Mary has been able to deduct the cost of continuing education courses she's taken in graphic design. The result: a tax refund in each of the last four years. "Dimwa's fantastic," says Mary. "She's very thorough. H&R Block is fantastic. The service is brilliant. What more can I say?"



International Tax Services

Our international tax operations — which include Canada, Australia and the United Kingdom — generated full-year revenues of \$85.1 million, an 8.1 percent increase over last year. The improvement is the result of favorable exchange rates and a strong tax season in Australia, offset by a weaker than expected tax season in Canada.

Pretax income improved by \$3.4 million, or 47.5 percent, to \$10.5 million. The international tax businesses continue to represent a good opportunity for us, though our growth plans need significant work in the year ahead.

The Promise of the H&R Block Brand

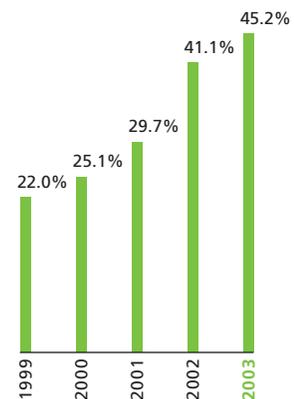
H&R Block has one-to-one relationships with millions of clients who greatly value our tax services and trust us to be their tax partner.

Today, only relatively few of our clients also view H&R Block as a financial partner that can help them build a better financial future. Our long-range challenge is to deepen our relationship with clients in order to achieve the full potential of the opportunity that our strategy and mix of businesses offer.

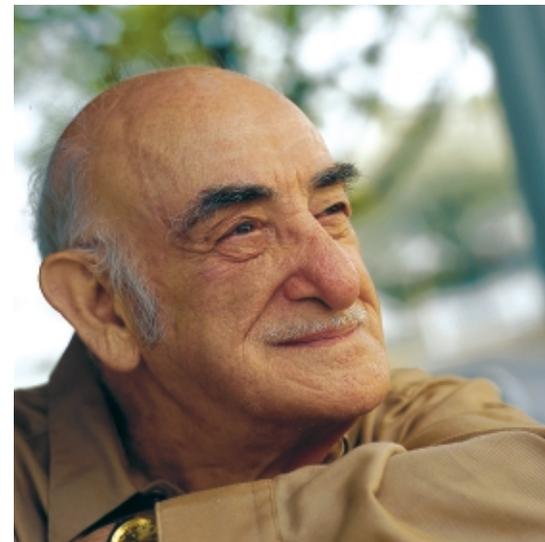
We don't underestimate the complexity of this challenge. The strength of the H&R Block brand and our leadership in the tax market were built in the course of many years of determined effort. To implement our mission will require all of our associates to become engaged in a cultural evolution that will change their roles and responsibilities and expand the scope of our client relationships.

In this environment, it is critical that we clearly define the company's values, which are fundamental to the promise of the H&R Block brand:

Return on Equity



After retiring from the Long Island Railroad in 1981, Bay Shore, New York resident **Barney Chiarello**, *right*, began investing in the stock market to supplement his modest pension income. Several years ago, he opened an account with H&R Block Financial Advisors Inc. David Morton, of the Summit, New Jersey office, suggested that Barney reduce his risk by investing a portion of his equity in conservative, interest-bearing mutual funds. David encouraged him to open a wealth management account, which allows Barney to trade commission-free and get his taxes prepared annually for a fixed quarterly fee. Beyond saving “a ton of money” on commissions, Barney says he’s benefited greatly from David’s advice. “Dave’s been very helpful in advising me,” Barney says. “He’s really helped me become a much better investor.”



- **Client Focus.** We are passionate about helping clients. Their success is a key measure of our success.
- **Excellence.** We take pride in doing our best in everything we do. We embrace change to learn and grow.
- **Integrity.** We are honest and ethical in everything we do.
- **Respect.** We treat each other with respect and dignity, recognizing that innovation springs from unique perspectives.
- **Teamwork.** Everyone’s collaboration and full participation make us stronger and allow us to serve clients better.

These values define who we are, what we stand for as a company, and what the H&R Block brand means. They help us build upon the trust that H&R Block established with clients as we grew to become the world’s leading tax services company and one of the strongest brands in American business.

These values are also reflected in our approach to corporate governance. We are committed to doing what is right for the shareholder. In 2003, we adopted corporate governance guidelines, reviewed and revised the charters of our board committees, and appointed Louis W. Smith presiding director and chairman of the board’s executive committee. The new position of presiding director has responsibility for leading executive sessions of the board without management representatives present. These executive sessions are intended to foster better communication among non-management directors. Except for the chairman of the board, all board members are outside directors, and all of the board’s committees are chaired by outside directors.

We take a long-term view of the business, even as we concentrate on short-term financial goals. While we take pride in our

accomplishments so far, we recognize that we have achieved only a small fraction of the company’s full potential.

I’m proud of what the company and its associates accomplished last year, but we are determined to improve our performance this year. Our shortcomings in 2003 point to areas where we can do better. We intend to make 2004 a year in which the company delivers even greater value to clients, associates and shareholders.

A handwritten signature in black ink, consisting of a stylized 'M' followed by a large, sweeping flourish that ends in a horizontal line.

Mark A. Ernst
Chairman, President and Chief Executive Officer

taxsolutions

H&R Block helps clients build a better financial future with a combination of tax services and basic financial advice that isn't available to most Americans from any other source. Along with our tax services, we include suggestions to help clients prepare for retirement, save for a college education or achieve other financial goals.

H&R Block tax professionals routinely inform clients about the tax advantages of saving for retirement by opening an IRA account. In 2003, we helped 126,000 clients open IRAs. And thanks to the Saver's Credit, we were able to help some clients save for retirement and still get a larger tax refund than they would have received if they had not invested for the future.

When clients want greater insight into their financial situation, their H&R Block tax professional can refer them to a financial

advisor at H&R Block Financial Advisors Inc., which offers a variety of financial products and services that enable clients to put our financial advice into action. Clients who want information about mortgage alternatives are able to get answers to their questions from a loan specialist at H&R Block Mortgage, which offers a wide range of loan products.

Working with tax clients as their financial partner increases our value to them. They appreciate the opportunity to consider some financial alternatives at tax time, when all of their relevant financial information is at hand. Then we make it easy for them to take action on our suggestions. Our most loyal tax clients are those who have a financial relationship with us.

In 2003, H&R Block served 16.5 million clients in one-to-one relationships with a tax professional at one of 9,300 retail offices in



Department of Defense computer engineer Robert Gullede, *above left*, wasn't sure how he'd get his taxes done after he shipped out to Qatar in January 2003 on an assignment to provide network support for the U.S. Army. However, at home in Ozark, Alabama, his wife, Roseanna, *above far left*, discovered the online tax preparation services available at www.hrblock.com, which enabled them to work on their tax return together over a two-week period — despite a separation of thousands of miles. "Online tax preparation is going to be very valuable for a lot of people in our mobile society," Bob says.

H&R Block's Employer Solutions program enables Hallmark Cards, the Kansas City-based greeting card giant, to offer employees special pricing on H&R Block's tax solutions. "We've found Employer Solutions to be a great benefit for our employees," says Darrell Dryer, *above right*, employee relations director for Hallmark. "H&R Block is the only company that has a nationwide network of tax offices, as well as software and online products." Since 2001, 53 companies with 3.6 million employees have joined H&R Block's Employer Solutions program.

Annette Lozano, *right*, of Whittier, California, was intrigued by a television advertisement for H&R Block's Double Check Challenge. A friend recommended that she see Gretchen Van Buren, an H&R Block tax professional in Los Angeles. The previous year, Annette had prepared her own return and paid almost \$400 in taxes. However, Gretchen observed that Annette had neglected to take an education deduction for her dental hygienist coursework. By amending her return, Annette would be entitled to a \$1,000 refund. "I was so excited," Annette says. "I wasn't expecting to get anything back. Gretchen did a great job for me. When she did my taxes this year, she was able to get me another refund of about \$1,000. She's awesome."

Tax professional Terry Taylor in Calgary, Alberta helped transport truck owner and operator Perry Rosefield, *below*, with tax deductions for the expenses he incurs while he's on the road. "Terry has expertise in the transportation industry, and I've relied on her every step of the way," Perry says.





When Helen Green of Jacksonville, Florida retired on disability in 1994, she was told she didn't need to file a tax return due to her low income. But after her disabled daughter began working part-time, Helen decided to discuss her tax situation with H&R Block. Tax professional Maxey McCrackin explained that while Helen wasn't required to file a return, she qualified for an earned income tax credit because of her disabled dependent. Maxey helped Helen file returns for the three previous years. The result: a sizable refund. "I was in shock when he told me how much money we were getting," Helen says. "Maxey was wonderful. With all his heart and soul, he really tries to help people."



the United States. We served an additional 2.1 million clients with our software and online solutions. One out of every seven U.S. taxpayers was an H&R Block client.

H&R Block is the world's largest tax services company. In 2003, H&R Block served approximately 21 million tax clients worldwide. In addition to our U.S. tax business, we also provide local tax services in Canada, Australia and the United Kingdom, as well as U.S. tax returns for U.S. citizens living abroad in Germany, Guam, Japan, Korea, the Philippines, Panama, Puerto Rico, Saipan, Spain and the Virgin Islands.

H&R Block's TaxCut® software was selected as the number one choice by the nation's foremost software reviewers. TaxCut has a variety of features designed to enable clients to maximize their tax benefits and reach their long-term financial goals. No other software

or online tax solutions company can link clients to its own nationwide network of retail tax offices, where tax professionals can support e-solutions clients with tax help and basic financial advice.

We offer clients the flexibility to select the service level they want. Some want a blend of online and person-to-person services. Others prefer to do their own taxes, but want a tax professional to check their return for accuracy or answer their questions by phone, e-mail or online chat.

Every year, tax laws become more complex. H&R Block is ready to help taxpayers benefit from the deductions and credits available to them without neglecting any of their tax obligations. H&R Block is also the only tax services company to offer basic financial advice that gives clients the opportunity to build a better financial future.

Retirees Jennifer and David Burdett, *above center*, of Melbourne, Australia, don't do their own taxes anymore. "Our tax laws have undergone significant changes in recent years, so it's important that we're up-to-date with what's going on," Jennifer says. H&R Block tax professional Francine Ainsley, *above left*, has helped the Burdetts navigate the complexities of the tax code while maximizing their refund. "She's very thorough and quite painstaking and works as hard as she can to get you the best result possible," Jennifer says.

Brad Lacey, *above right*, a pastor in Conshohocken, Pennsylvania, relies on H&R Block to prepare his tax return and keep him up-to-date on special tax laws for members of the clergy. "My father was an attorney who always did my taxes," says Brad. "When he became ill, I went to H&R Block and was fortunate to be paired with Jim McElree. Jim was very astute at tax law, and I never had to worry about a thing. When Jim retired a couple of years ago, he referred me to Mary Lynn Perney. I couldn't believe there was another tax professional there who knew so much about taxes for clergy members. Once again, I was fortunate."



Retirees Frank and Margaret Dunn of Hingham, Massachusetts, rely on H&R Block Financial Advisors Inc. to help them achieve their financial objectives. For the past decade, Frank has managed the couple's retirement funds. He makes nearly all his own investment decisions but relies on H&R Block financial advisor Anthony Nofi for advice and support. "I usually discuss my plan with H&R Block," Frank says. "They're a tremendous help in providing background material, like company profiles and earnings reports. They're really an excellent partner, and I'm very satisfied with their service and execution."

financialsolutions

Our leadership in tax services puts us in a unique position to give millions of people personalized financial advice that otherwise would be unavailable to them. Most of H&R Block's U.S. tax clients do not have a relationship with a financial advisor.

H&R Block already provides its tax clients with basic financial advice at no charge as part of the Block Advantage program, which includes suggestions and information about retirement savings, home ownership, saving for their children's college education, eligibility for government programs and other choices for the client to consider.

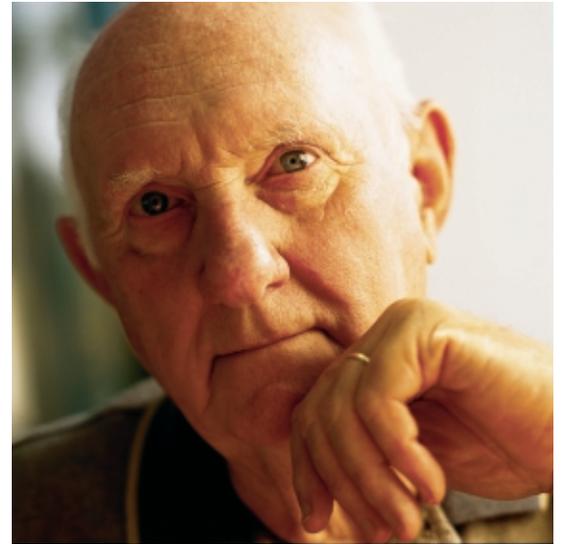
However, some clients want to take a deeper look into the financial alternatives available to them, develop an investment plan, and then begin implementing that plan. H&R Block Financial Advisors Inc. (HRBFA) offers personal financial advice, as well as the

products and services that enable clients to put that advice into action.

Our financial advice is supported by the independent analysis and research of our Investment Management Department (IMD). Ten IMD analysts have been recognized as *Wall Street Journal/Zack's* All-star Analysts because of their top-ranked investment returns and earnings estimate accuracy. But H&R Block doesn't tout "hot" stocks. Instead, we help clients build a long-term investment program that balances risk and reward in a manner appropriate to their personal situation.

HRBFA has an important role to play in enabling the company to fulfill its mission: to help clients achieve their financial objectives as their tax and financial partner. As a group, HRBFA clients are more loyal to H&R Block's tax services than those tax clients who don't have a financial partnership with us.

Richard Hartman, *right*, a retired telephone company manager, has responsibility for two investment accounts for himself, along with one for a friend and one for his son. Fortunately, he has a good partner in Victoria Black, *below right*, a financial advisor with the H&R Block Financial Advisors office in Woodland Hills, California. “She has an excellent background. And she recommends — she doesn’t push,” Richard says. “She helps me with research. She’s always available. She’s truly a dedicated professional.” Richard also has benefited from H&R Block’s tax services. “I’ve gotten more money back than I ever did doing my own tax returns,” he says.



Dave Shaw, *left*, with his wife, Carolyn, of Highlands Ranch, Colorado, met H&R Block financial advisor Henry Martin through an ice hockey league several years ago. “I got to know Henry and came to respect his approach to investing,” says Dave. “We took our business to him and we’ve seen very steady growth in our portfolio. We’ve been so happy with Henry that we introduced my parents to him, and now they’ve shifted their entire portfolio to H&R Block as well.”



For years, St. Louis-area high school guidance counselor Ken Wren, *left*, dreamed of buying a weekend getaway home. But when he finally found just the place earlier this year at Missouri's Lake of the Ozarks, the banks and mortgage companies he contacted were too busy doing refinances to give him the service he needed. But his H&R Block tax professional, Randi Franklin, suggested that he see H&R Block Mortgage loan officer Sue Roederer, who put together a package that allowed Ken to lock in a lower mortgage rate on his home and get a home equity loan to buy the second property. "Sue really went the extra mile. She called every day with updates, and I really appreciated that," Ken says.

When retired plumber Albert Gandenberger took a fall, he was unable to collect the paperwork required to complete his mortgage application. Frank Reeder, an H&R Block Mortgage loan officer based in Tampa, Florida, helped out by going to the Social Security Administration office on Albert's behalf for the necessary documentation. "I was absolutely amazed that he would go down there and stand in line for just one average-sized loan. It was customer service that went above and beyond the call of duty," says Albert's daughter, Barbara Clark, *above right*, who has sent a number of referrals to Frank and is using H&R Block Mortgage to finance a house she and her husband are building. "As a loan officer, I always try to treat each and every client as if they were part of my family. I was glad to help Mr. Gandenberger any way that I could," Frank says.

homesolutions

Our continuing success in the home mortgage business demonstrates the value that clients derive from our strategy to become their tax and financial partner. In 2003, nearly half of our retail mortgages were the result of an H&R Block tax professional's client referral.

When H&R Block tax clients request more information about the mortgage choices available to them, their tax professional can refer them to H&R Block Mortgage Corp. (HRBMC), which offers a wide choice of home loans. To clients who qualify, HRBMC can provide the mortgage product that best suits their needs.

HRBMC's success in the retail mortgage business also strengthens H&R Block's tax business. Clients see more value in their relationship with H&R Block when we are able to respond to their request for information about mortgages. As a group, tax clients who

have an H&R Block mortgage are more likely to remain an H&R Block tax client than those who don't have a mortgage relationship with us.

Our experience shows that clients who ask us about mortgages are more likely to return to H&R Block for tax services than other clients — even when they don't get a mortgage or even if their mortgage application was rejected. Tax clients value our willingness to help them with other financial matters and appreciate our interest in helping them achieve their financial objectives.

H&R Block's one-to-one relationship with millions of tax clients is a competitive advantage for HRBMC. But our mortgage business also gives our tax business a competitive edge. Together, our tax and mortgage businesses increase the value that H&R Block builds into its client relationships.



Karin Abel, *left*, with her husband, Howard, and their daughter, Sydney, of San José, California, is a 13-year client of H&R Block tax professional Colleen Hera. “Colleen makes it really easy for us every year. She tells me exactly what records to save and bring in,” Karin says. “When Colleen asked if we were interested in refinancing, I told her I hadn’t been able to find a mortgage company that didn’t charge outrageous closing costs. She suggested H&R Block Mortgage and put us in touch with loan officer Eline Kaufman, *above*. “Now I have another incredibly helpful partner at H&R Block. The service I’ve gotten from them is absolutely fabulous.”





mortgagesolutions

H&R Block Mortgage, an Option One subsidiary, plays a key role in our advice-based strategy to help clients achieve their financial objectives. But Option One Mortgage Corp.'s other operations make a major contribution to H&R Block's strategic business objectives, generating income that strengthens the entire company and enables it to build greater value for shareholders.

Option One, like other H&R Block businesses, is strongly focused on client service. Excellent client service is a top priority that shapes business practices and policies and builds strong relationships with clients.

Option One has several types of clients. More than 24,000 independent mortgage brokers are able to offer Option One's loans to homeowners. The company also offers its loans through partnerships with financial institutions, such as national and regional banks.

After the mortgage closing, Option One's Mortgage Servicing unit keeps in touch with the homeowner and services the mortgage on an ongoing basis to minimize delinquencies and maintain customer satisfaction. Also after closing, Option One pools its mortgages for sale to the investment community, which values the predictability and reliability of this investment instrument.

Option One Mortgage Corp. is managed in ways that minimize balance sheet risk while optimizing cash flows. This approach is consistent with the company's objective of increasing shareholder value.

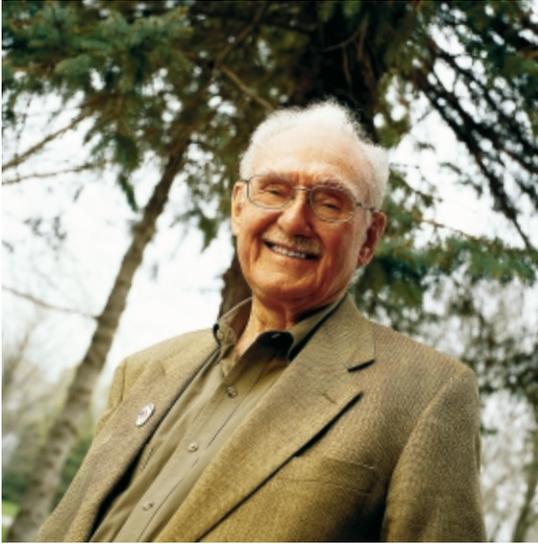
Moody's Investors Service has given Option One its top service quality rating, SQ1. Fitch Ratings has commended Option One for its strong and stable management team, solid financial strength and extensive internal control environment.

Option One is a company that responds to human needs, says Roger Schlesinger, *above left*, president of Manhattan West, a mortgage company based in Sherman Oaks, California and one of Option One's largest wholesale mortgage clients. "Option One is very flexible," Roger says. "Within certain parameters, they're willing to look at every situation on its merits. Option One is a great help not only for those who've had credit problems, but also for others, such as self-employed people or first-time borrowers who have a difficult time getting loans from traditional lenders."

Option One's Servicing department was there to help when Detroit resident Toria Allen, *above right*, lost her job and fell behind in her loan payments. "No matter who I talked to, they were willing to work with me and were always courteous, polite and upbeat," Toria says. "I was amazed. I really didn't think a big company would ever act like that."



Since Lehman Brothers Inc. began investing in Option One mortgages in the mid-1990s, the New York-based investment company has come to rely on Option One's quality paper and strong service. **Jon Voigtman**, Lehman's senior vice president of mortgages, says Option One continues to set a high industry standard in a very challenging marketplace. "For many years we've utilized all aspects of Option One's mortgage business and found their disciplined approach to originations and mortgage servicing operations unparalleled," Jon says. "They're responsive and sensitive to the needs of mortgage borrowers, which equally benefits investors. As a result, they have developed a highly respected franchise in the asset-backed market, and that affords them tremendous liquidity."



When H.D. "Ike" Leighty, *left*, of Waterloo, Iowa, decided to cash out of the business he founded with his late partner, Joe Nelson, he worked with long-time consultant Tom Siders of RSM McGladrey to find a buyer for the business, which manufactures gauges for the automotive industry. Eventually, Ike decided to sell the business to its management team in a buyout that RSM McGladrey helped arrange. In his retirement, Ike has focused his considerable energy on philanthropy through a foundation that he created with RSM McGladrey's advice. "Tom Siders was a mentor who helped us think through each decision associated with the sale. RSM McGladrey was a great help," Ike says.

Long-time Kansas bankers Bill Ellwood, *above far right*, and Dennis Bartkoski, had a dream — to open their own bank. But they weren't sure where to begin. That's where RSM McGladrey's Ralph Mires came in. Mires and a team of RSM McGladrey associates helped Bill and Dennis develop a business plan that enabled them to attract investors. An RSM McGladrey team compiled the required charter and documentation. In late 2001, Town & Country Bank opened its doors in Leawood, Kansas. The bank is now on track to break even in just its second year. "We couldn't have launched this bank without RSM McGladrey, which continues to play an important role in our on-going success," Bill says.

businesssolutions

RSM McGladrey Business Services Inc. and its subsidiaries — H&R Block's business services segment — share H&R Block's mission: to help clients achieve their financial objectives by serving as their tax and financial partner.

While H&R Block serves clients in the consumer marketplace, RSM McGladrey Business Services focuses on privately-owned, mid-sized businesses with revenues in the range of \$5 million to \$250 million. In 2002, this market category included 300,000 businesses that created more than 68 percent of the U.S. gross domestic product.

RSM McGladrey Inc. offers tax and accounting services, as well as business consulting and support services. In addition, RSM McGladrey also serves business owners with tax services, financial advice and personal wealth management services.

With the combined resources of the firms within the business services segment, RSM McGladrey is able to offer a variety of advice-based services and expand the scope of client relationships based primarily on its core tax and accounting services.

RSM McGladrey Retirement Resources is a consulting firm that designs and administers retirement plans.

MyBenefitSource provides payroll and benefits processing services, enabling companies to outsource these functions and concentrate on their strategic business objectives.

RSM Equico is a valuation, merger and acquisition consulting firm that provides services to business owners who want to consider the alternatives available to them if they should choose to sell their business, and helps them find a buyer for it.

Minneapolis-based Katun Corp., a global developer and marketer of aftermarket imaging supplies, shifted its retirement benefits management to a new provider. But the change didn't bring the anticipated results. "I was spending 90 percent of my day just double-checking the new administrator's work," says benefits specialist Katy Davis, *below*. Two months later, an RSM McGladrey team led by Scott Fenwick, *right*, was managing the records for Katun's two sponsored plans in a timely and accurate manner. RSM McGladrey's benefits administration services include record keeping, year-end compliance testing, daily valuation and government filings. "I can't say enough for the level of service, responsiveness and thoroughness of information that we've gotten from RSM McGladrey," Katy says. "I feel more comfortable about the integrity of our retirement plans."



H&R Block Inc. (www.hrblock.com) is a diversified corporation with subsidiaries that deliver tax services, financial advice and investment products and services, mortgage products and services, and business accounting and consulting services. H&R Block is the only major company that offers a full range of software, online and in-office tax solutions, combined with basic financial advice that is customized for each client, including suggestions about retirement savings, home ownership, saving for their children's college education, eligibility for government programs and other alternatives. The company has one-to-one relationships with millions of clients, helping them benefit from all of the deductions and credits available to them and build a better financial future.

As the world's largest tax services company, H&R Block in 2003 served approximately 21 million clients with its TaxCut® software, online tax solutions, and more than 10,600 retail offices worldwide. H&R Block's TaxCut software was selected as the number one choice by the nation's foremost software reviewers.

When clients request more than basic financial advice, their H&R Block tax professional refers them to H&R Block Financial Advisors Inc., which can assist them with a detailed investment plan and investment services. H&R Block Financial Advisors, member NYSE, SIPC, employs more than 1,000 financial advisors serving clients in more than 150 offices in the U.S. H&R Block Inc. is not a registered broker-dealer.

H&R Block Mortgage Corp. offers a full range of retail mortgage products. Option One Mortgage Corp. offers wholesale mortgage products and other mortgage services through large financial institutions and a network of more than 24,000 independent mortgage brokers. Option One Mortgage Corp., the nation's fifth largest nonprime lender, is recognized by rating agencies and investors as a leader in best practices and client-focused services.

RSM McGladrey Business Services Inc. and its subsidiaries serve mid-sized businesses and their owners. The unit includes RSM McGladrey Inc., a tax, accounting and consulting firm; RSM Equico, a valuation, merger and acquisition consulting firm; MyBenefitSource, an integrated payroll and benefits processing firm; and RSM McGladrey Retirement Resources, a full-service retirement plan consulting firm.

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General Counsel: James H. Ingraham, Kansas City, Missouri 64111

Independent Auditors: PricewaterhouseCoopers LLP, Kansas City, Missouri 64105

Transfer Agent & Register: Mellon Investor Services LLC, Ridgefield Park, New Jersey 07660. www.melloninvestor.com

Annual Meeting: The annual meeting of shareholders of H&R Block Inc. will be held at the H&R Block City Stage at Union Station, 30 West Pershing Road, Kansas City, Missouri at 9 a.m. Central Time, Wednesday, September 10, 2003. Upon written request, we will furnish without charge to our shareholders a copy of our 2003 Form 10-K as filed with the Securities and Exchange Commission. Requests should be directed to Investor Relations, 800-869-9220 ext. 2721, or by mail to 4400 Main Street, Kansas City, Missouri 64111.

www.hrblock.com

Client photos and information included in this Annual Report appear courtesy of our clients, who have given their written consent.



H&R BLOCK

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