



SOME DAYS, I JUST HAVE TO TAKE OFF. LEAVE WORK EARLY,
SLIP INTO JEANS, HOP ON MY POLARIS AND GO. AWAY FROM
THE DEADLINES. A **WAY** FROM THE HASSLES. AWAY FROM
THE WORLD. SOME DAYS, GETTING LOST **OUT** IN THE WOODS
IS THE ONLY WAY TO FIND MYSELF. **POLARIS INDUSTRIES INC. 1999 ANNUAL REPORT**



INVESTOR INFORMATION

INDEPENDENT AUDITORS

Arthur Andersen LLP
Minneapolis, MN

DIVIDENDS

Communications concerning transfer requirements, address changes, dividends and lost certificates, as well as requests for Dividend Reinvestment Plan enrollment information, should be addressed to:

Norwest Bank Minnesota, N.A.
161 North Concord Exchange
South St. Paul, MN 55075-0738
1-800-468-9716
stocktransfer@norwest.com

FORM 10-K

The Form 10-K annual report to the Securities and Exchange Commission is available without charge to shareholders upon written request to:

Investor Relations
Polaris Industries Inc.
2100 Highway 55
Medina, MN 55340

ANNUAL SHAREHOLDERS' MEETING

The meeting will be held at 9 a.m., Thursday, May 18, 2000, at the Polaris Industries Inc. corporate headquarters, 2100 Highway 55, Medina, Minn. A proxy statement will be mailed on or about March 27, 2000, to each shareholder of record on March 20, 2000.

PRODUCT BROCHURES

For product brochures and dealer locations write or call:

Polaris Industries Inc.
2100 Highway 55
Medina, MN 55340
1-800-Polaris (765-2747)

INTERNET ACCESS

To view the Company's annual report and financial information, products and specifications, press releases, and dealer locations, access Polaris on the Internet at:

www.polarisindustries.com
www.victory-usa.com

SUMMARY OF TRADING

Quarter	Year Ended December 31,			
	1999		1998	
	High	Low	High	Low
First	\$ 39.44	\$ 27.00	\$ 38.00	\$ 27.81
Second	45.63	30.06	39.00	33.00
Third	44.75	34.38	38.19	30.31
Fourth	39.50	32.69	39.19	24.75

STOCK EXCHANGES

Shares of common stock of Polaris Industries Inc. trade on the New York Stock Exchange and on the Pacific Stock Exchange under the symbol PII.

CASH DIVIDENDS DECLARED

Quarter	1999		1998	
First	\$.20	\$.18
Second		.20		.18
Third		.20		.18
Fourth		.20		.18
Total	\$.80	\$.72

Shareholders of record of the Company's common stock on March 1, 2000: 2,928.

Share price on March 1, 2000: \$31 ¹¹/₆₄.



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POLARIS®

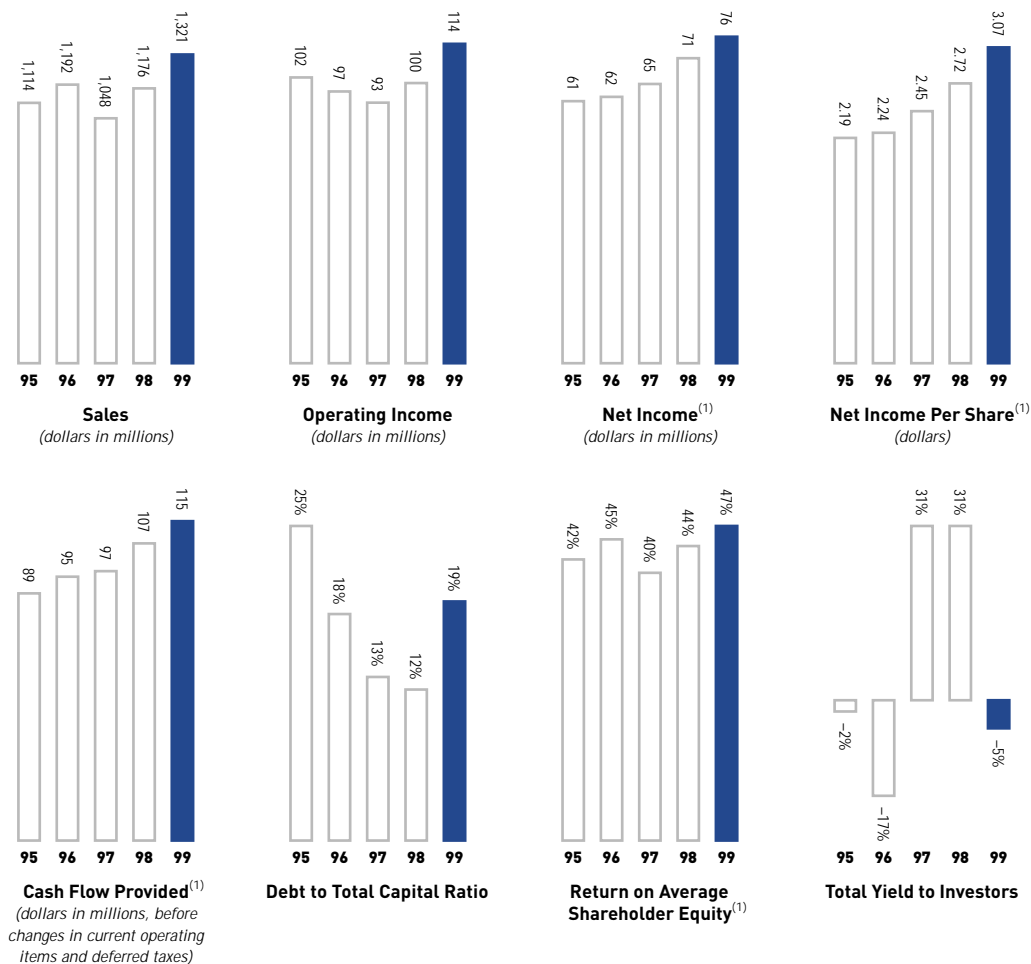
Polaris Industries Inc.
2100 Highway 55
Medina, MN 55340
763-542-0500
763-542-0599 fax

POLARIS INDUSTRIES INC. is headquartered in Medina, Minnesota, and designs, manufactures and markets innovative, high-quality, high-performance motorized products for recreation and utility use. • Our product lines consist of all-terrain vehicles (ATVs), snowmobiles, personal watercraft (PWC) and motorcycles. • Polaris engineering, manufacturing and distribution facilities are located in Roseau, Minnesota; Osceola, Wisconsin; Spirit Lake, Iowa; Vermillion, South Dakota; Ballarat Victoria, Australia; Winnipeg, Manitoba; and Hudson, Wisconsin (joint venture with Fuji Heavy Industries Ltd.). • Our finance company, Polaris Acceptance, is a 50/50 joint venture with a wholly owned subsidiary of Transamerica Distribution Finance. • Polaris products are sold through a network of over 2,000 dealers in North America and 51 distributors in 109 countries. • Polaris common stock trades on the New York Stock Exchange and Pacific Stock Exchange under the symbol PII, and the company is included in the S&P SmallCap 600 stock price index.

	1999	1998	% Change
FINANCIAL HIGHLIGHTS			
<i>(dollars in thousands, except per share data)</i>			
OPERATING DATA			
Sales	\$ 1,321,076	\$ 1,175,520	12%
Operating income	113,646	100,106	14%
Adjusted net income ⁽¹⁾	76,326	70,624	8%
Adjusted net income per diluted share ⁽¹⁾	3.07	2.72	13%
BALANCE SHEET DATA			
Current assets	\$ 214,714	\$ 183,840	
Property and equipment	150,922	124,254	
Total assets	442,027	378,697	
Long-term debt	40,000	20,500	
Shareholders' equity	168,227	153,233	

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⁽¹⁾ In 1998, Polaris entered into a settlement agreement related to a trade secret infringement claim brought by Injection Research Specialists, Inc. The one-time provision for litigation loss of \$61.4 million, or \$1.53 per diluted share, has been excluded from the 1998 financial data presented.

LETTER TO INVESTORS

W. HALL WENDEL, JR.
Chairman (left)

THOMAS C. TILLER
President and Chief Executive Officer (right)



IN 1999 WE DECLARED OUR RESOLVE TO ACCELERATE THE COMPANY'S GROWTH AND PROFITABILITY. WE LAID OUT A CLEAR PATH AND THEN FOLLOWED IT TO THE LETTER — ACHIEVING RECORD SALES AND EARNINGS FOR THE YEAR. MOST EXCITING, WE'VE SEEN THE ADDED PROFIT POTENTIAL WE CAN UNLEASH THROUGH FUTURE INITIATIVES THAT BUILD ON OUR MOST VALUABLE INTANGIBLE ASSET — THE POLARIS BRAND.

We made excellent progress in 1999.

- We grew sales to a record \$1.321 billion, up 12 percent from 1998.
- Net income increased 8 percent to \$76 million, another record. We're working to improve margin expansion so net income growth mirrors our increased sales growth.
- Earnings per diluted share reached \$3.07 — also a record — and grew at a rate of 13 percent.
- We used our \$124 million in operating cash flow to enhance shareholder value, repurchasing nearly 1.5 million shares and paying our 20th consecutive dividend. We still have nearly 3 million shares to be acquired under the Board-authorized share repurchase program.
- Return on shareholders' equity rose to an impressive 47 percent.

We've demonstrated our ability to accelerate growth. For the seven quarters since first quarter 1998, quarterly sales and earnings per share growth have averaged 15 percent. We are keeping up the intensity. Every day, we reinforce our higher expectations for the business — whether we're talking to analysts, investors, suppliers, dealers or employee owners. We remain focused on the same four aggressive goals we set last year:

- \$2 billion in sales by 2002; \$3 billion by 2007.
- Growing earnings per share at least as fast as revenue.
- Building a dominant brand.
- Expand our price-to-earnings multiple to 20+.

These goals will be achieved through two sets of activities: First, product innovation — the fuel that propelled us from \$12 million in sales in the early 1980s to over \$1.3 billion today — will continue and accelerate. And secondly, we are actively investing in five growth initiatives, designed to expand our product and service offerings, broaden our reach, and grow our brand.

PRODUCT INNOVATION: THE FOUNDATION FOR GROWTH

We continue as a leader in a large and growing ATV market. Polaris ATV retail sales were up nearly 20 percent in 1999, in a market that continues to enjoy double-digit growth. Nearly 60 percent of our sales now come from ATVs, compared to 33 percent five years ago, and we still see room to grow. We introduced six models for 2000 and have more in the pipeline. In particular, the Xpedition 425 represented our first foray into the manual transmission market, which is more than twice the size of the automatic

segment. Our best-selling Sportsman line continues to attract new enthusiasts with line extensions such as the Sportsman 6X6.

For the tenth year in a row, we're the world's number-one snowmobile company. That's cold comfort when snowfall has been below average for the third year in a row, but we know how to ride out the cycles. In fact, despite the weather, we increased operating income from the snowmobile division in 1999. We reduced costs through such innovations as our new EDGE™ common platform. We expanded our demographics with our first children's snowmobile, the 120 XCR. It's delighting thousands of young consumers at the 8 mph end of the market. We also introduced five other new models, three new engines and a host of experience-enhancing improvements.

We're sizing the personal watercraft business to current demand. We gained modest market share in 1999, but we did it by holding our own better than everyone else in a shrinking market. Industry retail sales were down 17 percent from a weak 1998, compared to a less-than-10 percent drop in retail sales for Polaris. At 4 percent of our total sales, PWC have a minor impact on our results. We have developed cleaner, quieter, more stable boats that represent the future direction for this market. While we wait for a market recovery, we will maintain a conservative inventory position and keep focused on cost and quality.

More riders are feeling the thrill of Victory. As we expected, Victory sales more than tripled in 1999. Sales were helped by a motorcycle market that increased over 20 percent, an expanded dealer network and a superior bike that has begun to win a loyal following. Victory won its second Cruiser Motorcycle of the Year award, this time from *Motorcycle Cruiser* magazine.

Our strategy for Victory takes the long view: Expand model offerings, such as our new SportCruiser™. Continually improve product quality and reduce production costs. Build a strong distribution network, now totaling over 300 dealers. Connect with the consumer and feed that knowledge back into product development. This same, deliberate, learn-as-we-go approach carried us from neophyte to among the leaders in the ATV market over the past 15 years. It's exciting to be in the early stages of the hunt once again.

ACCELERATING OUR GROWTH: FIVE CATALYSTS

Accelerating growth to \$2 billion in sales will require additional catalysts, and we've identified five areas where we can aggressively broaden our business. All are based on a fundamental fact: Polaris is a powersports company that promises a superior riding experience. In the years ahead, you'll see our brand extending into new realms, but Polaris will never be confused with a designer label that goes out of fashion. Our appeal endures with customers for whom the freedom of the ride is paramount.

1. The Polaris Brand. One of our four strategic goals is to build a dominant brand, because in the long run, strong brands create greater value for their owners. Much of our brand building in the past was focused on innovative products — not the riding experience itself. In 1999, we took a fresh look at what Polaris means to consumers and how we can tap into the deep emotional bond that riders establish with Polaris.

We've begun to consolidate advertising and brand strategy for ATVs, sleds and PWC under a common theme line, "The Way Out." You'll see this message reinforced through co-marketing, advertising and other initiatives that portray riding Polaris products as an enjoyable break from day-to-day pressures.

In fact, every person and process in our company will be focused on just one goal — providing a superior riding experience for the customer. Far more than just superior products, the riding experience includes a better shopping experience, better service and support, better financing and better accessories to make sure the machine does its job right. In today's time-pressured society, Polaris represents a hassle-free way to escape to a part of the world that is free. It will take all 3,500 Polaris associates and our 2,000 dealers working together to deliver this promise to the customer and deliver we will.

2. Alliances and Partnerships. Our ultimate growth rests on the strength of our retail distribution, and in particular, our dealers. As for anyone in retailing these days, the dealer's whole business equation is changing — with consolidations, competition from Internet sellers, wage inflation, and demand for service and technical employees. Distribution is entering a new era, and we've enlisted our Dealer Council to help ensure that our dealer partners are growing their businesses in the same profitable direction as Polaris.

The 40-member council is helping decide the priority and pace of initiatives such as new product introductions through dealerships. Other priorities include state-of-the-art customer satisfaction measures, improved regional effectiveness of distribution, and increased dealer training and development.

In 1999, we also extended our co-branding programs with partners such as Remington™, DeWalt Tools®, Ducks Unlimited and NASCAR®.

Licensing agreements are another low-risk way we're extending the reach of the Polaris brand to existing customers and new demographic groups. For example, we introduced a snowmobile racing video game to tap into the hot teen and young adult entertainment market. Polaris die-cast replicas are making inroads with toy collectors. And we recently announced an agreement with Karts International to design and distribute Polaris brand mini-bikes and go-carts. Other innovative product affiliations are in the works.

And we have extended our visibility with motorsports-oriented consumers through sponsorship of a Polaris race car and NASCAR®'s popular race broadcasts. Icons of NASCAR® racing such as Richard Petty have joined our "PRO Team" Polaris. They will endorse Polaris products and help position the Polaris ride as a superior leisure or work experience. We renewed our commitment to involve suppliers in reducing costs through designed-in improvements. And we're on the lookout for acquisitions, alliances and joint ventures with high-quality partners who can help accelerate progress toward our four goals.

3. Parts, Garments and Accessories. We've gotten off to a terrific start transforming a nice sideline business into an exciting and profitable growth machine. In the first year of our parts, garments and accessories (PG&A) growth initiative, we introduced more than 640 new products. This brought us \$17 million in incremental sales growth — and we did it without the aid of a since-activated PG&A-dedicated sales force.

PG&A is a high-margin business with limited infrastructure needs and modest people requirements. With our improved distribution channels and more aggressive sales force focused on PG&A, our goal is to double sales within the next several years, while holding down costs and reducing inventory risk.

4. Financial Services. We introduced retail credit services in early 1999 to make the purchase of our machines more convenient — and provide new profit opportunities for Polaris and our dealers. More than 1,500 dealers joined the program, with \$86 million in retail credit volume generated in the first 10 months.

Nearly 700 dealers offer our new extended service agreements. This profitable business for the dealer also ensures the customer hassle-free ownership over the early life of the product. Our partnership with Transamerica to provide financial services to our dealers on the wholesale side of the business continues to expand, as well.

5. International. We're making progress internationally and expect to build upon 1999's 11 percent sales growth. Strong distributors are very important internationally, so we're focused on creating a superior network. We acquired our distributor in Australia/New Zealand in 1999 to experiment with a dealer-direct distribution model outside North America. At the first Polaris International Distributor Conference in Portugal, we identified an agenda of specific solutions that will improve our responsiveness overseas.

All of these record-breaking accomplishments are the direct result of the best, most productive workforce in the industry, supported by outstanding dealers and suppliers. We continue to take fierce pride in building better and better machines. Throughout the company there's enthusiasm and excitement about realizing the full value of the Polaris brand. Every day, we see examples of this commitment from our 3,500 employee owners.

Polaris has a great future and a clear plan that will propel us to our goals. We thank all the consumers, dealers, suppliers and shareholders who have joined us for this exciting ride.



W. Hall Wendel, Jr.
Chairman



Thomas C. Tiller
President and Chief Executive Officer



AFTER EIGHT HOURS IN FRONT OF **THE** COMPUTER, I'M READY TO LET LOOSE
WITH THIS **GROUP**. NOT A BASHFUL ONE IN THE BUNCH. WE GO
'ROUND AND 'ROUND ABOUT WHOSE SLED IS BEST. OF COURSE, TO FIND OUT
WE HAVE TO TRADE. SO HITTING THE TRAIL IS QUITE AN **ADVENTURE.**



WE KNOW PEOPLE BUY POLARIS PRODUCTS FOR THE FUN OF IT — WHETHER THEY WANT TO GET AWAY, GET OUT WITH THE GANG OR GET THE JOB DONE. OUR NEW BRAND ADVERTISING CAMPAIGN TAPS THAT CUSTOMER PASSION. SO WHEN PEOPLE WANT TO GET OUTSIDE AND FEEL THE WIND IN THEIR HAIR, THEY'LL REMEMBER THAT THE WAY OUT IS ON A POLARIS.

TURNING POLARIS PRIDE INTO PROFITS

The average Polaris owner spends an additional \$450 a year on parts, garments and accessories (PG&A) to display their pride as Polaris owners. We gave them hundreds of new ways to show off in 1999. We added 640 new items to our merchandise line as part of our strategy to double high-margin PG&A sales in three years. The strategy paid off with incremental sales of \$17 million in 1999. We plan to add roughly 1,000 additional items in 2000, as well as introducing PG&A-specific marketing programs as part of our new brand building campaign.

TAPPING A NEW GENERATION OF LOYAL CUSTOMERS

We introduced a new child's sled just in time for holiday giving. It replicates our adult racing sleds on a youth scale, with a 4-stroke, 4-horsepower engine governed to a maximum 8 mph for safety. The new 120 XCR introduces the legendary Polaris experience to a whole new demographic market. At the same time, we launched the powersports industry's first youth-sized loyalty marketing program. PRO Club Go is an off-shoot of our 500,000-member-strong Polaris PRO (Preferred Registered Owners) Club. It's designed



PG&A SALES GROWTH

(dollars in millions)

\$151 1999

\$134 1998

\$135 1997

\$139 1996

\$122 1995

WITH MINIMAL INVESTMENT, WE JUMP-STARTED SALES OF PG&A IN 1999 WHICH IS OUR HIGHEST MARGIN BUSINESS. PG&A SALES, WHICH WERE RELATIVELY FLAT THE PAST THREE YEARS, INCREASED 13 PERCENT IN 1999.



to appeal to kids who enjoy riding with their families, and to instill life-long brand loyalty at a young age. The club's mascot, PRO-TECTOR, serves as a safety ambassador to reinforce responsible equipment use.

EXTENDING THE BRAND

Polaris is already a household word among owner families. Through licensing agreements, we're making it just as well known among non-owner families. Licensed items include:

- A new die-cast Polaris ATV toy that proved to be a top seller at one of the world's largest retailers over the 1999 holiday season.
- Polaris SnoCross, a new Nintendo GameBoy® video game. Versions for Nintendo 64® and Sony PlayStation® formats will debut this summer.
- Polaris brand go-carts and mini-bikes manufactured by our latest licensing partner, Karts International. Families looking for off-road adventure can choose from five unique models at their local Polaris dealer. While they're shopping, families can enjoy an ice-cold beverage from Polaris-branded vending machines installed at participating Polaris dealerships.

A MULTI-YEAR PARTNERSHIP WITH DUCKS UNLIMITED GIVES US VISIBILITY WITH THEIR 700,000 EXTREMELY LOYAL NORTH AMERICAN MEMBERS, MANY OF WHOM ARE FARMERS LOOKING TO RETURN SOME OF THEIR LAND TO ITS NATURAL STATE. THE PROGRAM IS EXPECTED TO GENERATE MORE THAN \$3 MILLION FOR DUCKS UNLIMITED, THE WORLD LEADER IN WETLANDS RESTORATION AND WATERFOWL CONSERVATION. THE PARTNERSHIP WAS ONE OF SEVERAL NEW MARKETING ALLIANCES THAT INTRODUCED THE POLARIS BRAND TO NEW AUDIENCES IN 1999.

WORKING OUR DEMOGRAPHICS

In 1999, we partnered with several high-quality organizations whose customers match our core demographics — hardworking middle-class consumers. A sweepstakes partnership with DeWalt® High Performance Tools generated over 20 million Polaris impressions through ads, national trade shows and displays at 2,500 U.S. hardware and lumber stores. We increased our visibility among loyal NASCAR® race fans by increasing our sponsorship in 1999. We also entered into marketing

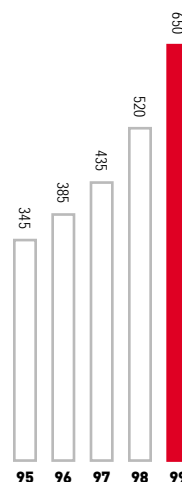
agreements with Bass Pro Shops® and Remington® to give the brand added visibility in our demographic markets.

REVVING UP EXISTING MARKETS

With millions of square miles of outback and thousands of sheep and cattle stations, Australia is the largest ATV market outside North America. It's followed closely by New Zealand. In an effort to quadruple sales in these high-potential markets in four years, we acquired our distributorship down under in mid-1999. By making the distributorship a wholly owned Polaris subsidiary, we're able to offer customers more competitive pricing, better availability of product and additional financing options. These countries offer strong immediate opportunities for personal watercraft, too, as well as long-term potential for Victory Motorcycles. Polaris' international sales were up 11 percent in 1999, and we expect them to climb steadily in the years ahead as we expand into additional high-potential geographic markets.

FEEDING THE REVENUE WORKHORSE

ATVs continue to be our revenue workhorse. They represent nearly 60 percent of total company sales. At \$774 million, ATV sales are more than double what they were just five years ago. Two key factors have contributed to the product line's strength: a strong overall market that continues to enjoy double-digit growth and our innovative models that attract new customer segments. We pioneered the utility ATV market in 1985 with automatic transmissions, and now offer more models than any competitor. Likewise, we offer ATV-related parts, garments and accessories that further attract a variety of niche segments — from potato farmers to rescue workers to deer hunters.



WORLDWIDE ATV INDUSTRY RETAIL SALES

(estimated units in thousands)

650 1999

520 1998

435 1997

385 1996

345 1995

THE ATV MARKET CONTINUES TO EXPAND RAPIDLY. WE EXPECT THE DOUBLE-DIGIT GROWTH TO CONTINUE IN 2000. POLARIS HAS PARTICIPATED IN THIS GROWTH BY INCREASING RETAIL SALES EVERY YEAR SINCE 1989.

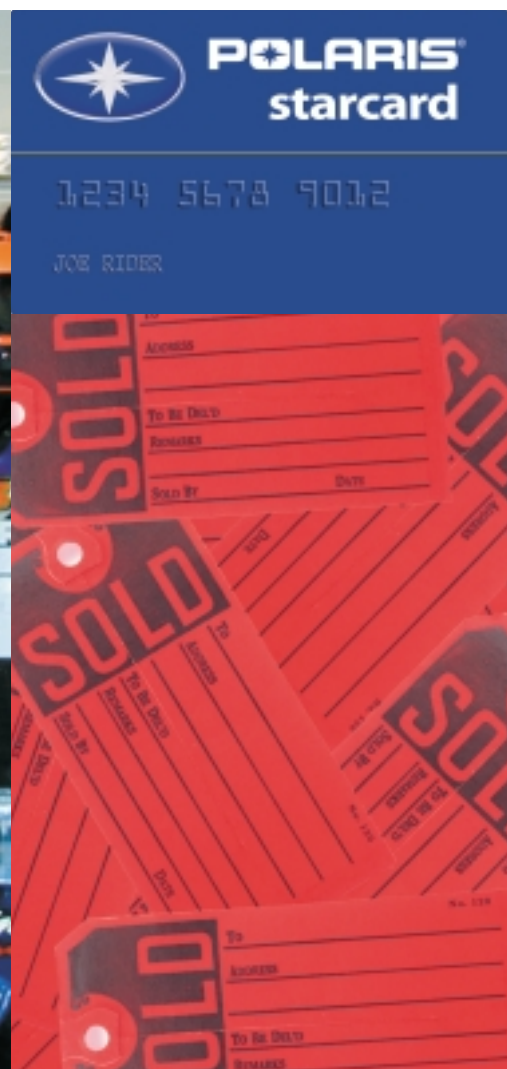


I SURE DO **ENJOY** THE SIGHT OF THOSE MALLARDS, HUNDREDS OF 'EM, NESTING OUT ON THE BACK 40 EVERY YEAR. GLAD THAT ACREAGE WAS ALWAYS TOO WET TO **WORK**, TOO FAR FROM THE ROAD TO SELL. BUT I'M GLAD WE HELD ONTO IT. GIVES ME ANOTHER REASON TO LOOK FORWARD TO SPRING.





I **MEET** A LOT OF MY CUSTOMERS ON THE TRAIL. AND **EVERY** TIME I SEE A THUMB GO UP IN PASSING, I GET THIS GREAT FEELING, BECAUSE I KNOW I HELPED MAKE THAT MOMENT POSSIBLE. I DON'T **NEED** TO LOOK AT MY NUMBERS TO KNOW I'M DOING GOOD. THE TRAIL IS MY BAROMETER.



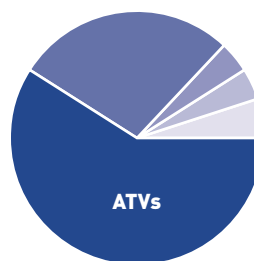
MORE THAN 1,500 DEALERS NOW OFFER OUR NEW POLARIS RETAIL CREDIT PROGRAM, WHICH MEETS THE CUSTOMER'S NEED FOR HASSLE-FREE FINANCING WHILE BRINGING IN ADDITIONAL PROFIT FOR BOTH DEALERS AND POLARIS. MORE THAN 8 PERCENT OF POLARIS PRODUCTS WERE FINANCED ON THE RETAIL CREDIT PROGRAM IN ITS FIRST YEAR.

SERVING UP A TRIPLE WIN

One of the more popular financial services we introduced in 1999 was extended service contracts. Dealers signed thousands of contracts, each of which gives us a triple win. Customers get the servicing they want, dealers gain customer loyalty and additional profit, and we generate profit also. In 2000, we plan to expand our financial services offerings with insurance options, and retirement and healthcare packages that dealers can offer their employees.

BUILDING DEALER BUSINESS

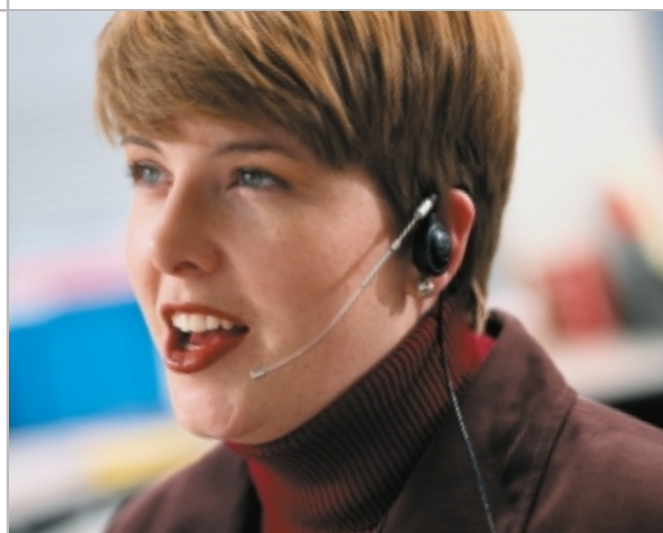
A loyal dealer network is a critical component of our success and our brand. We invested in several programs in 1999 to help boost dealer business, including joint event marketing. But the most important thing we did was listen. We heard that dealers want more information, more training and more ways to make their customers delighted. So in 2000, we're implementing a toll-free dealer hotline, adding two regional training centers, developing electronic report cards so dealers can share best practices for improving consumer satisfaction, and sending more than 100 Polaris managers out to spend two days with dealers to better understand their perspective.



1999 SALES MIX

- 59% ALL-TERRAIN VEHICLES
- 28% SNOWMOBILES
- 4% PERSONAL WATERCRAFT
- 4% MOTORCYCLES
- 5% INTERNATIONAL

ATVs CONTINUE TO BE OUR LARGEST REVENUE PROVIDER.



UNDERSTAND THE RIDING EXPERIENCE. LIVE THE RIDING EXPERIENCE. WORK TO MAKE IT BETTER. **OUR BRAND MOTTO IS ETCHED ON A PLAQUE AT EVERY POLARIS OFFICE BUILDING AND MANUFACTURING FACILITY. BUT IT DOESN'T NEED TO BE. IT'S ALREADY ETCHED IN THE HEART OF EVERY POLARIS EMPLOYEE.**

SEEING DOUBLE

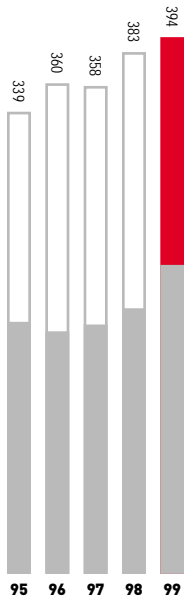
Polaris employees bring a unique double perspective to the job because the majority are also Polaris owners — of both vehicles and the company. Our enviable benefit plans — including profit-sharing, ESOP and broad-based stock option plans — make nearly all employees shareholders, so they're eager to help us lower costs and increase quality. And they're equipped to do it. As riders themselves, they know our products intimately. It's a winning combination that has led us to consistently outperform our competitors on the production floor. Our productivity levels, as measured by sales per employee, are nearly twice the industry average.

INVENTING FROM EXPERIENCE

A year after debuting a new American motorcycle legend, the Victory V92C, our innovative Victory design team made history again in 1999. They created a new cycle category, the SportCruiser, with the introduction of our second motorcycle model. The team built the V92SC SportCruiser™ based on their desires as riders: the aging sportbikers in the bunch wanted a fast-handler with more cushion and the current cruiser owners wanted a comfy bike with more spunk. The result is another street-smart winner for our Victory brand.

PLAYING A PART IN CONTINUOUS IMPROVEMENT

Nine years ago we introduced a continuous improvement program with employees called PCI (Partners in Continuous Improvement). It was so successful that we launched a similar program with suppliers four years ago. The Polaris STAR (Strategies Toward Annual Reduction) program shares savings with suppliers who make cost-reduction suggestions. The program saved us \$30 million in costs in 1999 alone. We expect to save even more in the future as we shift toward Internet-based supplier communication. Quality is also up as a result of the program: our purchased parts defect rate has decreased 75 percent in the program's four years.



SALES PER EMPLOYEE
(dollars in thousands)

\$394	1999
\$383	1998
\$358	1997
\$360	1996
\$339	1995

Shaded area indicates the industry average.

OUR PRODUCTIVITY LEVELS
CONSISTENTLY OUTPACE THE RECREATIONAL VEHICLE INDUSTRY AVERAGE. CONTRIBUTING FACTORS ARE A NON-UNION WORKFORCE, WHICH ALLOWS US TO COMPENSATE BASED ON PERFORMANCE, AN ATTRACTIVE CASH PROFIT-SHARING PLAN, AND STOCK OWNERSHIP AND OPTION PLANS.



I **UNDERSTAND** WHAT THE CUSTOMER WANTS. SAME THING I DO. TO
PULL ON **THE** LEATHER GLOVES AND TAKE OFF. JUST ME, THE WIND AND A DEPEND-
ABLE MACHINE **RIDING** OVER THE HILLS, THROUGH THE MUD AND BACK TO WORK
SO I CAN TEST MY IDEAS TO MAKE THE **EXPERIENCE** EVEN BETTER.





HATS • DAYPLANNERS • SNOWBLADES • HELMETS • LIMITED EDITION TOYS • SPROCKETS • BUMPERS • T-SHIRTS • MUGS • TRAILERS • GOGGLES



JACKETS • TOOL BOXES • MOTOR OIL • GLOVES • SUNGLASSES • SWEATSHIRTS • LUBE GUNS • WINCHES • LIFEVESTS • SHOCK ABSORBERS • WHEELS



POCKET KNIVES • CHAPS • SADDLE BAGS • GUN SCABBARDS • DUFFLE BAGS • COVERALLS • MOWERS • WINDSHIELDS • MUD FLAPS • CARGO BOXES



SNOW BLOWERS • SEAT COVERS • LUBRICANTS • VIDEO GAMES • TILLERS • BEDLINERS • FARINGS • LOADING RAMPS • ROCK GUARDS • MOWERS



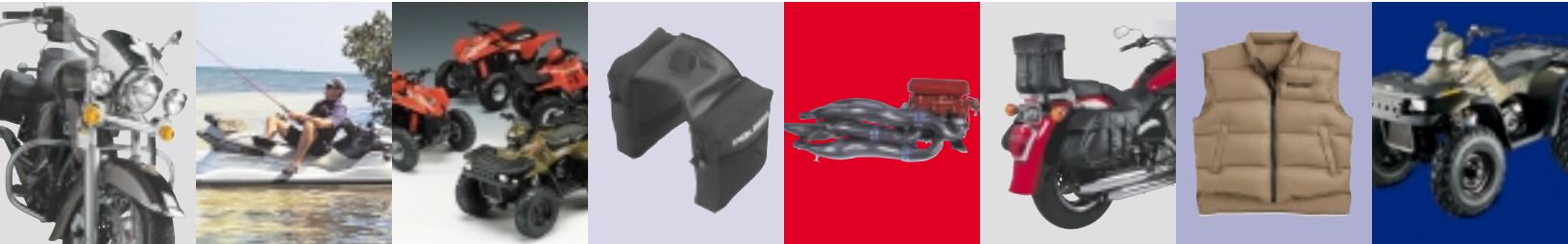
RIMS • MUFFLERS • HANDLEBARS • LUGGAGE RACKS • LICENSE PLATE FRAMES • DETAIL KITS • RAINSUITS • MOUSE PADS • PANTS • WATCHES



WALLETS • SIGNS • BAR STOOLS • BRIEFCASES • DAYPACKS • LIGHTERS • TRAVEL BOOKS • HELMET BAGS • PERFORMANCE PARTS • STORAGE COVERS



DOOR MATS • ART PRINTS • PENS • KEY TAGS • THERMOS BOTTLES • OUTDOOR THERMOMETERS • TUMBLER GLASSES • AND SO MUCH MORE...



11-YEAR SELECTED FINANCIAL DATA

in thousands, except per share and per unit data

The selected financial data presented below are qualified in their entirety by, and should be read in conjunction with, the Consolidated Financial Statements and Notes thereto and other financial and statistical information referenced elsewhere herein, including the information referenced under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Years Ended December 31,										
	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Statement of Operations Data											
Sales data											
Total sales dollars	\$ 1,321,076	\$ 1,175,520	\$ 1,048,296	\$ 1,191,901	\$ 1,113,852	\$ 826,286	\$ 528,011	\$ 383,818	\$ 297,677	\$ 296,147	\$ 242,618
% change from prior year	12%	12%	(12%)	7%	35%	56%	38%	29%	1%	22%	41%
Sales mix by product (%)											
All-terrain vehicles	59%	57%	45%	37%	33%	30%	27%	25%	25%	19%	19%
Snowmobiles	28%	32%	42%	43%	46%	52%	59%	63%	69%	74%	74%
Personal watercraft	4%	4%	7%	16%	16%	14%	9%	7%	—	—	—
Motorcycles	4%	1%	—	—	—	—	—	—	—	—	—
International	5%	6%	6%	4%	5%	4%	5%	5%	6%	7%	7%
Gross profit data											
Total gross profit dollars	\$ 328,340	\$ 278,287	\$ 262,538	\$ 263,816	\$ 247,993	\$ 196,783	\$ 141,387	\$ 112,322	\$ 94,120	\$ 93,845	\$ 80,384
% of sales	25%	24%	25%	22%	22%	24%	27%	29%	32%	32%	33%
Operating expense data											
Amortization of intangibles and noncash compensation	\$ 10,472	\$ 8,703	\$ 5,887	\$ 5,325	\$ 5,616	\$ 14,321	\$ 13,466	\$ 11,997	\$ 13,108	\$ 12,116	\$ 15,717
Conversion costs	—	—	—	—	—	12,315	—	—	—	—	—
Other operating expenses	204,222	169,478	163,549	161,074	140,719	94,485	74,694	59,634	49,294	50,917	38,366
% of sales	15%	14%	16%	14%	13%	11%	14%	16%	17%	17%	16%
Actual, adjusted, ⁽¹⁾ and pro forma data ⁽²⁾											
Net income	\$ 76,326	\$ 70,624 ⁽¹⁾	\$ 65,383	\$ 62,293	\$ 60,776	\$ 54,703	\$ 33,027	\$ 24,602	\$ 20,727	\$ 20,465	\$ 16,657
Diluted net income per share	\$ 3.07	\$ 2.72 ⁽¹⁾	\$ 2.45	\$ 2.24	\$ 2.19	\$ 1.98	\$ 1.21	\$ 0.91	\$ 0.81	\$ 0.79	\$ 0.65
Cash Flow Data											
Cash flow from operating activities	\$ 124,354	\$ 121,385	\$ 102,308	\$ 89,581	\$ 77,749	\$ 111,542	\$ 78,503	\$ 55,316	\$ 46,642	\$ 54,782	\$ 44,447
Purchase of property and equipment	65,063	61,532	36,798	45,336	47,154	32,656	18,946	12,295	15,988	7,158	7,065
Repurchase and retirement of common stock	52,412	37,728	39,903	13,587	—	—	—	—	—	—	—
Cash dividends to shareholders	19,732	18,582	16,958	16,390	116,639	—	—	—	—	—	—
Cash dividends per share	\$ 0.80	\$ 0.72	\$ 0.64	\$ 0.60	\$ 4.27	—	—	—	—	—	—
Cash distributions declared to partners	—	—	—	—	—	50,942	47,217	44,507	42,581	42,582	32,514
Cash distributions declared per unit	—	—	—	—	—	\$ 1.68	\$ 1.67	\$ 1.67	\$ 1.67	\$ 1.67	\$ 1.51
Balance Sheet Data (at end of year)											
Cash and cash equivalents	\$ 6,184	\$ 1,466	\$ 1,233	\$ 5,812	\$ 3,501	\$ 62,881	\$ 33,798	\$ 19,094	\$ 20,098	\$ 32,025	\$ 27,886
Current assets	214,714	183,840	217,458	193,405	175,271	206,489	109,748	74,999	59,200	66,893	60,344
Total assets	442,027	378,697	384,746	351,717	314,436	331,166	180,548	146,681	135,509	138,704	137,628
Current liabilities	233,800	204,964	191,111	161,387	155,722	161,457	98,055	69,054	52,646	46,602	38,875
Borrowings under credit agreement	40,000	20,500	24,400	35,000	40,200	—	—	—	—	—	—
Shareholders' equity/ Partners' capital	168,227	153,233	169,235	155,330	118,514	169,709	82,493	77,627	82,863	92,102	98,753

⁽¹⁾ In 1998, Polaris entered into a settlement agreement related to a trade secret infringement claim brought by Injection Research Specialists, Inc. The one-time provision for litigation loss of \$61.4 million, or \$1.53 per diluted share, has been excluded from the 1998 financial data presented to assist in comparing the continuing results of operations of the Company exclusive of the settlement which had no effect on the future operations of the Company.

⁽²⁾ The comparability of the information reflected in the Selected Financial data is materially affected by the conversion from a master limited partnership to a corporation on December 22, 1994, which resulted in the Company recording a net deferred tax asset of \$65.0 million, conversion expenses of \$12.3 million and a corresponding net increase in 1994 net income. Pro forma data is presented to assist in comparing the continuing results of operations of the Company exclusive of the conversion costs and as if the Company was a taxable corporation for each period presented.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations

The following discussion pertains to the results of operations and financial position of the Company for each of the three years in the period ended December 31, 1999, and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included elsewhere herein.

RESULTS OF OPERATIONS

1999 vs. 1998

Sales increased to \$1.321 billion in 1999, representing a 12 percent increase from \$1.176 billion in 1998. The increase in sales was primarily due to higher all-terrain vehicle (ATV) sales, resulting from the tenth consecutive year of increased ATV sales.

North American sales of ATVs and related parts, garments and accessories (PG&A) of \$774.3 million in 1999 were 15 percent higher than \$673.9 million in 1998. The increased sales reflect the continued double-digit growth of the industry as consumers find new and expanded uses for the product. Polaris' growth was driven by the continued strength of its Sportsman line of products. Sales of ATVs and related PG&A comprised 59 percent of total company sales in 1999 compared to 57 percent in 1998.

North American sales of snowmobiles and related PG&A of \$376.9 million in 1999 were 1 percent higher than \$374.4 million in 1998. The modest increase in sales was accomplished in spite of a decline in total industry sales in 1999 due to another winter of below average snowfall levels for much of North America. Sales of snowmobiles and related PG&A comprised 28 percent of total company sales in 1999 compared to 32 percent in 1998.

North American sales of personal watercraft (PWC) and related PG&A of \$54.2 million in 1999 were 7 percent higher than \$50.4 million in 1998. The increase was attributable to a slight market share increase driven by our new Genesis model. The average per unit sales price increased 9 percent for PWC in 1999 as a result of the success of our higher-priced Genesis model. Sales of PWC and related PG&A comprised 4 percent of total company sales in 1999 and in 1998.

North American sales of Victory motorcycles and related PG&A of \$47.4 million in 1999 were significantly higher than \$15.2 million in 1998. 1999 was the first full year of Victory production. Sales of Victory motorcycles and related PG&A comprised 4 percent of total company sales in 1999 compared to 1 percent in 1998.

International sales of snowmobiles, ATVs, PWC, and related PG&A of \$68.3 million in 1999 were 11 percent higher than \$61.7 million in 1998. International sales increased across all product lines as Polaris continues to focus on international markets as an opportunity for growth. International sales comprised 5 percent of total company sales in 1999, compared to 6 percent in 1998.

Gross profit increased to \$328.3 million in 1999, representing an 18 percent increase over \$278.3 million gross profit in 1998. This increase in gross profit dollars was a result of higher sales volume and an increase in gross profit margin percentage to 24.9 percent in 1999 from 23.7 percent in 1998. The increase in gross profit margin percentage was primarily a result of manufacturing cost reductions, in areas such as ATV model consolidation, Victory cost improvements, a full year impact of the plastic injection molding facility, and supplier partnership cost savings, as well as the margin benefit of increased sales of higher margin PG&A. These positive factors have been somewhat offset by a shift in sales mix to ATVs, which have a lower gross profit margin than snowmobiles, and the negative impact of the Japanese yen and Canadian dollar exchange rates during 1999.

Polaris has continued to invest in new product development, innovation, and product diversification. Research and development expenses were \$31.3 million (2.4 percent of sales) in 1999 and \$28.4 million (2.4 percent of sales) in 1998. In addition, Polaris incurred tooling expenditures for new products of \$18.3 million in 1999 and \$24.8 million in 1998. In 1999, more than 79 percent of sales came from products introduced in the past three years.

Operating expenses in 1999 increased 20 percent to \$214.7 million from \$178.2 million in 1998. Expressed as a percentage of sales, operating expenses increased to 16.3 percent in 1999 from 15.2 percent in 1998. These increases are primarily related to a planned increase in expenses to build the infrastructure to support the Company's growth and brand recognition initiatives, and a higher level of promotional and advertising costs related to assisting the dealers in selling their inventories.

Nonoperating expense (income) in 1998 included a \$61.4 million provision for litigation loss related to the settlement of the Injection Research Specialists litigation, a one-time charge that did not affect the ongoing operations of the company. The remaining decline in nonoperating expense (income) in 1999 from 1998 primarily reflects the unfavorability related to Canadian dollar exchange rate hedging in 1999 partially offset by the positive financial impact of the Company's equity in the income of Polaris Acceptance.

Net income in 1999 was \$76.3 million, an increase from \$31.0 million in 1998, primarily as a result of the 1998 litigation settlement. Net income as a percent of sales was 5.8 percent in 1999, an increase from 2.6 percent in 1998. Net income per diluted share increased to \$3.07 in 1999 from \$1.19 in 1998. Net income increased 8 percent to \$76.3 million from net income (adjusted to exclude the litigation settlement) of \$70.6 million in 1998. Net income as a percent of sales decreased to 5.8 percent in 1999 from adjusted net income as a percent of sales of 6.0 percent in 1998. Net income per diluted share increased 13 percent to \$3.07 in 1999 from adjusted net income per diluted share of \$2.72 in 1998.

1998 vs. 1997

Sales increased to \$1.176 billion in 1998, representing a 12 percent increase from \$1.048 billion in 1997. The increase in sales was primarily due to higher ATV sales, partially offset by a decline in snowmobile sales.

In 1998, Polaris achieved its ninth consecutive year of increased ATV sales. North American sales of ATVs and PG&A of \$673.9 million in 1998 were 42 percent higher than \$473.2 million in 1997. The increased sales reflect the continued strong growth of the industry as consumers find new and expanded uses for the product. Additionally, management believes that Polaris increased its market share of ATV sales as a result of its continued expansion of the popular Sportsman line of ATVs and other new model introductions. The average per unit sales price increased 6 percent for ATVs in 1998 as the sales mix continued to move to new, higher performance models. Sales of ATVs and related PG&A comprised 57 percent of total company sales in 1998 compared to 45 percent in 1997.

North American sales of snowmobiles and PG&A of \$374.4 million in 1998 were 16 percent lower than \$443.0 million in 1997. The decline is due to lower snowmobile production levels in 1998 in response to poor snow conditions, warmer than normal temperatures in North America and higher ending dealer inventories for the 1997-1998 selling season. Sales of snowmobiles and related PG&A comprised 32 percent of total company sales in 1998 compared to 42 percent in 1997.

North American sales of personal watercraft (PWC) and related PG&A of \$50.4 million in 1998 were 31 percent lower than \$73.4 million in 1997. The decrease is attributable to significantly lower production levels of PWC in 1998 to compensate for the increased dealer inventory remaining from the prior season reflecting the reduction of industry growth. Sales of PWC and related PG&A comprised 4 percent of total company sales in 1998 compared to 7 percent in 1997.

North American sales of Victory motorcycles and related PG&A were \$15.2 million in 1998. Victory shipments to our dealers began in July 1998. Sales of Victory motorcycles and related PG&A comprised 1 percent of total company sales in 1998, the initial year of production.

International sales of snowmobiles, ATVs, PWC, and related PG&A of \$61.7 million in 1998 were 5 percent higher than \$58.7 million in 1997. The increase in international sales was primarily due to an increase in ATV shipments. International sales comprised 6 percent of total Company sales in 1998, the same as 1997.

Gross profit increased to \$278.3 million in 1998, representing a 6 percent increase over \$262.5 million gross profit in 1997. However, the gross profit margin percentage of 23.7 percent in 1998 decreased from 25.0 percent in 1997. The decrease in gross profit margin percentage is primarily a result of (a) the mix impact of the substantial increase in sales of ATVs, which have a lower margin than snowmobiles, (b) negative impact of the Canadian dollar exchange rate when compared to the prior year, (c) initial production rollout of the Victory motorcycles, and (d) reduced pricing on 1998 model ATVs implemented in the Fall of 1997. These negative factors have been somewhat offset by the continued improvement in overall product quality, which has resulted in a decrease in warranty expenses.

Polaris has continued to invest in new product development, innovation, and product diversification. Research and development expenses were \$28.4 million (2.4 percent of sales) in 1998 and \$26.7 million (2.5 percent of sales) in 1997. In addition, Polaris incurred tooling expenditures for new products of \$24.8 million in 1998 and \$19.3 million in 1997. In 1998, 73 percent of sales came from products introduced in the past three years.

Operating expenses in 1998 increased 5 percent to \$178.2 million from \$169.4 million in 1997. Expressed as a percentage of sales, operating expenses decreased to 15.2 percent in 1998 from 16.2 percent in 1997. These decreases are primarily attributable to the leveraging effect of higher sales and reduced level of promotional and advertising costs related to assisting dealers in selling their PWC and snowmobile inventories partially offset by a planned increase in advertising expenditures.

Nonoperating expense (income) in 1998 includes a \$61.4 million provision for litigation loss related to the settlement of the Injection Research Specialists litigation. This is a one-time charge that does not affect the ongoing operations of the company. The remaining improvement in nonoperating expense (income) in 1998 from 1997 primarily reflects the positive financial impact of the Company's equity in the income of Polaris Acceptance.

The provision for income taxes was reduced to a rate of 35.5 percent of pretax income beginning in the third quarter of 1998 from 36.0 percent in prior periods as a result of certain tax planning strategies.

Net income in 1998 was \$31.0 million, a decrease from \$65.4 million in 1997, primarily as a result of the litigation settlement. Net income as a percent of sales was 2.6 percent in 1998, a decrease from 6.2 percent in 1997. Net income per diluted share decreased to \$1.19 in 1998 from \$2.45 in 1997. Net income adjusted to exclude the litigation settlement increased 8 percent to \$70.6 million in 1998 from \$65.4 million in 1997. Adjusted net income as a percent of sales decreased to 6.0 percent in 1998 from 6.2 percent in 1997. Adjusted net income per diluted share increased 11 percent to \$2.72 in 1998 from \$2.45 in 1997.

LIQUIDITY AND CAPITAL RESOURCES

Polaris' primary sources of funds have been cash provided by operating activities, a \$175 million bank line of credit and a dealer floor plan financing program. Polaris' primary uses of funds have been for capital investments, new product development, repurchase and retirement of common stock, cash dividends to shareholders, and payment of litigation expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations (continued)

During 1999, Polaris generated net cash from operating activities of \$124.4 million, which was utilized to fund capital expenditures of \$65.1 million, net investments in affiliates of \$1.9 million, cash dividends of \$19.7 million and the repurchase of common stock of \$52.4 million. During 1998, Polaris generated net cash from operating activities of \$121.4 million, which was utilized to fund capital expenditures of \$61.5 million, cash dividends of \$18.6 million, and the repurchase of common stock of \$37.7 million. During 1997, Polaris generated net cash from operating activities of \$102.3 million, which was utilized to fund capitalized expenditures of \$36.8 million, net investments in affiliates of \$2.6 million, cash dividends of \$17.0 million and the repurchase of common stock of \$39.9 million.

The seasonality of production and shipments causes working capital requirements to fluctuate during the year. Polaris has an unsecured bank line of credit arrangement maturing on March 31, 2002, under which it may borrow up to \$175 million until March 31, 2000 and \$150 million thereafter until maturity. The arrangement provides borrowing for working capital needs and the repurchase and retirement of common stock. Borrowings under the line of credit bear interest, 6.52 percent at December 31, 1999, based on LIBOR or "prime" rates. In July 1999, Polaris entered into an interest rate swap agreement to manage exposure to fluctuations in interest rates. The effect of the swap agreement is to fix the interest rate at 5.80 percent for \$20 million of borrowings under the credit line for a period of two years. At December 31, 1999, Polaris had total borrowings under the line of credit of \$40.0 million compared to \$20.5 million at December 31, 1998. In addition, at December 31, 1999, Polaris had letters of credit outstanding of \$16.2 million related to purchase obligations for raw materials.

On October 21, 1999, the Polaris Board of Directors approved a new share repurchase authorization of 2.5 million shares of the Company's outstanding common stock. Prior thereto, the Board of Directors authorized the cumulative repurchase of up to 5.0 million shares of the company's common stock. During 1999, Polaris paid \$52.4 million to repurchase and retire nearly 1.5 million shares. Polaris had approximately 2.9 million shares available to repurchase under the Board of Directors authorizations as of December 31, 1999.

In February 1996, a wholly owned subsidiary of Polaris entered into a partnership agreement with Transamerica Distribution Finance (TDF) to form Polaris Acceptance. Polaris Acceptance provides floor plan financing to Polaris' dealers and distributors and in 1999 began providing other financial services to dealers, distributors and retail customers of Polaris including retail credit and extended service contracts. Polaris has a 50 percent equity interest in Polaris Acceptance and guarantees 50 percent of the outstanding indebtedness of Polaris Acceptance under a credit agreement between Polaris Acceptance and TDF. At December 31, 1999, Polaris' contingent liability with respect to the guarantee was approximately \$170.0 million. In February 2000, the term of the partnership agreement was extended; in consideration thereof, the Polaris guarantee of the outstanding indebtedness of Polaris Acceptance was eliminated.

Polaris has arrangements with certain finance companies, including Polaris Acceptance, to provide floor plan financing for its distributors and dealers. These arrangements provide liquidity by financing distributor and dealer purchases of Polaris products without the use of Polaris' working capital. Substantially all of the sales of snowmobiles, ATVs, motorcycles and PWC (but not parts, garments and accessories) are financed under these arrangements whereby Polaris receives payment within a few days of shipment of the product. The amount financed by distributors and dealers under these arrangements at December 31, 1999 and 1998, was approximately \$472.0 million and \$384.0 million, respectively. Polaris participates in the cost of dealer and distributor financing up to certain limits. Polaris has agreed to repurchase products repossessed by the finance companies to an annual maximum of 15 percent of the average amount outstanding during the prior calendar year. Polaris' financial exposure under these agreements is limited to the difference between the amount paid to the finance companies and the amount received on the resale of the repossessed product. No material losses have been incurred under these agreements. However, an adverse change in retail sales could cause this situation to change and thereby require Polaris to repurchase financed units.

Polaris has made significant capital investments to increase production capacity, quality, and efficiency, and for new product development and diversification. Investments made during 1999 include: (a) tooling expenditures for new product development across all product lines of \$18.3 million during 1999, (b) investments of \$10.3 million in returnable crates, which not only reduce costs but also are environmentally friendly and (c) an investment of \$12.0 million in a new corporate headquarters in Medina, MN which became operational in late January 2000; Polaris had previously been scattered throughout several office buildings in suburban Minneapolis. Polaris anticipates that capital expenditures, including tooling, for 2000 will range from \$65 million to \$75 million.

Management believes that existing cash balances, cash flows to be generated from operating activities and available borrowing capacity under the line of credit arrangement will be sufficient to fund operations, regular dividends, share repurchases, and capital expenditure requirements for 2000. At this time, management is not aware of any factors that would have a material adverse impact on cash flow beyond 2000.

Injection Research Specialists ("IRS") commenced an action in 1990 against Polaris and Fuji Heavy Industries, Ltd. ("Fuji"), one of Polaris' engine suppliers, in Colorado Federal Court alleging various claims relating to electronic fuel injection systems for snowmobiles. In October 1998, following the entry of judgment against Polaris for \$34.0 million (before pre- and post-judgment interest) and affirmance thereof by the Federal Court of Appeals, IRS, Polaris and Fuji entered into a confidential settlement agreement to settle all outstanding claims between the parties. The resulting provision for litigation loss of \$61.4 million was reflected as non-operating expense in the accompanying consolidated statement of operations for the year ended December 31, 1998. Polaris no longer uses any of the technology in dispute.

Polaris proforma results with 1998 adjusted to exclude the provision for litigation loss are as follows:

	For the Years Ended December 31,	
	1999	1998
Adjusted income before income taxes	\$ 118,335	\$ 109,771
Provision for income taxes	42,009	39,147
Adjusted net income	\$ 76,326	\$ 70,624
Adjusted net income per diluted share	\$ 3.07	\$ 2.72

YEAR 2000

Polaris did not experience any significant business related interruptions relative to the Year 2000 compliance of its computer systems. The Company is continuing to monitor potential problems but does not expect any major impact during the year. The cost of the Year 2000 initiatives of approximately \$1.5 million, which were expensed as incurred, was not material to Polaris' financial position.

INFLATION AND EXCHANGE RATES

Polaris does not believe that inflation has had a material impact on the results of its operations. However, the changing relationships of the U.S. dollar to the Canadian dollar and Japanese yen have had a material impact from time-to-time.

During 1999, purchases totaling 16 percent of Polaris' cost of sales were from Japanese yen denominated suppliers. The weakening of the U.S. dollar in relation to the Japanese yen since mid-1998 has resulted in higher raw material purchase prices. Polaris' cost of sales in 1999 was negatively impacted by the Japanese yen exchange rate fluctuation when compared to the prior year. The dollar has continued to weaken in relation to the yen and in view of the foreign exchange hedging contracts currently in place, Polaris anticipates that the yen-dollar exchange rate will again have a negative impact on cost of sales during 2000 when compared to 1999.

Polaris operates in Canada through a wholly owned subsidiary. Sales of the Canadian subsidiary comprised 11 percent of total Company sales in 1999. Polaris utilizes foreign exchange hedging contracts to manage its exposure to the Canadian dollar. The U.S. dollar has strengthened in relation to the Canadian dollar beginning in 1998 and it has had a negative financial impact on Polaris gross margins when compared to the same periods in both 1999 and 1998. In view of the currently strengthening Canadian dollar and the foreign exchange hedging contracts currently in place, Polaris anticipates a positive impact on net income during 2000 when compared to 1999.

In the past, Polaris has been a party to, and in the future may enter into, foreign exchange hedging contracts for both the Japanese yen and the Canadian dollar to minimize the impact of exchange rate fluctuations within each year. At December 31, 1999, Polaris had open Japanese yen foreign exchange hedging contracts with notional amounts totaling \$25.3 million U.S. dollars and open Canadian dollar foreign exchange contracts with notional amounts totaling \$83.0 million U.S. dollars which mature throughout 2000.

Since October 1995, Polaris has been manufacturing its own engines for selected models of PWC, motorcycles and snowmobiles at its Osceola, Wisconsin facility. In addition, earlier in 1995, Polaris entered into an agreement with Fuji Heavy Industries Ltd. to form Robin Manufacturing U.S.A., Inc. ("Robin"). Under the terms of the agreement, Polaris has a 40 percent ownership interest in Robin, which builds engines in the United States for recreational and industrial products. Potential advantages to Polaris of having these additional sources of engines include reduced foreign exchange risk, lower shipping costs and less dependence in the future on a single supplier for engines.

Certain matters discussed in this report are "forward-looking statements" intended to qualify for the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These "forward-looking statements" can generally be identified as such because the context of the statement will include words such as the Company or management "believes", "anticipates", "expects", "estimates" or words of similar import. Similarly, statements that describe the Company's future plans, objectives or goals are also forward-looking. Shareholders, potential investors and others are cautioned that all forward-looking statements involve risks and uncertainty that could cause results to differ materially from those anticipated by some of the statements made herein. In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: product offerings and pricing strategies by competitors; future conduct of litigation processes; warranty expenses; foreign currency exchange rate fluctuations; environmental and product safety regulatory activity; effects of weather; uninsured product liability claims; and overall economic conditions, including inflation and consumer confidence and spending.

CONSOLIDATED BALANCE SHEETS

in thousands, except per share data

	December 31,	
	1999	1998
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 6,184	\$ 1,466
Trade receivables	53,293	43,035
Inventories	118,062	107,436
Prepaid expenses and other	6,175	2,903
Deferred tax assets	31,000	29,000
Total current assets	214,714	183,840
Deferred Tax Assets	16,000	21,000
Property and Equipment		
Land, buildings and improvements	38,616	37,226
Equipment and tooling	236,951	192,255
	275,567	229,481
Less-accumulated depreciation	(124,645)	(105,227)
Total property and equipment	150,922	124,254
Investments in Affiliates	38,310	26,636
Intangible Assets, net	22,081	22,967
	\$ 442,027	\$ 378,697

The accompanying notes are an integral part of these consolidated balance sheets.

	December 31,	
	1999	1998
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 91,805	\$ 77,258
Accrued expenses:		
Compensation	35,291	41,664
Warranties	40,392	37,921
Other	52,899	41,110
Income taxes payable	13,413	7,011
Total current liabilities	233,800	204,964
Borrowings under credit agreement	40,000	20,500
Commitments and Contingencies (Notes 1, 3, 5, 7 and 8)		
Shareholders' Equity		
Preferred stock \$0.01 par value, 20,000 shares authorized, no shares issued and outstanding	—	—
Common stock \$0.01 par value, 80,000 shares authorized, 24,226 and 25,355 shares issued and outstanding	242	253
Additional paid-in capital	8,987	48,622
Deferred compensation	(7,818)	(6,726)
Compensation payable in common stock	5,975	6,844
Retained earnings	160,841	104,240
Total shareholders' equity	168,227	153,233
	\$ 442,027	\$ 378,697

The accompanying notes are an integral part of these consolidated balance sheets.

CONSOLIDATED STATEMENTS OF OPERATIONS

in thousands, except per share data

	For the Years Ended December 31,		
	1999	1998	1997
Sales	\$ 1,321,076	\$ 1,175,520	\$ 1,048,296
Cost of Sales	992,736	897,233	785,758
Gross profit	328,340	278,287	262,538
Gross profit percent	24.9%	23.7%	25.0%
Operating Expenses			
Selling and marketing	142,406	118,688	112,978
Research and development	31,311	28,387	26,722
General and administrative	40,977	31,106	29,736
Total operating expenses	214,694	178,181	169,436
Operating income	113,646	100,106	93,102
Nonoperating Expense (income)			
Interest expense	4,285	2,959	2,829
Equity in (income) of affiliates	(9,745)	(7,819)	(6,718)
Other expense (income), net	771	(4,805)	(5,171)
Provision for litigation loss (Note 2)	—	61,409	—
Income before income taxes	118,335	48,362	102,162
Provision for Income Taxes	42,009	17,347	36,779
Net income	\$ 76,326	\$ 31,015	\$ 65,383
Basic Net Income Per Share	\$ 3.09	\$ 1.20	\$ 2.45
Diluted Net Income Per Share	\$ 3.07	\$ 1.19	\$ 2.45

The accompanying notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

in thousands

	Preferred Stock	Common Stock	Additional Paid-in Capital	Deferred Compensation	Compensation Payable in Common Stock	Retained Earnings	Total
Balance, December 31, 1996	—	270	102,946	(978)	9,710	43,382	155,330
First Rights conversion							
to stock	—	3	7,164	—	(7,210)	—	(43)
Employee stock compensation	—	2	2,733	(2,155)	4,846	—	5,426
Dividends	—	—	—	—	—	(16,958)	(16,958)
Repurchase and retirement							
of common shares	—	(15)	(39,888)	—	—	—	(39,903)
Net income	—	—	—	—	—	65,383	65,383
Balance, December 31, 1997	—	260	72,955	(3,133)	7,346	91,807	169,235
First Rights conversion							
to stock	—	1	1,841	—	(1,864)	—	(22)
Employee stock compensation	—	3	11,543	(3,593)	1,362	—	9,315
Dividends	—	—	—	—	—	(18,582)	(18,582)
Repurchase and retirement							
of common shares	—	(11)	(37,717)	—	—	—	(37,728)
Net income	—	—	—	—	—	31,015	31,015
Balance, December 31, 1998	—	253	48,622	(6,726)	6,844	104,240	153,233
First Rights conversion							
to stock	—	—	323	—	(286)	7	44
Employee stock compensation	—	4	12,439	(1,092)	(583)	—	10,768
Dividends	—	—	—	—	—	(19,732)	(19,732)
Repurchase and retirement							
of common shares	—	(15)	(52,397)	—	—	—	(52,412)
Net income	—	—	—	—	—	76,326	76,326
Balance, December 31, 1999	\$ —	\$ 242	\$ 8,987	\$ (7,818)	\$ 5,975	\$ 160,841	\$ 168,227

The accompanying notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

in thousands

	For the Years Ended December 31,		
	1999	1998	1997
Cash Flows From Operating Activities			
Net income	\$ 76,326	\$ 31,015	\$ 65,383
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	39,281	36,192	33,168
Noncash compensation	9,586	7,808	5,010
Equity in (income) of affiliates	(9,745)	(7,819)	(6,718)
Deferred income taxes	3,000	5,000	—
Changes in current operating items			
Trade receivables	(10,258)	(443)	(6,435)
Inventories	(10,626)	32,108	(16,633)
Accounts payable	14,547	16,231	10,513
Accrued expenses	7,887	6,828	11,551
Income taxes payable	6,402	(9,206)	7,660
Other	(2,046)	3,671	(1,191)
Net cash provided by operating activities	124,354	121,385	102,308
Cash Flows From Investing Activities			
Purchase of property and equipment	(65,063)	(61,532)	(36,798)
Investments in and advances to affiliates	(11,366)	(9,112)	(16,627)
Distributions and repayments from affiliates	9,437	9,702	13,999
Net cash used for investing activities	(66,992)	(60,942)	(39,426)
Cash Flows From Financing Activities			
Borrowings under credit agreement	501,275	338,200	290,100
Repayments under credit agreement	(481,775)	(342,100)	(300,700)
Repurchase and retirement of common shares	(52,412)	(37,728)	(39,903)
Cash dividends to shareholders	(19,732)	(18,582)	(16,958)
Net cash used for financing activities	(52,644)	(60,210)	(67,461)
Increase (decrease) in cash and cash equivalents	4,718	233	(4,579)
Cash and Cash Equivalents			
Beginning	1,466	1,233	5,812
Ending	\$ 6,184	\$ 1,466	\$ 1,233
Supplemental Cash Flow Information			
Interest paid during the year	\$ 36,620	\$ 24,731	\$ 25,838
Income taxes paid during the year	\$ 38,651	\$ 21,475	\$ 29,007

The accompanying notes are an integral part of these consolidated statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Polaris Industries Inc. ("Polaris" or the "Company") is engaged in a single industry segment consisting of the design, engineering, manufacturing and marketing of innovative, high-quality, high-performance motorized products for recreation and utility use, including all-terrain vehicles, snowmobiles, motorcycles and personal watercraft. Polaris products, together with related parts, garments and accessories are sold worldwide through a network of dealers, distributors and its subsidiaries.

Basis of presentation: All significant intercompany transactions and balances have been eliminated in consolidation.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

Cash equivalents: Polaris considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. Such investments have consisted principally of commercial paper and money market mutual funds.

Fair value of financial instruments: Except as noted, the carrying value of all financial instruments approximates their fair value.

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or market. The major components of inventories are as follows (in millions):

	December 31,	
	1999	1998
Raw materials and purchased components	\$ 28.0	\$ 32.2
Service parts, garments and accessories	50.6	41.1
Finished goods	39.4	34.1
	\$ 118.1	\$ 107.4

Property and equipment: Property and equipment is stated at cost. Depreciation is provided using the straight-line method over the estimated useful life of the respective assets, ranging from 10-20 years for buildings and improvements and from 1-7 years for equipment and tooling. Fully depreciated tooling is eliminated from the accounting records annually.

Intangible assets: Intangible assets are stated net of accumulated amortization totaling \$12.5 million at December 31, 1999, and \$11.6 million at December 31, 1998, and consist principally of cost in excess of the net assets of the business acquired which is amortized on a straight-line basis over 40 years. Other intangible assets are amortized using the straight-line method over their estimated useful lives ranging from 5 to 17 years.

Polaris periodically assesses the amortization period and recoverability of the carrying amount of its intangible assets to determine potential impairment based upon expected future cash flows from the related business. To date, management has determined that no such impairment exists.

Product warranties: Polaris provides for estimated warranty costs at the time of sale to the dealer or distributor customer and for other costs associated with specific items at the time their existence and amounts are determinable.

Foreign currency: Polaris' Canadian and Australian subsidiaries use the United States dollar as their functional currencies. Canadian and Australian assets and liabilities are translated at the foreign exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average foreign exchange rate in effect. Translation and exchange gains and losses are reflected in the results of operations.

Polaris enters into foreign exchange contracts to manage currency exposures of its purchase commitments denominated in foreign currencies and transfers of funds from its Canadian subsidiary. Polaris does not use any financial contract for trading purposes. These contracts are accounted for as hedges, thus market value gains and losses are recognized at the time of purchase or transfer of funds, respectively. The criteria to determine if hedge accounting is appropriate are (1) the designation of a hedge to an underlying exposure, (2) whether or not overall risk is reduced and (3) if there is a correlation between the value of the foreign exchange contract and the underlying exposure. Gains and losses related to purchase commitments are recorded as adjustments to cost of sales while gains and losses related to transfers of funds are recorded as other expense (income) on the accompanying statements of operations. At December 31, 1999, Polaris had open Japanese yen foreign exchange contracts with notional amounts totaling \$25.3 million United States dollars and open Canadian dollar foreign exchange contracts with notional amounts totaling \$83.0 million United States dollars which mature throughout 2000.

Segment reporting: Polaris has reviewed SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" and determined that the aggregation criteria outlined in SFAS No. 131 has been achieved and therefore Polaris' four operating divisions are reportable as a single reportable segment.

Revenue recognition: Revenues are recognized at the time of shipment to the dealer or distributor. Product returns, whether in the normal course of business or resulting from repossession under its customer financing program (Note 3), have not been material. Polaris provides for estimated sales promotion expenses at the time of sale to the dealer or distributor customer.

Foreign operations: The following data relates to Polaris' foreign operations (in millions of United States dollars):

	For the Years Ended December 31,		
	1999	1998	1997
Canadian Subsidiary:			
Sales	\$ 148.2	\$ 142.5	\$ 154.3
Operating income	3.1	3.0	6.4
Identifiable assets	23.6	18.9	20.3
Other export sales	\$ 68.3	\$ 61.7	\$ 58.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Major supplier: During 1999, 1998, and 1997, purchases of engines and related components totaling 15, 12 and 16 percent respectively of Polaris' cost of sales were from a single Japanese supplier. Polaris has agreed with the supplier to share the impact of fluctuations in the exchange rate between the United States dollar and the Japanese yen.

New accounting pronouncements: The Financial Accounting Standards Board issued Statement of Financial Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) in June 1998. Polaris is not required to adopt SFAS No. 133 until January 1, 2001. However, Polaris does not believe the adoption of SFAS No. 133 will have a material effect on its Financial Statements.

NOTE 2 LITIGATION SETTLEMENT

Injection Research Specialists ("IRS") commenced an action in 1990 against Polaris and Fuji Heavy Industries, Ltd. ("Fuji") one of Polaris' engine suppliers, in Colorado Federal Court alleging various claims relating to electronic fuel injection systems for snowmobiles. In October 1998, following a judgment against Polaris for \$34.0 million (before pre- and post-judgment interest) and affirmance thereof by the Federal Court of Appeals, IRS, Polaris and Fuji entered into a confidential settlement agreement to settle all outstanding claims between the parties. The resulting provision for litigation loss of \$61.4 million has been reflected as non-operating expense in the accompanying statement of operations for the year ended December 31, 1998. The net income impact of the litigation loss was \$39.6 million or \$1.53 per diluted share in 1998. Adjusted net income excluding the IRS litigation provision was \$70.6 million or \$2.72 per diluted share in 1998. Polaris no longer uses any of the technology in dispute.

NOTE 3 FINANCING

Bank financing: Polaris is a party to an unsecured bank line of credit arrangement under which it may borrow up to \$175 million until March 31, 2000 and up to \$150 million thereafter until maturity. Interest is charged at rates based on LIBOR or "prime" and the agreement expires on March 31, 2002, at which time the outstanding balance is due. In July 1999, Polaris entered into an interest rate swap agreement to manage exposure to fluctuations in interest rates. The effect of the swap agreement is to fix the interest rate at 5.80 percent for \$20 million of borrowings under the credit line for a period of two years. The following summarizes activity under Polaris' credit arrangement (in millions):

	1999	1998
Total borrowings at December 31	\$ 40.0	\$ 20.5
Average outstanding borrowings during year	\$ 80.5	\$ 48.4
Maximum outstanding borrowings during year	\$ 131.5	\$ 77.0
Interest rate at December 31	6.16%	5.95%

Letters of credit: At December 31, 1999, Polaris had open letters of credit totaling approximately \$16.2 million. The amounts outstanding are reduced as inventory purchases pertaining to the contracts are received.

Customer financing program: Certain finance companies, including Polaris Acceptance, an affiliate (Note 7), provide floor plan financing to distributors and dealers on the purchase of Polaris products. The amount financed by distributors and dealers under these arrangements at December 31, 1999, was approximately \$472.0 million. Polaris has agreed to repurchase products repossessed by the finance companies up to an annual maximum of 15 percent of the average amounts outstanding during the prior calendar year. Polaris' financial exposure under these arrangements is limited to the difference between the amount paid to the finance companies for repurchases and the amount received on the resale of the repossessed product. No material losses have been incurred under these agreements during the periods presented. As a part of its marketing program, Polaris contributes to the cost of dealer and distributor financing up to certain limits and subject to certain conditions. Such expenditures are included with operating expenses in the accompanying statements of operations.

NOTE 4 INCOME TAX MATTERS

Components of Polaris' provision for income taxes are as follows (in millions):

	For the Years Ended December 31,		
	1999	1998	1997
Current			
Federal	\$ 36.1	\$ 10.4	\$ 31.6
State	1.6	0.7	2.3
Foreign	1.3	1.2	2.9
Deferred	3.0	5.0	—
Total	\$ 42.0	\$ 17.3	\$ 36.8

Reconciliations of the Federal statutory income tax rate to the effective tax rate are as follows:

	For the Years Ended December 31,		
	1999	1998	1997
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	1.5	2.5	2.5
Other permanent differences	(1.0)	(1.6)	(1.5)
Effective income tax rate	35.5%	35.9%	36.0%

Polaris utilizes the liability method of accounting for income taxes whereby deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. The net deferred tax asset consists of the following (in millions):

	December 31,		
	1999	1998	1997
Current deferred tax assets:			
Inventories	\$ 4.1	\$ 4.1	\$ 4.0
Accrued expenses	26.9	24.7	24.0
Compensation payable in common stock	—	0.2	1.0
Total current	31.0	29.0	29.0
Noncurrent deferred tax assets:			
Cost in excess of net assets of business acquired	23.0	25.2	27.6
Property and equipment	(8.9)	(4.9)	(2.0)
Compensation payable in common stock	1.9	0.7	0.4
Total noncurrent	16.0	21.0	26.0
Total	\$ 47.0	\$ 50.0	\$ 55.0

NOTE 5 STOCK-BASED COMPENSATION

Polaris maintains a stock option plan (Option Plan) under which incentive and nonqualified stock options for a maximum of 2.4 million shares of common stock may be issued to certain employees. Options granted to date generally vest three years from the award date and expire after ten years. Shares outstanding under the Option Plan have exercise prices ranging from \$25.75 to \$49.45 and a weighted average remaining contractual life of 7.6 years.

Polaris maintains a broad based stock option plan (Broad Based Plan) under which incentive stock options for a maximum of 350,000 shares of common stock may be issued to substantially all Polaris employees. Options vest three years from the award date and expire after ten years.

Polaris maintains a restricted stock plan (Restricted Plan) under which a maximum of 800,000 shares of common stock may be awarded as an incentive to certain employees with no cash payments required from the recipient. The restrictions lapse after a three to four year period if Polaris achieves certain performance measures.

Polaris sponsors a qualified non-leveraged Employee Stock Ownership Plan (ESOP) under which a maximum of 1.25 million shares of common stock can be awarded. Shares vest immediately and require no cash payments from the recipient. Substantially all employees are eligible to participate in the ESOP.

The following summarizes share activity in the above plans, and the weighted average exercise price for the Option Plan:

	Option Plan		Broad Based Plan	Restricted Plan	First Rights Plan	ESOP
	Shares	Weighted Average Exercise Price	Shares	Shares	Shares	Shares
Outstanding as of December 31, 1996	391,830	\$ 30.66	—	61,795	431,255	—
Granted	142,980	\$ 25.75	—	64,915	—	—
Converted	—	—	—	—	(318,755)	—
Forfeited	(38,617)	\$ 29.50	—	(2,835)	(15,000)	—
Outstanding as of December 31, 1997	495,743	\$ 29.33	—	123,875	97,500	170,000
Granted	691,590	\$ 40.15	—	147,765	—	173,206
Exercised/Converted	(33,425)	\$ 29.00	—	—	(87,750)	—
Forfeited	(76,183)	\$ 30.94	—	(28,605)	(1,500)	—
Outstanding as of December 31, 1998	1,077,725	\$ 36.17	—	243,035	8,250	343,206
Granted	311,970	\$ 32.47	337,900	145,235	—	170,000
Exercised/Converted	(29,768)	\$ 29.54	—	—	(8,250)	—
Forfeited	(19,774)	\$ 31.50	(19,300)	(11,795)	—	—
Outstanding as of December 31, 1999	1,340,153	\$ 35.06	318,600	376,475	—	513,206
Exercisable/Vested as of December 31, 1999	258,357	\$ 30.91	—	—	—	513,206

Polaris maintains a nonqualified deferred compensation plan (Director Plan) under which directors who are not Polaris officers or employees can elect to receive common stock equivalents in lieu of director's fees, which will be converted into common stock when board service ends. A maximum of 75,000 shares of common stock has been authorized under this plan and 26,305 shares have been earned as of December 31, 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Polaris accounts for all stock based compensation plans under APB Opinion No. 25, under which compensation costs of \$9.6 million, \$7.8 million, and \$5.0 million were recorded in 1999, 1998 and 1997, respectively. Had compensation costs for these plans been recorded at fair value consistent with the methodology prescribed by SFAS No. 123 "Accounting for Stock-Based Compensation," Polaris' net income and net income per share would have been reduced to the following pro forma amounts:

	1999	1998	1997
Net Income (in millions)			
As Reported	\$ 76.3	\$ 31.0	\$ 65.4
Pro Forma	73.5	29.3	64.3
Net Income Per Share			
As Reported	\$ 3.07	\$ 1.19	\$ 2.45
Pro Forma	2.95	1.13	2.41

The fair value of each award under the Option Plan is estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used to estimate the fair value of options:

	1999	1998	1997
Risk free interest rate	6.6%	5.6%	6.6%
Expected life	7 years	7 years	7 years
Expected volatility	23%	14%	23%
Expected dividend yield	2.2%	2.0%	2.5%

The weighted average fair values at the grant dates of shares awarded under the above plans are as follows:

	1999	1998	1997
Option Plan	\$ 8.99	\$ 5.57	\$ 7.45
Restricted Plan	\$ 32.47	\$ 34.89	\$ 25.75
ESOP	\$ 36.25	\$ 39.19	\$ 30.56
Broad Based Plan	\$ 8.99	\$ —	\$ —

NOTE 6 SHAREHOLDERS' EQUITY

Stock repurchase program: In October 1999, the Polaris Board of Directors approved a new share repurchase authorization of up to 2.5 million shares of the Company's common stock. Prior thereto, the Board of Directors had authorized the cumulative repurchase of up to 5.0 million shares of the Company's common stock. During 1999, Polaris paid \$52.4 million to repurchase and retire nearly 1.5 million shares. Cumulative repurchases through December 31, 1999 are approximately 4.6 million shares for \$143.6 million. Polaris had approximately 2.9 million shares available to repurchase under Board of Directors authorizations as of December 31, 1999.

Net income per share: Polaris calculates net income per share in accordance with Statement of Financial Accounting Standards No. 128, which requires the presentation of basic and diluted earnings per share. Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each year, including shares earned under the expired First Rights plan, the Director Plan and the ESOP. Diluted earnings per share is computed under the treasury stock method and is calculated to compute the dilutive effect of outstanding stock options. A reconciliation of these amounts is as follows (in thousands, except per share data):

	1999	1998	1997
Net income available to common shareholders	\$ 76,326	\$ 31,015	\$ 65,383
Weighted average number of common shares outstanding	24,539	25,709	26,403
First Rights	—	21	139
Director Plan	23	17	12
ESOP	170	170	170
Common shares outstanding — basic	24,732	25,917	26,724
Dilutive effect of Option Plan	168	69	15
Common and potential common shares outstanding — diluted	24,900	25,986	26,739
Basic earnings per share	\$ 3.09	\$ 1.20	\$ 2.45
Diluted earnings per share	\$ 3.07	\$ 1.19	\$ 2.45

Polaris also has shares issued under the Restricted Plan, which will not be included in the above calculations until certain performance criteria are met.

Stock Purchase Plan: Polaris maintains an Employee Stock Purchase Plan (Purchase Plan). A total of 750,000 shares of common stock are reserved for this plan. The Purchase Plan permits eligible employees to purchase common stock at 85 percent of the average market price each month.

NOTE 7 INVESTMENTS IN AFFILIATES

In February 1996, a wholly owned subsidiary of Polaris entered into a partnership agreement with Transamerica Distribution Finance (TDF) to form Polaris Acceptance. Polaris Acceptance provides floor plan financing to Polaris' dealers and distributors and in 1999 began providing other financial services including retail credit and extended service contracts to dealers, distributors and retail customers of Polaris. Polaris' subsidiary has a 50 percent equity interest in Polaris Acceptance and guarantees 50 percent of the outstanding indebtedness of Polaris Acceptance under a credit agreement between Polaris Acceptance and TDF. At December 31, 1999, Polaris' contingent liability with respect to the guarantee was approximately \$170.0 million. In February 2000, the term of the partnership agreement was extended; in consideration thereof, the Polaris guarantee of the outstanding indebtedness of Polaris Acceptance was eliminated.

In February 1995, Polaris entered into an agreement with Fuji Heavy Industries Ltd. to form Robin Manufacturing, U.S.A. (Robin). Under the agreement, Polaris has a 40 percent ownership interest in Robin, which builds engines in the United States for recreational and industrial products.

Polaris' investments in joint ventures are accounted for under the equity method. Polaris' allocable share of the income of Polaris Acceptance and Robin has been included as a component of nonoperating expense (income) in the accompanying statements of operations. Polaris Acceptance is a partnership and the payment of income taxes is the responsibility of each of the partners. Robin is a corporation responsible for the payment of its own income taxes.

Summarized combined financial information for the joint ventures is presented as follows (in millions):

	December 31,	
	1999	1998
Revenues	\$ 81.7	\$ 65.0
Cost of goods sold, interest and operating expenses	61.5	48.9
Net income before income taxes	\$ 20.2	\$ 16.1
Finance receivables, net	\$ 408.8	\$ 323.7
Other assets	21.3	17.3
	\$ 430.1	\$ 341.0
Notes payable	\$ 338.6	\$ 278.4
Other liabilities	14.2	12.1
Shareholders' equity and Partners' capital	77.3	50.5
	\$ 430.1	\$ 341.0

NOTE 8 | COMMITMENTS AND CONTINGENCIES

Product liability: Polaris is subject to product liability claims in the normal course of business and prior to June 1996 elected not to purchase insurance for product liability losses. Effective June 1996, Polaris purchased excess insurance coverage for catastrophic product liability claims for incidents occurring subsequent to the policy date that exceed a self-insured retention. The estimated costs resulting from any losses are charged to operating expenses when it is probable a loss has been incurred and the amount of the loss is reasonably determinable.

Income tax audit: Revenue Canada has assessed Polaris approximately \$16.0 million in taxes, penalties and interest for the period January 1, 1992 through December 31, 1994 resulting from an income tax audit for that period. Revenue Canada has asserted that Polaris overcharged its Canadian subsidiary for various goods and services during the audit period primarily through improper intercompany transfer pricing policies. Polaris disagrees with the assessment and is vigorously contesting it.

Litigation: Polaris is a defendant in lawsuits and subject to claims arising in the normal course of business. In the opinion of management, it is not a probability that any legal proceedings pending against or involving Polaris will have a material adverse effect on Polaris' financial position or results of operations.

Leases: Polaris leases buildings and equipment under noncancelable operating leases. Total rent expense under all lease agreements was \$2.9 million, \$2.5 million, and \$2.8 million, for 1999, 1998 and 1997, respectively. Future minimum payments, exclusive of other costs, required under non-cancelable operating leases at December 31, 1999, total \$1.5 million cumulatively through 2004.

NOTE 9 | QUARTERLY FINANCIAL DATA

(Unaudited) (In millions, except per share data)

	Sales	Gross Profit	Net Income (Loss)	Diluted Net Income (Loss) Per Share
1999:				
First Quarter	\$ 237.8	\$ 56.4	\$ 9.1	\$.36
Second Quarter	324.3	74.9	15.1	.60
Third Quarter	388.9	101.3	27.2	1.10
Fourth Quarter	370.1	95.7	24.9	1.02
Totals	\$ 1,321.1	\$ 328.3	\$ 76.3	\$ 3.07
1998:				
First Quarter	\$ 210.0	\$ 46.8	\$ 8.3	\$.32
Second Quarter	274.7	64.2	14.5	.55
Third Quarter	359.9	86.4	(14.5)	(.56)
Fourth Quarter	330.9	80.9	22.7	.88
Totals	\$ 1,175.5	\$ 278.3	\$ 31.0	\$ 1.19

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO POLARIS INDUSTRIES INC.:

We have audited the accompanying consolidated balance sheets of Polaris Industries Inc. (a Minnesota corporation) and Subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of Polaris' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Polaris Industries Inc. and Subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,
January 28, 2000

BOARD OF DIRECTORS

Andris A. Baltins (A, C)
Member of the law firm of Kaplan, Strangis and Kaplan, P.A.

Raymond J. Biggs (S)
Chairman Emeritus of Huntington Bancshares of Michigan

Beverly F. Dolan (C*, S*)
Retired Chairman and Chief Executive Officer of Textron Inc.

Robert S. Moe (C, E)
Retired Executive Vice President and Treasurer of Polaris Industries Inc.

Gregory R. Palen (A)
Chief Executive Officer of Spectro Alloys and Palen/Kimball Company

Stephen G. Shank (A*)
*Chairman and Chief Executive Officer of Capella Education Company
Former Chairman and Chief Executive Officer of Tonka Corporation*

Bruce A. Thomson (A)
Chairman of the Board of Tomsten, Inc.

Thomas C. Tiller (E)
President and Chief Executive Officer of Polaris Industries Inc.

W. Hall Wendel, Jr. (E*)
Chairman of Polaris Industries Inc.

(A) Audit Committee Member
(C) Compensation Committee Member
(E) Executive Committee Member
(S) Stock Award Compensation Committee Member
* Committee Chairman

CORPORATE OFFICERS

W. Hall Wendel, Jr.
Chairman

Thomas C. Tiller
President and Chief Executive Officer

Charles A. Baxter
Vice President – Engineering and General Manager – Engines

Jeffrey A. Bjorkman
Vice President – Manufacturing

John B. Corness
Vice President – Human Resources

Michael W. Malone
Vice President – Finance, Chief Financial Officer and Secretary

Richard R. Pollick
Vice President – International

Thomas H. Ruschhaupt
Vice President – Sales and Service

Ed Skomoroh
Vice President – Marketing

GENERAL MANAGERS

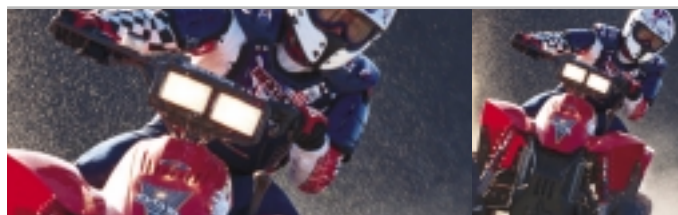
Mitchell D. Johnson
General Manager – All-Terrain Vehicles

Bennett J. Morgan
General Manager – Parts, Garments and Accessories

Robert R. Nygaard
General Manager – Snowmobiles

Claude Picard
General Manager – Personal Watercraft

POLARIS



ALL-TERRAIN VEHICLE (ATV)

BUSINESS PROFILE

Polaris ATV innovations have become the hallmark of the industry ever since we introduced the first U.S.-made ATV in 1985. We've pioneered such market-transforming improvements as automatic transmissions, long-travel suspensions, full floorboards and true four-wheel drive. Today, Polaris offers more models in all market segments than any other manufacturer, and we dominate the large 4-wheel-drive segment with our Sportsman 500.

PRIMARY COMPETITORS

- Arctic Cat
- Bombardier
- Honda
- Kawasaki
- Suzuki
- Yamaha

1999 OVERVIEW

During 1999, the industry reported worldwide retail sales of approximately 650,000 units, up 25 percent from 1998. Polaris ATV sales grew 15 percent in 1999 to \$774 million, making ATVs our largest product line representing 59 percent of total Polaris sales. Models equipped with our new 325cc four-stroke engine proved popular. We continue to expand our industry-leading Sportsman model line. The Polaris *RANGER* 6-wheel-drive, side-by-side, general purpose off-road utility vehicle continued to be popular, with retail sales up 30 percent.

HIGHLIGHTS OF THE YEAR

- Introduced three new models with the 325cc four-stroke engine: Trail Boss 325, and Magnum 325 2x4 and 4x4.
- Introduced two Xpedition models with 5-speed transmission to enable Polaris to compete for the first time in the manual transmission segment of the market.
- Introduced the 6-wheel-drive Sportsman 6x6 with improved ride, handling and drive train.
- Formed a partnership with Ducks Unlimited in the U.S. and Canada. Ducks Unlimited, the premier wetlands restoration organization, will receive Polaris ATVs for use in fundraising, while providing us with increased visibility and goodwill with their 700,000 members.

OUTLOOK

The ATV market continues to be healthy and increasingly competitive with new product introductions and aggressive promotions throughout the industry. We expect the overall industry growth to continue in 2000 at double-digit rates. The Polaris ATV division is expected to continue to grow through product innovations, developing new market niches, and creating unique marketing and promotion efforts.

PRODUCTS AT A GLANCE



SNOWMOBILE

BUSINESS PROFILE

Polaris pioneered snowmobiles 46 years ago, and we've been the worldwide market share leader every year since the 1990-91 season. We maintain our leadership position by continually offering innovations and competitively priced models covering all market segments: trail sport, two-up touring, trail luxury, performance and deep snow.

PRIMARY COMPETITORS

- Arctic Cat
- Bombardier
- Yamaha

1999 OVERVIEW

Approximately 233,000 units were sold worldwide by the snowmobile industry during the season ended March 31, 1999, down 9 percent from the previous season. The decrease was due to another year of light or late snow across much of North America. In a difficult market environment in calendar year 1999, we increased sled sales 1 percent from 1998, to \$377 million. While final industrywide retail sales for the 1999-00 season are not yet available, preliminary data indicates we've once again increased market share in yet another year of declining industry sales.

HIGHLIGHTS OF THE YEAR

- Introduced our first child's snowmobile, the 120 XCR (8 mph max speed)
- *Snowmobile Magazine*, the largest circulation industry magazine, rated the following six Polaris models "Best in Class": 700 XC Deluxe, 600 Touring, 800 XCR, 700 XC SP, 500 XC SP, 500 RMK.
- *Snow West* magazine named our family of 5 RMK models "Mountain Sleds of the Year" — the only time the honor's been given to an entire family of models.
- Polaris performance models dominated *American Snowmobiler* magazine's shoot out, winning seven of eight classes.

OUTLOOK

We expect the industry to resume its long-term trend of 5 to 7 percent average annual growth after the 2000-2001 season. We'll remain the market share leader through continuing product innovation, a stronger brand message and aggressive promotions. Our model year 2001 lineup includes 10 models that utilize our new EDGE™ chassis. Ten pounds lighter than our previous chassis, the EDGE™ significantly improves ride and handling. It also features 150 fewer parts and a higher degree of commonality than our previous chassis, which results in lower cost and higher quality. In model year 2001, we're also introducing the best-selling premium aftermarket rear suspension (M-10®) into select models — yet another Polaris exclusive.

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PERSONAL WATERCRAFT (PWC)

BUSINESS PROFILE

We entered the personal watercraft market in 1992 and have been an industry leader in developing innovative sound-reduction and low-emission engine technology. We cover all market segments, including touring, performance and racing, with 2-, 3- and 4-passenger models.

PRIMARY COMPETITORS

- Bombardier
- Kawasaki
- Yamaha

1999 OVERVIEW

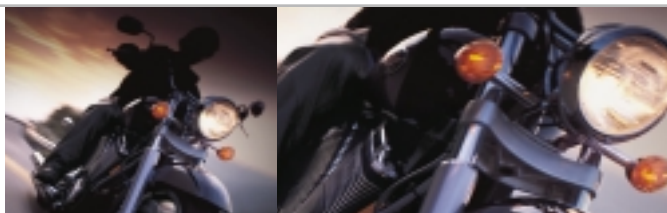
Worldwide industry retail sales declined 17 percent to approximately 134,000 units for the season ended September 30, 1999. The decrease reflects continued uncertainty about potential regulatory and legislative limits on PWC use. Despite these continued difficult market conditions, Polaris PWC sales grew 7 percent to \$54 million in calendar year 1999, and we gained modest market share. We've also kept season-ending dealer inventory at low levels again with an average of less than two units per dealer.

HIGHLIGHTS OF THE YEAR

- Introduced Virage and Virage TX models expanding PLANET™ sound-reduction technology.
- First manufacturer with a model (Genesis FFI) that complies with EPA's 2006 emission standards.
- Increased our environmental stand through support of the Wyland Foundation.
- Won 1999 BP Racing Offshore Global Invitationals' Grand Prix endurance series.

OUTLOOK

The industry is still in transition, so we expect 2000 industrywide sales to be slightly lower than 1999. As happened previously with both snowmobiles and ATVs, we believe industry sales growth in PWC will resume, although at a more modest rate, once the regulatory and legislative issues have finally been clarified. We're seeing a trend toward cleaner, quieter and more stable watercraft and an evolution to a more enthusiast, repeat-buyer market. With a new generation of PWC emerging and low field inventory levels, we feel we are uniquely positioned to resume growth.



MOTORCYCLE

BUSINESS PROFILE

We entered the motorcycle market in 1998 with the Victory V92C — a heavyweight V-twin cruiser. In 1999, we expanded our model line with the V92SC — the world's first SportCruiser™. The Victory V92SC took the concept of a performance cruiser motorcycle to the next level, combining cruiser styling with industry-leading handling and braking.

PRIMARY COMPETITORS

- Harley-Davidson
- Honda
- Kawasaki
- Suzuki
- Yamaha

1999 OVERVIEW

The overall motorcycle market in the United States continued to expand in 1999, with a 24 percent increase in retail sales over 1998 sales. Victory Motorcycles established a foothold in the cruiser motorcycle market in 1999 with sales of \$47 million. Responding to a healthy market situation, we've increased the number of Victory dealers to more than 300, including our first dealers in Canada. Victory continues to have a strong presence at motorcycle events and rallies across the country.

HIGHLIGHTS OF THE YEAR

- V92C won *Motorcycle Cruiser* magazine's "Cruiser of the Year" award in October 1999.
- Introduced the V92SC SportCruiser™ — the first motorcycle ever to be unveiled live on the Internet.
- Signed NASCAR® racer Kyle Petty as Victory Motorcycles' official spokesperson.
- Continued to build awareness for the Victory brand through an aggressive advertising and events schedule.

OUTLOOK

Victory Motorcycles is off to a strong start. We expect the U.S. motorcycle market to continue double-digit annual growth rates for the next several years. We will begin selling Victory Motorcycles in Canada in spring 2000. We expect Victory Motorcycle sales to become a significant part of our overall business in the coming years as we expand overseas and continue to extend the model line to cover additional market segments.

OUR MOST FREQUENTLY ASKED QUESTIONS

1	<p>WHY DID POLARIS DECIDE TO ENTER THE MOTORCYCLE MARKET?</p> <p>Motorcycles embody several factors we consider as we look for growth opportunities:</p> <ul style="list-style-type: none"> • Strong market: The U.S. cruiser market has more than doubled in the past five years, and the European market has increased nearly 50 percent in that same time. • Motorcycles fit with our existing engineering, manufacturing, distribution and marketing processes. • They supplement ATVs as another year-round product to offset the seasonal sales of snowmobiles and PWC. • Motorcycles appeal to customers who already have a strong affinity for the Polaris brand.
2	<p>HOW DOES E-BUSINESS FIT INTO YOUR STRATEGY?</p> <p>We're leveraging the Internet in three key ways: with customers, dealers and suppliers.</p> <ul style="list-style-type: none"> • With customers, the Internet allows us to market our products and services, and, more importantly, it allows us to better communicate with and support them to strengthen relationships. We recently revised our consumer Web site (at www.polarisindustries.com) so customers and prospective customers can quickly find information about products, riding tips or help in selecting trails. Take a look and let us know what you think. And keep checking back, because the site will continue to expand in support of a better riding experience. • We're also expanding our dealer Web site to provide our dealers more current information on deliveries, order status and product announcements, as well as to improve the communication between our dealers and Polaris. • To improve communication up and down the supply chain, we recently launched a supplier extranet. The site includes our current policies and procedures, and real-time information relating to part issues. It also allows suppliers to quickly and conveniently communicate with us. This new connection is already improving quality, reducing lead times and reducing surprises — for both suppliers and us.
3	<p>HOW WOULD AN ECONOMIC DOWNTURN AFFECT YOUR BIG-TICKET PRODUCTS?</p> <p>Historically, our sales haven't been sensitive to economic cycles. Several factors allow us to ride out economic waves: our vehicles are affordably priced, they can often be used for both work and play, and they've become an integral part of our customers' lifestyles. Plus, the majority of Polaris owners are Baby Boomers, who earn incomes 48 percent higher than the national average. Proof is in the numbers — we have reported increased profits for 18 consecutive years.</p>
4	<p>WHY IS POLARIS SO AGGRESSIVE IN ITS SHARE REPURCHASE PROGRAM?</p> <p>We initiated a repurchase program in 1996 and have extended it every year since because we feel Polaris' share price does not reflect the true value of the company. We're very confident in the long-term prospects of Polaris, and expressed that confidence by investing \$52.4 million to repurchase and retire nearly 1.5 million shares in 1999, for a cumulative total of over 4.5 million repurchased shares since 1996.</p>
5	<p>WHAT'S THE FUTURE OF THE PWC INDUSTRY?</p> <p>Today, PWC represents just 4 percent of our total sales. However, we believe the market is promising in the long term. Undefined government regulations and proposed legislation are creating short-term uncertainty. Meanwhile, we're staying committed — developing innovative sound-reduction and low-emission engine technologies — so we'll be ready with the right products when market demand resumes.</p>
6	<p>WHAT ARE POLARIS' PLANS FOR FUTURE GROWTH?</p> <p>We've laid out a very clear plan for achieving future growth that includes two sets of activities. Product innovation in each of our product lines will continue, in fact, accelerate in the coming years. In addition, we are counting on growth from five key catalysts: building the Polaris brand, increasing alliances and partnerships, increasing high-margin PG&A sales with minimal investment, expanding financial services and increasing international sales. We laid out this plan during 1998, and our strong 1999 financial results prove it's the right plan for Polaris and our shareholders.</p>
7	<p>WHAT IMPACT DOES WEATHER HAVE ON POLARIS SALES AND PROFITS?</p> <p>Not as much as it used to many years ago. We've greatly minimized the impact of weather during any particular year through marketing programs and product diversification. We've diversified into year-round ATVs and motorcycles, two markets that offer tremendous growth potential. In spite of a third consecutive year of below-normal snowfall levels across much of North America, Polaris posted record sales and earnings once again in 1999.</p>
8	<p>WHY IS POLARIS DEVELOPING A NEW BRAND POSITION?</p> <p>Historically, strong brands have created greater value for their owners, so one of our key corporate goals is to build a dominant brand. In the past, we positioned the Polaris brand based on vehicle features and performance. But that meant we created a slightly different brand for each vehicle line. With our new brand initiative, we're developing a single, focused brand position that works for all Polaris products. It focuses on the superior riding experience that consumers get from our products-whether they're cruising the open road, jumping waves or traversing trails.</p>

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