POLARIS

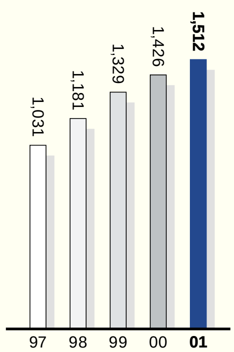
POLARIS INDUSTRIES INC. 2001 ANNUAL REPORT

A QUALITY INVESTMENT FOR EVERY CLIMATE

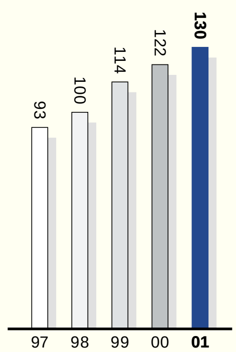
FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share data)

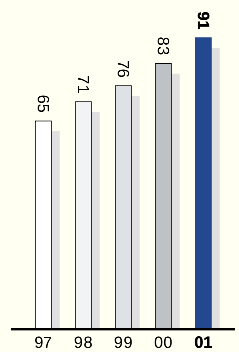
	2001	2000	Annual Growth Rate	
			Current Year	5 Years
Operating Data				
Sales	**$ 1,512,042**	$ 1,425,678	6%	5%
Operating income	**129,818**	121,794	7	6
Net income	**91,414**	82,809	10	8
Per common share – diluted	**3.88**	3.50	11	12
Percent of sales	**6.0%**	5.8%		
Balance Sheet Data				
Current assets	**$ 305,317**	$ 240,912	27%	10%
Property and equipment	**170,323**	167,864	1	13
Total assets	**565,163**	490,186	15	10
Long-term debt	**18,043**	47,068	(62)	(12)
Shareholders' equity	**238,783**	204,734	17	9
Per share	**10.13**	8.65	17	13
Dividends paid per share	**1.00**	0.88	14	11
Average common shares outstanding – diluted	**23,567**	23,666	–	(3)



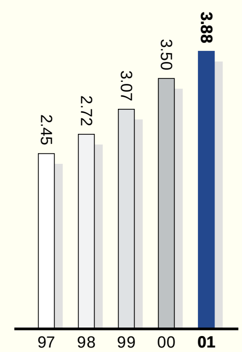
Sales
(dollars in millions)



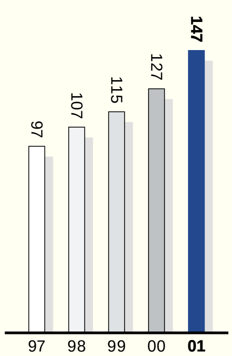
Operating Income(1)
(dollars in millions)



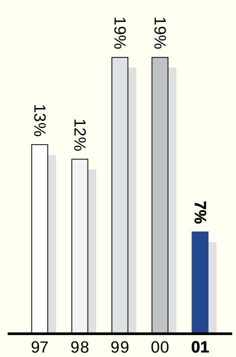
Net Income(1)
(dollars in millions)



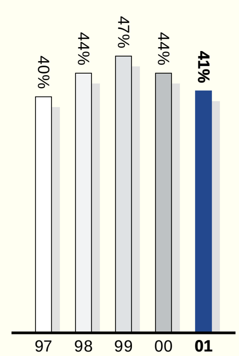
Net Income Per Share(1)
(dollars)



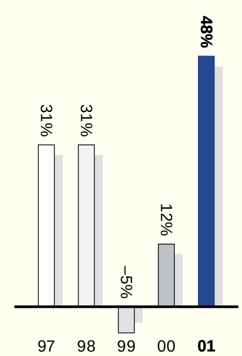
Cash Flow Provided(1)
(dollars in millions, before changes in current operating items and deferred taxes)



Debt to Total Capital Ratio



Return on Average Shareholder Equity(1)



Total Yield to Investors

(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.

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), motorcycles and related parts, garments and accessories (PG&A). Polaris engineering, manufacturing and distribution facilities are located in Roseau, Minnesota; Osceola, Wisconsin; Spirit Lake, Iowa; Vermillion, South Dakota; Passy, France; 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 nearly 2,000 dealers in North America and 55 distributors in 121 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.

THE YEAR 2001 SHOWED US HOW QUICKLY AND UNPREDICTABLY THINGS CAN CHANGE. BUT IT MIGHT SURPRISE YOU HOW WELL POLARIS WEATHERED IT ALL. WITH SOLID FUNDAMENTALS, A WINNING BUSINESS PLAN AND DEDICATED EMPLOYEES WHO APPLY A STRONG AMERICAN WORK ETHIC, WE JUST FINISHED OUR BEST YEAR EVER.

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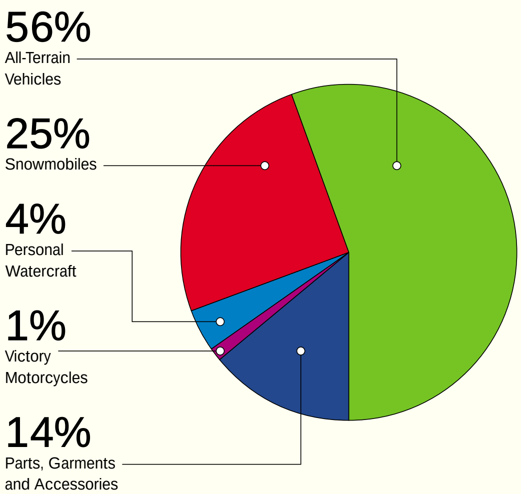
POLARIS PRODUCTS AT A GLANCE

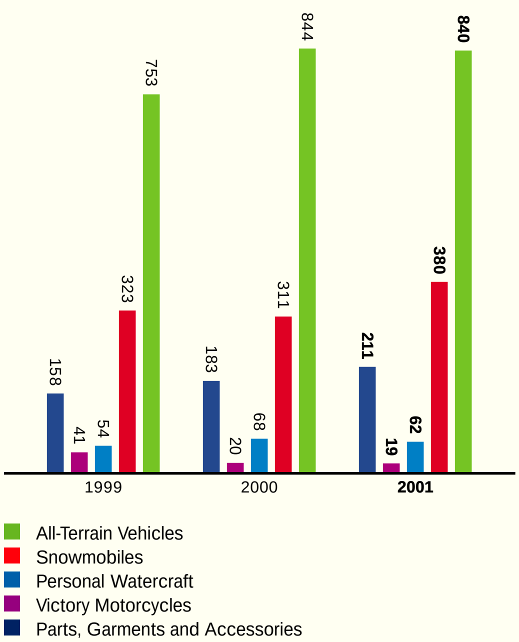
Percentage of Sales by Product Line



$1.512 billion in 2001 sales.
Polaris sales reflect a diversified mix of motorsports products for work and recreation in all climates and seasons.

Historical Sales by Product Line

(dollars in millions)



Forward-looking statements made herein contain certain important factors that could differ materially from those anticipated. See Management's Discussion and Analysis of Financial Condition and Results of Operation beginning on page 14.

ALL-TERRAIN VEHICLES (ATVs)

Polaris ATV innovations have become industry benchmarks ever since we introduced the first American-made ATV in 1985. We have pioneered such market-transforming improvements as automatic transmissions, long-travel/independent rear suspensions, full floorboards, single-lever hydraulic braking and true 4-wheel drive. Today, we offer a full line of youth and full-size ATVs, dominating both the youth segment and large 4-wheel drive segment with our industry-leading Sportsman product line. Our full RANGER line has begun to redefine the utility off-road vehicle with its industry-leading power and ride quality.

POLARIS 2001 OVERVIEW

Sales: $840 million

Polaris ATV unit retail sales grew 4 percent in 2001, slightly lower than the overall industry due to aggressive competitive sales promotion activity throughout the year. Wholesale sales of Polaris ATVs were flat as we focused on working dealer field inventories to more appropriate levels. New products drove growth in 2001, including the youth models and our new RANGER off-road utility vehicles. Additionally, we introduced the industry's largest big-bore premium recreational utility ATV in the second half of the year, the Sportsman 700 Twin.

HIGHLIGHTS OF THE YEAR

- Introduced our first U.S.-designed and built ATV engine, the new 4-stroke 700 Twin, the largest production engine ever in a 4x4.
- *ATV Magazine* named the Sportsman 700 Twin "ATV of the Year" for 2002.
- Our youth ATV product line attained a dominant number-one market share position.
- Successfully extended our leading Sportsman sub-brand with a new Sportsman 400 model.
- Introduced the next generation of RANGER off-road utility vehicles with new and improved 4x4 and 2x4 models.

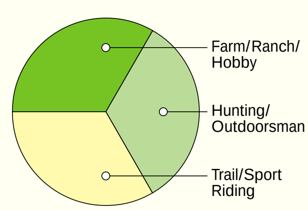
2001 WORLDWIDE INDUSTRY OVERVIEW

Industry Size: 861,000 units

2001 Growth Rate: + 11 percent

Competition:
Arctic Cat ▪ Bombardier ▪ Honda ▪ John Deere ▪ Kawasaki ▪ Suzuki ▪ Yamaha

2001 INDUSTRY ATVS USED FOR WORK VS. PLAY



SNOWMOBILES

Polaris pioneered snowmobiles 48 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 product and program innovations and competitively priced models covering all market segments: trail sport, two-up touring, trail luxury, performance, deep snow and youth.

POLARIS 2001 OVERVIEW

Sales: $380 million

Polaris increased its industry-leading share in the 2000-01 season. While final industrywide unit retail sales for the 2001-02 season are not yet available, retail sales are expected to be about flat with the prior season due to below average snowfall in much of North America. Preliminary data also indicate that Polaris is again the market share leader.

HIGHLIGHTS OF THE YEAR

- Outperformed the market with wholesale sales increasing 22 percent. The success of our new Snow Check Select™ program contributed to the sales growth along with several new product offerings.
- Introduced a factory custom-built program for early season buyers called Snow Check Select, fueling a nearly 50 percent increase in pre-season Snow Check retail sales.
- Introduced the Indy Frontier Touring model, our first full-sized snowmobile powered by a four-stroke engine. The engine was designed exclusively for Polaris with a lower center of gravity and improved handling versus other designs.
- *Sno Tech* magazine gave "Best in Class" awards to the 700 RMK (best mountain sled), 600 Classic (best trail sled) and 600 XC SP (best cross-country 600).
- *SnoGoer* magazine included the Polaris 600 XC SP, Pro X 440 Fan and 800 RMK in its Top 10 models of the year.
- *Snowmobile* magazine included the 800 RMK, 700 Classic, Pro X 440 Fan and 500 XC in its "Best Buys" list.

2001 WORLDWIDE INDUSTRY OVERVIEW

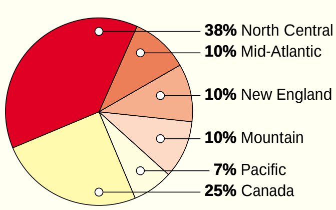
(season ended March 31)

Industry Size: 209,000 units

2001 Growth Rate: – 2 percent

Competition:
Arctic Cat ■ Bombardier ■ Yamaha

2001 NORTH AMERICAN INDUSTRY SNOWMOBILE SALES BY REGION



WATERCRAFT

We entered the personal watercraft (PWC) market in 1992 and have been a leader in bringing environmentally friendly models to market. Polaris was the first manufacturer to offer a model with Direct Injection (DI) that meets EPA 2006 emission requirements. DI models are 76 percent cleaner and offer over 35 percent better fuel economy than carbureted models. We are also a leader in sound reduction technology (PLANET™) that reduces noise emissions by more than 60 percent. Polaris focuses its model line on the growing segment of the market, with most of its production meeting demand for three or three-plus passenger models (mid-size and full-size platforms).

POLARIS 2001 OVERVIEW

Sales: $62 million

Polaris outperformed the market, posting a 2 percent growth in unit retail sales in calendar year 2001. Wholesale sales were below last year as the economy continued to slow during the year, impacting dealer orders for 2002 models. Honda announced its planned entry into the PWC market, reinforcing views that the market is poised to stabilize and recover. While threats of regulatory issues continue, momentum seems to be swinging toward equal access to the waterways for all types of watercraft. Several more bans were overturned in 2001, and many proposed state and local regulatory and legislative issues were averted.

HIGHLIGHTS OF THE YEAR

- Introduced the Virage i, the most affordable model that meets EPA 2006 requirements and has industry-leading fuel economy.
- PLANET™ sound reduction technology expanded to the entire product line for 2002.
- Launched new stand-up, race-only model — Polaris Octane — to build excitement among key enthusiasts.
- Won key endurance races including fourth-consecutive Long Beach-to-Catalina National Endurance Championship.
- Captured seven world and national titles in closed course and slalom racing at IJSBA World Championships.

2001 WORLDWIDE INDUSTRY OVERVIEW

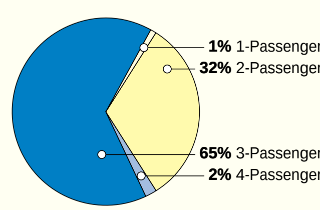
(season ended September 30)

Industry Size: 117,000 units

2001 Growth Rate: – 8 percent

Competition:
Bombardier ■ Honda ■ Kawasaki ■ Yamaha

2001 INDUSTRY PWC MARKET BY SEGMENT



MOTORCYCLES

We entered the motorcycle market in 1998 with the Victory V92C, a heavyweight V-twin cruiser. Victory takes the concept of a cruiser motorcycle to the next level, providing cruiser styling with industry-leading handling and braking. For the 2002 model year, we introduced the all-new Freedom™ V-Twin engine and our fourth new model, the V92TC Touring Cruiser. The addition of the Touring Cruiser expands our potential customer base by 45 percent by further expanding into the touring segment of the market.

POLARIS 2001 OVERVIEW

Sales: $19 million

The year 2001 was a year of transition for our Victory motorcycle business. A new general manager was put in place, the all-new Freedom engine was introduced, we announced the production of an additional model aimed at the fast-growing touring market segment, and our network of dealers was further refined to strengthen our penetration into the marketplace. Retail unit sales for 2001 were off last year's levels, as a result of the dealer refinement process and the company taking a more cautious stance on expenses, including promotional costs, as the economy softened. Wholesale sales ended the 2001 year about flat with last year.

HIGHLIGHTS OF THE YEAR

- Introduced the V92TC Touring Cruiser.
- Introduced a new 1507cc V-twin engine called the Freedom V-Twin with 25 percent more power and 10 percent better fuel economy.
- Introduced the "Vision" concept motorcycle, giving the industry a glimpse at the future product direction for Victory.
- Continued to build awareness for the Victory Motorcycle brand through an aggressive advertising and events schedule.
- Strengthened the dealer network.

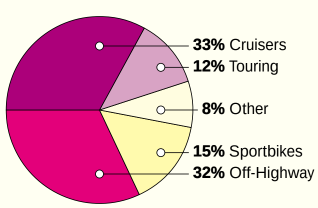
2001 U.S. INDUSTRY OVERVIEW

Cruiser and Touring Industry Size: 354,000 units

2001 Growth Rate: + 17 percent

Competition:
Harley Davidson ■ Honda ■ Indian ■ Kawasaki ■ Suzuki ■ Yamaha

2001 U.S. INDUSTRY MOTORCYCLE SEGMENTS



PARTS, GARMENTS & ACCESSORIES (PG&A)

PurePolaris™ Parts, Garments and Accessories are created specifically to complete the riding experience. The products have been designed and engineered to enhance the performance of Polaris products ever since we introduced the first snowmobile in 1954. PurePolaris PG&A offers more than 40,000 service parts, a diverse array of experience-enhancing accessories and Polaris-designed clothing products tailored to the needs of the rider.

POLARIS 2001 OVERVIEW

Sales: $211 million

PurePolaris PG&A sales grew 15 percent in 2001 to $211 million. This growth was primarily due to strong growth in accessories and continued penetration of our ATV installed owner base. We continue to see opportunities for margin growth, while offering expanded growth opportunities for our dealers, as we provide increased assistance and training to our dealers to better merchandise PurePolaris products. The operating margins for the PG&A division remained the highest in the company.

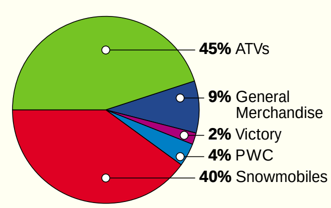
HIGHLIGHTS OF THE YEAR

- Increased average dollars of PG&A sold per new unit by 15 percent.
- Introduced more than 1,000 new products.
- Made significant service and product quality improvements.
- Expanded utilization of purepolaris.com e-commerce site by over 250 percent in 2001.

2001 WORLDWIDE INDUSTRY OVERVIEW

Competition:
Parts Unlimited (aftermarket distributor) ■ Powersports OEMs ■ Tucker Rocky (aftermarket distributor)

2001 POLARIS PG&A SALES BY PRODUCT LINE



2001 was another good year for Polaris. Despite a slow economy, a stock market correction and the sobering events of September 11, Polaris once again demonstrated our ability to deliver. We grew the company, grew earnings even faster, substantially reduced debt, and delivered an outstanding return for shareholders.

In addition to explaining what enabled our success this year, we would like to look back at improvements Polaris has made over the past five years. And, from that perspective, we'll tell you why we believe what we have achieved so far is only the beginning. We firmly believe the best lies ahead for Polaris.

W. HALL WENDEL, JR.
Chairman (left)

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

Let's start with the 2001 results.

- Sales grew by 6 percent to just over $1.5 billion, a record.
- Net income grew by 10 percent to $91.4 million, also a record.
- Earnings per share (EPS) increased by 11 percent to $3.88, marking the 20th consecutive year in which we have increased earnings. For the last 15 consecutive quarters, we've reported sales and EPS growth.
- Cash flow provided was strong, up 16 percent.
- We repurchased 1.1 million shares and increased the repurchase authorization by 2 million shares.
- Return on shareholders' equity was 41 percent, and we reduced our debt to total capital ratio to 7 percent.
- Our 48 percent total yield to investors looked stellar in a year when the major market indexes declined. Over the last five years, we have substantially outperformed the market — our total return to investors was 173 percent compared to 66 percent for the S&P 500.

Any company would be proud to deliver such a strong financial performance in such a challenging year. At Polaris, we expect to grow sales every year — and we've demonstrated that we can grow EPS even faster than sales.

HOW WE GREW SALES AND EARNINGS IN A YEAR WHEN MANY COMPANIES WERE JUST TRYING TO HANG ON.

ATVs held their own, while building for the future. Growth slowed slightly in the all-terrain vehicle (ATV) market in 2001. To fend off aggressive promotions by competitors taking a shot at our number-two market position, we were forced to spend more than we planned. Although our wholesale sales were about flat with last year, we held our ground and emerged in a better position to benefit from the coming economic recovery. Late in the year we had our biggest product introduction in four years, the Sportsman 700 Twin, which was named ATV of the Year by *ATV Magazine*. This honor confirms the Sportsman pedigree as the most powerful, smoothest riding 4x4 ATV in the world.

The newly introduced Polaris Professional Series Workmobiles™ further cement our reputation among construction and heavy utility users. These heavy-duty work vehicles will be sold through a new distribution channel and offer a tremendous growth opportunity. At 56 percent of total sales this year, ATVs are the biggest and strongest part of our business. A full pipeline of new products will help ensure ATV sales remain strong in the coming years.

Snow Check Select™ and new products drove snowmobile sales. Our snowmobile business is more sensitive to the stimulus of product innovations and the weather than to the economy. The 2000-2001 winter had normal snowfall, and Polaris introduced some outstanding new products on the award-winning EDGE platform. Combined with Snow Check Select, an order option program introduced last spring, Polaris took sled buyers by storm, and sales increased by 22 percent.

Snow Check Select, an enhancement of our already successful advance purchase program, generated nearly 50 percent more orders for the 2001-02 season, compared to the previous spring.

Dealers and their customers loved it, and it's easy to see why. The program allows buyers to specify the machine of their dreams, place the order in the spring and take delivery of a factory-built customized sled in the fall. We're ecstatic because profit per machine went up, and more spring demand reduces the impact of weather on our second largest business. Seven of our 2002 models showed up on the industry "Best" lists for the year, helping widen the gap between Polaris and our competitors. For the 12th consecutive year, Polaris was the market share leader in snowmobiles.

PG&A is a growth machine. With so many exciting Polaris products, it's easy to overlook parts, garments and accessories (PG&A) — until you notice this is our third-largest, and highest-margin business. Or see that it grew 15 percent during 2001 in a down economy, after posting 16 percent growth in 2000. Since we started our PG&A growth initiative three years ago, we've rolled out about 2,200 new items, and there's still no end in sight. Since new products can be introduced with little investment and earn attractive margins, PG&A contributes heavily to our strong earnings growth. It also helps pick up the slack with sales to buyers who are between vehicle upgrades. PG&A purchased through dealers or our PurePolaris™ online store gives everyone a year-round chance to participate in The Way Out.

Victory motorcycle margins continue to improve. While Victory sales were flat, the many engineering improvements introduced in 2001 drove an improving trend in margins. Our new touring cruiser just hit the street in October, bringing a total of four models all sporting the new Freedom™ V-Twin engine. We continue to build our motorcycle dealer base, promote awareness of the brand, and broaden the product line. We will keep working hard at building a position in the business with the largest potential for future growth.

Personal watercraft remains quiet. We made a modest market-share gain in personal watercraft (PWC), in another year of overall industry decline. We've quietly worked on improving cost, quality and execution, while developing new environmentally friendly models. But the industry needs to attract new participants. We're keeping in front of consumers through cost-efficient promotions, and partnerships with the designers, racers and freestyle competitors who help drive the enthusiasm for the sport, especially among younger consumers.

A PERSPECTIVE ON OUR SUCCESS.

Over the last 20 years, Polaris has grown and performed well financially, largely because we have focused on two primary things — delivering product innovation with high quality, low cost operations. These two competitive advantages remain the bedrock of the company's success. A few years ago we said we wanted to grow faster by broadening the product offering, accelerating PG&A and financial services, and raising our expectations for our individual and collective performance across the company.

The results you've seen over the past several years have come from systematic improvements to our products and operations. We have consistently introduced products that customers demand like our Sportsman ATVs, EDGE snowmobiles, and Victory motorcycles. And we strive to deliver a better product at lower costs while eliminating waste. For example, designing products so they are simpler to manufacture, designing and building more of our own engines, and improving the speed and accuracy of product development. To drive even more improvement, we just completed the largest manufacturing project in the company's history — the transformation of our Roseau, Minnesota, plant into both a highly efficient and highly flexible manufacturing facility. We believe the Roseau plant will be the most efficient operation in the industry.

WHY WE BELIEVE THE NEXT FIVE YEARS WILL BE EVEN BETTER.

The last five years have been good years for Polaris and our shareholders. Most of what we have tried has worked. So it's logical that for the next five years we will drive the company in the same basic direction, only harder. We will keep what has worked well, but add to the progress with some exciting new ideas and initiatives which should drive improvements in both sales and margin rates.

- **Continuing what has worked.** We will remain focused on delivering product innovation through efficient operations across the company. We won't forget what drove the success in our bigger businesses, specifically snowmobiles and ATVs — product innovation. We expect the ATV market will continue to grow nicely. The Sportsman 700 will extend our dominance in the premium end of the recreational ATV market. We expect to see some very nice growth in the emerging category of off-road super utility vehicles, where the RANGER, along with the new Polaris

Professional Series, is establishing our leadership. While snowmobiles will continue to depend largely on weather, they will also continue to generate healthy free cash flow to drive growth in the newer parts of our business. Across the company, we've never had so many exciting new products in the pipeline. Finally, we like the recent trends in PG&A and financial services, and will continue to invest there. So the core business should remain strong.

- **Newer products will mature.** We have invested substantially over the last five years in Victory motorcycles, and had some modest success. Like we did in the first few years in the ATV business, we have learned a lot. We believe that we have built a strong team, a good bike and an improving dealer network, and have paid our dues to join the motorcycle club. Over the next five years, we should see rapid growth in Victory, and eventually, make it our highest margin vehicle. We are determined to do so.

- **Polaris Professional Series is a new idea for Polaris.** This business should drive substantial growth with minimal investments by leveraging adaptations of our current products through a new distribution channel.

- **Raising the quality bar even higher.** We've set a three-year goal for Polaris to lead the industry in quality across every product and service category — from lowest parts defects to highest customer satisfaction. By achieving these goals, we will lower our costs and improve customer and dealer satisfaction.

- **Improving the dealerships.** Now that we've gotten much of the inside of our house in order, we're focusing on making the customer experience everything it can be — and that experience comes together at the dealership. Many of our dealer relationships go back a long way, to when Polaris was selling machines and a dealer might succeed with little more than inventory and a good service department. Today, Polaris and our dealers are striving to deliver a hassle-free experience, where customers can shop, select a custom vehicle, handle financing and insurance, buy gear, learn about trails and obtain service. We are working in partnership with dealers who want to move their business to a new level. Our support will range from customer satisfaction training and upgrading merchandising to assisting dealers in opening modern new stores.

- **The focus and flexibility to make acquisitions.** Unlike most of our competitors, we have both a pure focus on motorsports and well-diversified market mix. There's no question about what business we're in or where we want to go. Add to this strategic clarity our low debt, strong cash flow, healthy balance sheet, and solid management, and it is clear that we are well positioned to grow through acquisitions. When we find the right opportunity, we will.

- **The economic recovery.** We've shown the company can grow during a recession, but we've also traditionally performed extremely well coming out of one. Sales and earnings exploded after the Gulf War, and many of the same drivers are present now.

- **Our people.** We're very proud of the performance our employees, dealers and suppliers delivered in 2001. Our team is getting better every year, and as it does, it becomes our strongest competitive advantage. There is no question that we are a much stronger team today than we were five years ago, and together, we will deliver even better ideas over the next five years.

- **Our partners.** We also want to thank our dealers and suppliers for their continued hard work. Without their contributions, Polaris could not succeed.

We're very happy to be able to reward our investors for their faith by delivering a total return to shareholders that was two-and-a-half times better than the average for the S&P 500 over the last five years. And with some great ideas for the future, a solid track record of outstanding performance, and a price to earnings multiple that's still in the mid-teens, we think there's ample room to continue rewarding shareholders as we pursue our plans for the next five years.

Hall Wendel

W. Hall Wendel, Jr.
Chairman

Thomas C. Tiller

Thomas C. Tiller
President and Chief Executive Officer

WEATHERING CHANGES IN THE ECONOMIC CLIMATE >

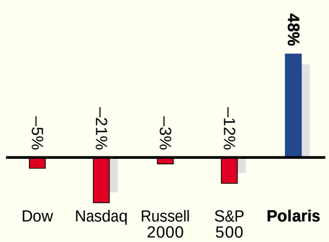
> **Polaris is a proven, steady and reliable long-term investment.** **After a year of recession, sagging portfolios, job cuts and war, we just finished our best year ever at Polaris.**

Counterintuitive? Not if you look at our track record. In 1991, the United States launched Operation Desert Storm in the middle of a recession. Surely, nobody was going to buy motorized toys then — yet sales of Polaris products increased. In fact, Polaris has posted 20 consecutive years of earnings growth through several periods of economic turmoil.

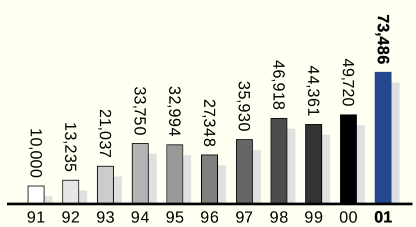
We've worked steadily to make Polaris a more diversified company (see page 11) delivering consistent results, but a changing product mix is only part of the story. Many of the initiatives we are taking today will help ensure our sustained growth and earnings performance for years to come.

"We began investing in Polaris in 1998, and the company is now one of our major investments. Polaris has a wonderful history and a bright future, with clean financials, committed employees and a management mix of seasoned veterans overseeing young, talented leaders. Shareholders have fared well through solid earnings growth, stock buybacks and dividends. We're proud to be a Polaris owner."

Mark Mulholland
Polaris Shareholder,
President, Matthew 25 Fund



2001 Total Return
Polaris vs. Market Indices
As major U.S. market indices reported negative growth during 2001, Polaris went firmly in the other direction, reflecting a winning business model, consistent earnings performance and the renewed market appeal of real companies that produce real products and real profits.



Growth of $10,000 Investment in Polaris Stock
A $10,000 investment made in 1991 with reinvested dividends would have grown to $73,486 by year-end 2001 – a total shareholder return of 635 percent (a 22 percent compounded annual growth rate) over 10 years.

The 68,000 square-foot expansion to our Roseau manufacturing facility makes room for more efficient and productive manufacturing.

New for 2002: a bigger, more flexible facility. Our recently completed Roseau plant expansion will improve the efficiency of ATV and snowmobile production. Four new assembly lines will increase manufacturing flexibility and throughput. Quality control will benefit from additional diagnostic and statistical process control equipment, plus a reconfigured welding department.

Curbing sled costs while enhancing customer satisfaction. In 2001 we enhanced incentives for snowmobile customers to custom-order their machines in the spring for fall delivery. The new Snow Check Select™ program saves customers money and permits a choice of color, track and engine size, suspension and options such as reverse and electric start. As a result, about one third of 2002 model-year units produced were ordered in advance by consumers, up nearly 50 percent from the previous year's pre-season orders. By allowing us to build to a customers' order instead of building for dealers' inventory, Snow Check Select also reduces the need for late-season incentives to move any unsold sleds. It's just one example of innovations that make production forecasting more accurate and manufacturing more efficient.

Expanding our PG&A business. Parts, garments and accessories (PG&A) are now our third-largest source of revenue, with sales well distributed to owners of every type of Polaris vehicle. It is also our highest-margin business, so each dollar of PG&A sales produces almost twice the gross profit of equipment sales. We added 1,000 new items during 2001 that affordably reinforce the lifestyle our owners want to maintain — even when they're not in the market for a new machine. We're supporting continued PG&A growth with a dedicated sales staff and a PurePolaris™ online store that provides a convenient way for consumers to purchase from our ever-expanding catalog.

Selling Polaris to new audiences in new ways. Recent licensing agreements with Sony Playstation®, Nintendo 64® and Nintendo GameBoy® expose new households to Polaris and reinforce the brand for current owners. Licensing provides an income stream that flows independently of equipment sales trends.

THRIVING IN FIERCE COMPETITIVE CLIMATES >

> **Polaris market leadership begins with a positive, service-oriented experience at the dealership.** **While we design, manufacture and market great products, the Polaris experience relies heavily upon quality dealers. The local dealership is where customers test, select, order, finance, learn safe operation and maintain their vehicles. It's where they meet others who share their passion, learn about new places to pursue their sport and find accessories that extend the satisfaction of their rides.**

Because the retail store is a center for community as well as sales, we are investing to make our dealerships exciting, service-oriented destinations. We're also reaching Polaris customers with services and positive experiences at other points in their lives, whether at a pro sports event, on a local charity ride or visiting our Web site.

This emphasis on surrounding the customer makes us less vulnerable to price- and incentive-driven competitors that seek to move products — but not necessarily move customers.

This prototype Atlanta superstore represents the Polaris dealership of tomorrow. The 20,000-square-foot store became one of our Top 5 dealerships in sales during its first year of operation.

Power Merchandising Program delivers strong sales results. We brought a retail design expert in-house to help dealers revitalize their showrooms with plans based on store size and budget. The new Power Merchandising Program carries our "Way Out" brand promise throughout the store with custom fixtures, displays, cabinets and counters. These makeovers work. Initial results show that upgraded dealerships report an average 40 percent sales increase.

Helping our dealers sell Polaris better. Successful stores project a winning Polaris image. That's why we're making it easier for Polaris dealers to get the training and support they need to run profitable businesses. Dealers now have easier, more direct access to their district sales manager, who will help them capitalize on the range of Polaris-sponsored programs. Programs include cooperative advertising spending, financial services, PurePolaris™ PG&A selling opportunities and service training. Dealers can also receive Polaris capital assistance grants and participate in performance-based sales incentives. This superior level of dealer support will help improve customer satisfaction and accelerate building our brand.

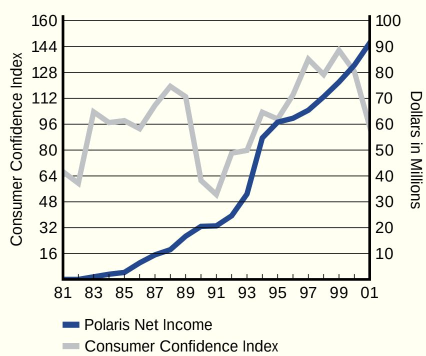
Riding info that clicks with consumers. The Internet is another place where enthusiasts want to experience their sport. To satisfy them, we're using our Web site for much more than selling products. Riders can visit *polarisindustries.com* to access trail maps, riding information and safety tips, or exchange stories in chat rooms. Ours is the most comprehensive Web site in the industry, and we'll continue adding features to keep it that way.

Generous acclaim from the trade. In 2002, we received the motorsport equivalent of *Motor Trend Car of the Year* for our Sportsman 700 Twin ATV — the "ATV of the Year" from *ATV Magazine*. We were also honored with the magazine's first-ever Legacy Award for "revolutionizing the ATV industry and ATV riding." Our sleds and motorcycles also hit the mark with critics, making numerous "year's best" lists in key industry publications.

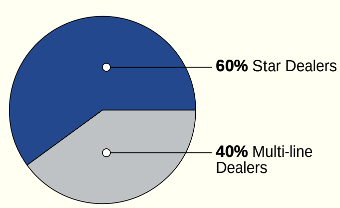
Extending Polaris as a memorable brand. If you live in snow country, the television ads you'll remember are from Polaris. If you pick up an enthusiast magazine, you can't escape news of the latest Polaris models. If you follow NASCAR, you'll notice our endorsement agreements with Richard Petty. This brand visibility is paying off for Polaris in the form of increased market share, higher product repurchase rates and premium pricing. Other 2001 co-branding alliances included those with Dodge Trucks, Mossy Oak, DeWalt Tools and the Minnesota Wild pro hockey team.

"The variety and breadth of Polaris products have contributed immensely to my success as a dealer. But Polaris backs my business in so many other ways. For example, Polaris-sponsored training has helped me maximize the consumer buying and riding experience. The company's commitment to its customers clearly shows in the support it provides us dealers on the front lines."

Dan Halsey
Polaris dealer, Freedom Motorsports, Princeton, West Virginia



Polaris vs. Consumer Confidence Index
Over the past 20 years, Polaris' net income growth has proven remarkably resistant to economic shocks and shifts in consumer confidence.



More Polaris Star Dealers than Ever
Sixty percent of our dealer network is composed of Polaris Star Dealerships that sell and service Polaris products only.


VICTORY

> **Every day, Polaris employees grab life by the handlebars and bring new ideas to work. With each new model year, Polaris customers see the results of our latest design innovations. These exciting features bring in new buyers and give current Polaris owners reason to upgrade. The manufacturing and business process innovations that make Polaris a strong financial performer may not be as apparent to the outside world. But inside our plants, the climate of quality and continuous improvement is unmistakable.**

This can-do company culture has enabled us to find new solutions when market conditions downshift or regulators change the rules. The year 2001 was no exception, as we made the Polaris experience better for riders and the environment while reducing our costs.

***ATV Magazine*'s "ATV of the Year," the Polaris Sportsman 700 Twin.**

The new standard for automatic ATV. Our award-winning Sportsman 700 Twin is the most powerful and feature-rich ATV on the market, new from the engine out. Innovations include beefed-up suspension, floorboards and drive shafts for better handling, along with front and rear hydraulic disc brakes for reliable stopping power. A liquid-cooled twin-cylinder 700 engine is the largest ever lowered into a 4x4 ATV and marks our first domestically assembled engine for ATVs.

Green machines. We unveiled the Indy Frontier snowmobile with an extremely clean, quiet, fuel-efficient four-stroke engine that will comply with the proposed future EPA and National Parks Service requirements. Hydrocarbon emissions are reduced by more than 90 percent compared to the industry average, and sound levels are significantly below current standards. Our latest Genesis i and Virage i PWC models also feature direct fuel injection technology that produces up to 76 percent lower emissions levels and PLANET™ sound reduction technology that produces 60 percent less noise than traditional watercraft.

Dramatic manufacturing improvements. Polaris cut production costs in all product categories during 2001. Contributing factors include reducing parts counts and assembly time by building more ATVs and snowmobiles on modular platforms. We also brought more engine design and assembly in-house to reduce costs and increase quality control. Victory motorcycle margins improved through hundreds of design and engineering changes that reduced manufacturing costs.

We introduced a revamped engine for our 2002 Victory models, the Freedom™ V-Twin. The engine features 25 percent more horsepower and 10 percent better fuel economy out of the same 1507cc displacement. It is also the first motorcycle engine to use the Visteon® engine management system, which provides easier starting, better throttle response and torque that is notably higher than the best-selling V-twin cruiser from our competitor.

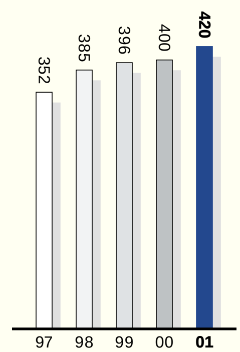
Quality initiatives. We unveiled an action plan in 2001 to increase cost performance through ongoing quality initiatives. Quality enhancements included a new product development process, Failure Mode and Effects Analysis (FMEA) for manufacturing and a new production part approval process to help us maintain the highest-quality supplier partnerships.

Employees with a strong vested interest in Polaris success. Our non-union workforce is compensated based on company performance, through generous profit-sharing and stock-option plans. Nearly 100 percent of employees own Polaris stock. Their vested interest shows in our industry-leading sales per employee — productivity that's almost twice the industry average. Most employees also own Polaris machines and take our brand motto to heart: *Understand the riding experience, live the riding experience, work to make it better.*

A fresh management mix. Over the past three years, we've added new management to complement Polaris' proven design and manufacturing expertise. More than half our top managers are new to the company, bringing new ideas and world-class experience in vital areas such as international business, marketing, retail merchandising and distribution.

"The past year's events have brought out the best in our people. The Roseau expansion is testimony that Polaris has many unsung heroes willing to do whatever is necessary to help us reach our goals, which benefit both our customers and the Polaris family."

Nancy Harstad
Polaris employee since 1985



Sales per Employee
(dollars in thousands)
Polaris sales per employee is nearly twice the industry average.

- Roseau manufacturing redesign
- EDGE snowmobile chassis
- ATV model platform consolidation
- Distributor acquisition
- 20% Victory product cost reduction
- Improved purchasing practices/partnerships

Gross margins improve 140 basis points from 1998–2001

Product Cost Reduction
Our substantial gross margin improvements reflect our company-wide drive to reduce production costs. We anticipate further gross margin improvements in 2002.

WORK AND PLAY IN EVERY GEOGRAPHIC CLIMATE >

> **A diverse product mix offers The Way Out for every season, region and lifestyle. Product diversification is the foundation of Polaris as a quality investment. We've built a brand and product mix that appeal across generations, occupations and borders — giving us the resilience we've demonstrated year after year.**

Our machines are no longer only for fun. Two of every three ATVs we sell get used for some element of work or utility. Our new Professional Series Workmobiles™ will make Polaris even more recognizable on the farm or construction site. Our sleds, motorcycles and personal watercraft also cross demographics and counterbalance seasons and industry cycles, while PG&A and financial services provide steady income streams of their own.

Making quality products for every geographic climate — and a broad range of professional and consumer interests — helps make Polaris the kind of stable, profitable company that investors seek.

Spurred by sales through our Snow Check Select™ program, the Polaris 600 Edge X was our best-selling sled in 2001.

Our Professional Series Workmobiles, such as the ASL 300 All-Surface Loader™ shown here, gave Polaris a low-risk point of entry into the commercial utility market in 2001.

Muscling our way into heavy utility. We're expanding our brand recognition into construction, landscaping and grounds maintenance markets with a new line of rugged, reliable Professional Series Workmobiles™ designed for demanding commercial use. In addition to the Polaris ASL 300™ shown above, the Professional Series line includes a full line of Utility Task Vehicles™ (UTV) 2x4, 4x4 and 6x6 vehicles and the ATV Pro 4x4 and Light Utility Hauler 6x6 Workmobiles. In addition to spurring new sales through a new distribution channel of outdoor power equipment dealerships for the construction trades, these workmobiles also create excellent sales opportunities to rental companies, cities and municipalities, fleet operations and the military.

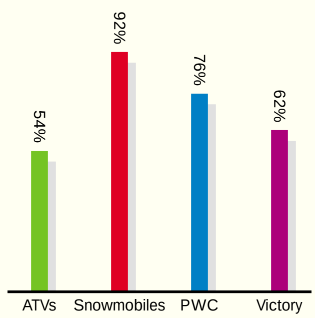
The Scrambler 90 X youth ATV was a big seller during the 2001 holiday season, offering a safe, smooth-handling miniature of our full-sized Scrambler 500 model.

Promoting family values. Kids love The Way Out, too. Three youth Polaris ATV models and a youth snowmobile help make sons and daughters feel just like Mom and Dad. The safe, stable machines are styled after our full-scale models, and feature parent-adjustable speed controls based on operator riding ability. A helmet is included with every youth ATV purchase to instill safe riding habits at an early age. Our Genesis i PWC also promotes family fun with ample room for two adults and two kids — and plenty of power to pull a skier or two.

More great vehicles for the worst terrain. We added 2x4 and 4x4 models to the Polaris RANGER off-road utility lineup during 2001, previously offered as a 6x6 model only. The RANGER 2x4 features a four-stroke, four-valve Polaris 425 engine that delivers up to 30 percent more power than other vehicles in its class. It can carry up to half a ton and tow up to 1,400 pounds. The new Polaris RANGER 4x4 also leads its class in power, and features on-demand true four-wheel drive that delivers superior traction compared to other off-road utility vehicles.

"It's five o'clock and I'm outta here. I may be a secretary by day but evenings and weekends I'm one of the guys. My "Way Out" of the office is my Polaris ATV. Nothing beats the stress of the day like an exhilarating ride on my Scrambler."

Cammi Haag
Polaris customer, Pennsylvania



2001 Sales from New Products
New model introductions keep consumer interest high and sales strong. 66 percent of our sales came from products introduced in the last three years.

ATV	Age 41, married. 40 percent first-time buyers. Average income: $56,000. Utility oriented: construction, farm, hunting, yard work plus recreation.
Snowmobile	Age 38. Average income: $61,000. Performance oriented: trail riding, mountain riding, sport.
PWC	Age 41. Average household income: $95,000+. Stability oriented: trend to 3 and 3+ passenger models.
Victory Motorcycle	Enthusiasts – owners of multiple bikes. Current Polaris customers. Japanese cruiser customers.

Customer Demographics by Business Unit
Polaris owners are a diverse group with one thing in common – work and play outdoors.

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 in this report, including the information referenced under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations."

For the Years Ended December 31,	**2001**	2000	1999	1998
Statement of Operations Data				
Sales data:				
Total sales	**$ 1,512,042**	$ 1,425,678	$ 1,328,620	$ 1,180,648
% change from prior year	**6%**	7%	13%	14%
Sales mix by product:				
All-terrain vehicles	**56%**	59%	57%	56%
Snowmobiles	**25%**	22%	24%	27%
Personal watercraft	**4%**	5%	4%	4%
Motorcycles	**1%**	1%	3%	1%
PG&A	**14%**	13%	12%	12%
Gross profit data:				
Total gross profit	**$ 344,374**	$ 328,104	$ 298,050	$ 252,344
% of sales	**23%**	23%	22%	21%
Operating expense data:				
Amortization of intangibles and noncash compensation	**$ 16,482**	$ 12,701	$ 10,472	$ 8,703
Conversion costs	**–**	–	–	–
Other operating expenses	**198,074**	193,609	173,932	204,944 (1)
% of sales	**13%**	14%	13%	17% (1)
Actual and pro forma data: (2)				
Net income	**$ 91,414**	$ 82,809	$ 76,326	$ 31,015 (1)
Diluted net income per share	**$ 3.88**	$ 3.50	$ 3.07	$ 1.19 (1)
Cash Flow Data				
Cash flow from operating activities	**$ 188,581**	$ 107,666	$ 124,354	$ 121,385
Purchase of property and equipment	**53,982**	63,056	65,063	61,532
Repurchase and retirement of common stock	**49,207**	39,622	52,412	37,728
Cash dividends to shareholders	**22,846**	20,648	19,732	18,582
Cash dividends per share	**$ 1.00**	$ 0.88	$ 0.80	$ 0.72
Cash distributions declared to partners	**–**	–	–	–
Cash distributions declared per unit	**–**	–	–	–
Balance Sheet Data (at end of year)				
Cash and cash equivalents	**$ 40,530**	$ 2,369	$ 6,184	$ 1,466
Current assets	**305,317**	240,912	214,714	183,840
Total assets	**565,163**	490,186	442,027	378,697
Current liabilities	**308,337**	238,384	233,800	204,964
Borrowings under credit agreement	**18,043**	47,068	40,000	20,500
Shareholders' equity / partners' capital	**238,783**	204,734	168,227	153,233

(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 amounted to $61.4 million, or $1.53 per diluted share in 1998. The settlement had no effect on the future operations of the Company. Excluding this charge, other operating expenses, net income and diluted net income per share for 1998 would have been $143.5 million, $70.6 million and $2.72 per share, respectively.

(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.

1997	1996	1995	1994	1993	1992	1991
$ 1,031,470	$ 1,184,368	$ 1,104,060	$ 816,713	$ 520,197	$ 376,903	$ 291,563
(13%)	7%	35%	57%	38%	29%	1%
45%	37%	33%	30%	27%	25%	25%
35%	36%	40%	43%	49%	54%	59%
6%	15%	16%	14%	9%	7%	–
–	–	–	–	–	–	–
14%	12%	11%	13%	15%	14%	16%
$ 222,608	$ 231,020	$ 219,663	$ 175,211	$ 127,045	$ 101,328	$ 85,330
22%	20%	20%	21%	24%	27%	29%
$ 5,887	$ 5,325	$ 5,616	$ 14,321	$ 13,466	$ 11,997	$ 13,108
–	–	–	12,315	–	–	–
123,619	128,278	112,389	72,913	60,352	48,640	40,504
12%	11%	10%	9%	12%	13%	14%
$ 65,383	$ 62,293	$ 60,776	$ 54,703	$ 33,027	$ 24,602	$ 20,727
$ 2.45	$ 2.24	$ 2.19	$ 1.98	$ 1.21	$ 0.91	$ 0.81
$ 102,308	$ 89,581	$ 77,749	$ 111,542	$ 78,503	$ 55,316	$ 46,642
36,798	45,336	47,154	32,656	18,946	12,295	15,988
39,903	13,587	–	–	–	–	–
16,958	16,390	116,639	–	–	–	–
$ 0.64	$ 0.60	$ 4.27	–	–	–	–
–	–	–	50,942	47,217	44,507	42,581
–	–	–	$ 1.68	$ 1.67	$ 1.67	$ 1.67
$ 1,233	$ 5,812	$ 3,501	$ 62,881	$ 33,798	$ 19,094	$ 20,098
217,458	193,405	175,271	206,489	109,748	74,999	59,200
384,746	351,717	314,436	331,166	180,548	146,681	135,509
191,111	161,387	155,722	161,457	98,055	69,054	52,646
24,400	35,000	40,200	–	–	–	–
169,235	155,330	118,514	169,709	82,493	77,627	82,863

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, 2001, and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included elsewhere in this report.

RESULTS OF OPERATIONS

2001 vs. 2000

Sales increased to $1.512 billion in 2001, representing a six percent increase from $1.426 billion in 2000. The increase in sales was primarily due to higher snowmobile sales, resulting from the success of our new Snow Check Select™ program and our product line of high quality snowmobiles, as well as higher parts, garments and accessories (PG&A) sales in 2001.

Sales of ATVs of $839.7 million in 2001 were approximately flat compared to $843.5 million in 2000. The flat sales growth was primarily the result of higher than usual dealer and consumer promotional and advertising activity of several of our competitors, which adversely impacted Polaris' sales volume during 2001. The average per unit sales price increased two percent for the year due to a change in the mix of products sold following our successful introduction of the new Sportsman 700 and two new models of RANGERs, each of which commands a higher selling price. Sales of ATVs comprised 56 percent of total company sales in 2001 compared to 59 percent in 2000.

Sales of snowmobiles of $379.8 million in 2001 were 22 percent higher than $311.3 million in 2000. The increase can be attributed to more normal snowfall in the 2000-2001 season, the success of the new custom order program, Snow Check Select, and the introduction of several new models. The average per unit sales price increased six percent in 2001 from the prior year due to higher priced features being requested on custom-ordered snowmobiles. Sales of snowmobiles comprised 25 percent of total company sales in 2001 compared to 22 percent in 2000.

Sales of personal watercraft (PWC) of $61.9 million in 2001 were nine percent lower than $68.3 million in 2000. The decrease was primarily due to the slowing economy and a decline in the overall industry retail sales in 2001. The average per unit sales price for PWC decreased two percent as more sales promotions were implemented during the 2001 period. Sales of PWC comprised four percent of total company sales in 2001 compared to five percent in 2000.

Sales of Victory motorcycles of $19.3 million in 2001 changed little from sales of $19.4 million in 2000. Although unit shipments increased during 2001, the flat sales can be attributed to higher promotional costs in 2001 versus 2000 to assist dealers in selling their inventory of motorcycles in a very competitive industry environment. The average per unit sales price for motorcycles declined 11 percent due to higher promotional activity in the 2001 period. Sales of Victory motorcycles comprised one percent of total company sales for both years 2001 and 2000.

Sales of PG&A of $211.3 million in 2001 were 15 percent higher than $183.2 million in 2000. The increase in PG&A sales was due primarily to increases in clothing, accessories and parts for both snowmobiles and ATVs. The company views the PG&A business as a continued opportunity for future growth. PG&A sales comprised 14 percent of total company sales in 2001, compared to 13 percent in 2000.

Gross profit increased to $344.4 million in 2001, representing a five percent increase over $328.1 million gross profit in 2000. This increase in gross profit dollars was a result of higher sales volume. Gross profit, as a percentage of sales, decreased slightly to 22.8 percent in 2001 from 23.0 percent in 2000. The decrease was due to increased promotional costs related to the ATV business and a stronger U.S. dollar in relation to the Canadian dollar versus the prior year, partially offset by higher margins in the ATV and snowmobile product lines.

Operating expenses in 2001 increased four percent to $214.6 million from $206.3 million in 2000. This increase in operating expenses was a result of higher sales volume, higher research and development costs, and the impact of a rising stock price on stock-based compensation plans during 2001 compared to the prior year. Expressed as a percentage of sales, operating expenses decreased to 14.2 percent in 2001 from 14.5 percent in 2000. The reduction in operating expenses, as a percent of sales, is a direct result of efforts by the company to reduce indirect expenses as the economy softened in 2001.

Polaris has continued to invest in new product development, innovation, and product diversification. Research and development expenses were $35.7 million (2.4 percent of sales) in 2001 and $32.4 million (2.3 percent of sales) in 2000. In 2001, more than 66 percent of sales came from products introduced in the past three years.

Interest expense declined six percent as a result of lower average interest rates on borrowings under the credit agreements in 2001 compared to 2000.

Nonoperating other income increased from 2000 due to the favorable effects of foreign currency hedging transactions related to the Canadian dollar exposure in 2001.

The provision for income taxes decreased from a rate of 35.5 percent of pre-tax income in 2000 to 34.5 percent of pre-tax income in 2001 as a result of the impact of tax planning.

Net income in 2001 was $91.4 million, an increase of 10 percent from $82.8 million in 2000. Net income as a percent of sales was 6.0 percent in 2001, an increase from 5.8 percent in 2000. Net income per diluted share increased 11 percent to $3.88 in 2001 from $3.50 in 2000.

2000 vs. 1999

Sales increased to $1.426 billion in 2000, representing a seven percent increase from $1.329 billion in 1999. The increase in sales was primarily due to higher ATV sales, resulting from the eleventh consecutive year of increased ATV retail sales, and higher PG&A sales.

Sales of ATVs of $843.5 million in 2000 were 12 percent higher than $753.2 million in 1999. The increased sales reflect the continued double-digit growth of both Polaris and the industry as consumers find new and expanded uses for the product as well as the introduction of our youth ATVs. The increased sales were partially offset by a product mix driven average per unit sales price decrease. Sales of ATVs comprised 59 percent of total company sales in 2000 compared to 57 percent in 1999.

Sales of snowmobiles of $311.3 million in 2000 were three percent lower than $322.4 million in 1999. The decrease was due to lower unit shipments to dealers after three consecutive winters of poor snow conditions. This decrease in sales was partially offset by a product mix driven increase in the average per unit sales price. Sales of snowmobiles comprised 22 percent of total company sales in 2000 compared to 24 percent in 1999.

Sales of PWC of $68.3 million in 2000 were 27 percent higher than $53.7 million in 1999. The increase was primarily due to shipment timing as we shipped our 2001 models to our dealers earlier than in prior years. The average per unit sales price for PWC remained flat. Sales of PWC comprised five percent of total company sales in 2000 compared to four percent in 1999.

Sales of Victory motorcycles of $19.4 million in 2000 were 53 percent lower than $41.2 million in 1999. The decrease relates to a reduction in Victory shipments to dealers in 2000 in response to lower than expected retail sales. The average per unit sales price for motorcycles remained flat. Sales of Victory motorcycles comprised one percent of total company sales in 2000 compared to three percent in 1999.

Sales of PG&A of $183.2 million in 2000 were 16 percent higher than $158.1 million in 1999. The increase in PG&A sales was due primarily to increases in clothing and ATV parts shipments. PG&A sales comprised 13 percent of total Company sales in 2000, compared to 12 percent in 1999.

Gross profit increased to $328.1 million in 2000, representing a 10 percent increase over $298.1 million gross profit in 1999. This increase in gross profit dollars was a result of higher sales volume and an increase in gross profit margin percentage to 23.0 percent in 2000 from 22.4 percent in 1999. The increase in gross profit margin percentage was primarily a result of increased margins in the ATV, snowmobile and Victory product lines due to cost reductions and lower snowmobile promotional expenses. These positive factors have been somewhat offset by the negative impact of Japanese yen exchange rates and increased amortization of tooling costs.

Operating expenses in 2000 increased 12 percent to $206.3 million from $184.4 million in 1999. Expressed as a percentage of sales, operating expenses increased to 14.5 percent in 2000 from 13.9 percent in 1999. These increases are primarily related to a planned increase in expenses to support the Company's growth and brand recognition initiatives in areas such as information systems, PG&A sales and marketing and international sales.

Polaris has continued to invest in new product development, innovation, and product diversification. Research and development expenses were $32.4 million (2.3 percent of sales) in 2000 and $31.3 million (2.4 percent of sales) in 1999. In 2000, more than 79 percent of sales came from products introduced in the past three years.

Nonoperating expense (income) increased in 2000 from 1999 due to the positive financial impact of the Company's equity in the income of Polaris Acceptance, which is the primary reason that the income from financial services increased by $4.6 million. This increase was partially offset by higher interest expense of $3.4 million.

Net income in 2000 was $82.8 million, an increase of eight percent from $76.3 million in 1999. Net income as a percent of sales was 5.8 percent in 2000, an increase from 5.7 percent in 1999. Net income per diluted share increased 14 percent to $3.50 in 2000 from $3.07 in 1999.

CRITICAL ACCOUNTING POLICIES

The significant accounting policies which we believe are the most critical to aid in fully understanding and evaluation of the Company's reported financial results include the following: revenue recognition, sales promotions and incentives, product warranties and product liability.

Revenue recognition: Revenues are recognized at the time of shipment to the dealer or distributor. Historically, product returns, whether in the normal course of business or resulting from repurchases made under the customer financing program have not been material. However, Polaris has agreed to repurchase products repossessed by the finance companies up to certain limits. Polaris' financial exposure 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. Polaris has not historically recorded any significant sales return allowances because it has not been required to repuchase a significant number of units. However, an adverse change in retail sales could cause this situation to change.

Sales promotions and incentives: Polaris generally provides for estimated sales promotion and incentive expenses, which are recognized as a sales reduction, at the time of sale to the dealer or distributor. Examples of sales promotion and incentive programs include dealer and consumer rebates, volume discounts, financing programs and sales associate incentives. Sales promotion and incentive expenses are estimated based on current programs and historical rates for each product line. Actual results may differ from these estimates if market conditions dictate the need to enhance or reduce sales promotion and incentive programs or if the customer usage rate varies from historical trends. Historically, sales promotion and incentive expenses have been within the Company's expectations and differences have not been material.

Product warranties: Polaris provides a limited warranty for ATVs for a period of six months and for a period of one year for its snowmobiles, motorcycles and PWC products. Polaris' standard warranties require the Company or its dealers to repair or replace defective product during such warranty period at no cost to the consumer. The warranty reserve is established at the time of sale to the dealer or distributor based on management's best estimate using historical rates and trends. Adjustments to the warranty reserve are made from time to time as actual claims become known in order to properly estimate the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. While management believes that the warranty reserve is adequate and that the judgment applied is appropriate, such amounts estimated to be due and payable could differ materially from what will actually transpire in the future.

Product liability: Polaris is subject to product liability claims in the normal course of business. Polaris carries excess product liability insurance covrage for catastrophic product liability claims for incidents that exceed its self-insured retention level. 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. The Company utilizes historical trends and actuarial analysis tools to assist in determining the appropriate loss reserve levels. At December 31, 2001 the Company has accrued $5.9 million for the defense and possible payment of pending claims, which reserve is included as a component of the other accrued expenses in the accompanying consolidated balance sheets. Historically, losses for product liability claims have been equal to or lower than estimates of possible claims. While management believes the product liability reserve is adequate, adverse determination of material product liability claims made against the Company would have a material adverse effect on Polaris' financial condition.

LIQUIDITY AND CAPITAL RESOURCES

Polaris' primary sources of funds have been cash provided by operating activities, a bank line of credit arrangement that was increased from $150.0 million to $250.0 million during 2001 and a dealer floor plan financing program. Polaris' primary uses of funds have been for cash dividends to shareholders, repurchase and retirement of common stock, capital investments and new product development.

During 2001, Polaris generated net cash from operating activities of $188.6 million, which was utilized to fund capital expenditures of $54.0 million, cash dividends of $22.8 million and the repurchase of common stock of $49.2 million. Net cash generated from operating activities increased 75 percent from 2000 to 2001 due largely to timing of payments to dealers for incentive programs. During 2000, Polaris generated net cash from operating activities of $107.7 million, which was utilized to fund capital expenditures of $63.1 million, cash dividends of $20.6 million, and the repurchase of common stock of $39.6 million. During 1999, Polaris generated net cash from operating activities of $124.4 million, which was utilized to fund capital expenditures of $65.1 million, cash dividends of $19.7 million and the repurchase of common stock of $52.4 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 with maximum available borrowings of $150.0 million expiring on June 14, 2004. In addition, Polaris has a 364-day unsecured bank line of credit arrangement expiring on June 13, 2002 of $100.0 million, which management plans to extend beyond 2002. These arrangements provide borrowing for working capital needs and the repurchase and retirement of common stock. Borrowings under the lines of credit bear interest based on LIBOR or "prime" rates. At December 31, 2001, Polaris had total borrowings under the lines of credit of $18.0 million compared to $47.1 million at December 31, 2000. Polaris has entered into an interest rate swap agreement to manage exposures to fluctuations in interest rates. At December 31, 2001, the effect of this agreement is to fix the interest rate at 7.21 percent for $18.0 million of borrowings under the credit line until July 2007. In addition, at December 31, 2001, Polaris had letters of credit outstanding of $5.1 million related to purchase obligations for raw materials.

The Polaris Board of Directors has authorized the cumulative repurchase of up to 9.5 million shares of the company's common stock. During 2001, Polaris paid $49.2 million to repurchase and retire 1.1 million shares. Polaris had 2.6 million shares available to repurchase under the Board of Directors authorization as of December 31, 2001.

A wholly owned subsidiary of Polaris is a partner with a wholly owned subsidary of Transamerica Distribution Finance in Polaris Acceptance which provides floor plan financing to Polaris' dealers and, until October 2001, provided retail credit services to retail customers of Polaris' dealers. Polaris has a 50 percent equity interest in Polaris Acceptance and was responsible for 50 percent of the outstanding indebtedness of Polaris Acceptance. In February 2000, the term of the partnership agreement was extended; in consideration thereof, Polaris is no longer required to guarantee the outstanding indebtedness of Polaris Acceptance.

Polaris has arrangements with certain finance companies, including Polaris Acceptance, to provide floor plan financing for its dealers. These arrangements provide liquidity by financing dealer purchases of Polaris products without the use of Polaris' working capital. Substantially all of the North American sales of snowmobiles, ATVs, motorcycles and PWC and related PG&A are financed under these arrangements whereby Polaris receives payment within a few days of shipment of the product. The amount financed by dealers under these arrangements at December 31, 2001 and 2000, was approximately $620.0 million and $549.0 million, respectively. Polaris participates in the cost of dealer 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 repossessed units.

In October 2001, Polaris entered into an agreement with Household Bank N.A., to provide retail financing for its consumers. This arrangement provides that all income and losses of the retail credit portfolio are shared 50 percent to Polaris and 50 percent to Household. The amount financed by consumers under this arrangement at December 31, 2001 was approximately $160.0 million. Either party has the right to terminate the agreement if profitability of the portfolio falls below certain minimum levels. Polaris' financial exposure under this agreement is limited to its deposit ($11.1 million at December 31, 2001) plus an aggregate amount of not more than $15.0 million.

Polaris has made significant capital investments to increase production capacity, quality, and efficiency, and for new product development and diversification. Improvements in manufacturing and distribution capacity include: (a) expenditures for the redesign of our Roseau manufacturing facility of $10.1 million during 2001 which replaced three assembly lines, (b) tooling expenditures for new product development across all product lines of $19.5 million during 2001, and (c) continued investments in returnable crates, which not only reduce costs but also are environmentally friendly. Polaris anticipates that capital expenditures, including tooling, for 2002 will range from $65.0 million to $75.0 million.

Management believes that existing cash balances, cash flows to be generated from operating activities and available borrowing capacity under the line of credit arrangements will be sufficient to fund operations, regular dividends, share repurchases, and capital expenditure requirements for 2002. At this time, management is not aware of any factors that would have a material adverse impact on cash flow beyond 2002.

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 2001, purchases totaling 12 percent of Polaris cost of sales were from Japanese yen denominated suppliers. The strengthening of the U.S. dollar in relation to the Japanese yen since late 2000 has resulted in lower raw material purchase prices. Polaris' cost of sales in 2001 was positively impacted by the Japanese yen exchange rate fluctuation when compared to the prior year. In view of the foreign exchange hedging contracts currently in place, Polaris anticipates that the yen-dollar exchange rate will again have a positive impact on cost of sales during 2002 when compared to 2001.

Polaris operates in Canada through a wholly owned subsidiary. Sales of the Canadian subsidiary comprised 12 percent of total Polaris sales in 2001. From time to time, Polaris utilizes foreign exchange hedging contracts to manage its exposure to the Canadian dollar. The U.S. dollar strengthened in relation to the Canadian dollar in 2001 which resulted in a negative financial impact on Polaris gross margins when compared to the same periods in 2000. In view of the continuing strengthening of the U.S. dollar in relation to the Canadian dollar, at this point in time Polaris anticipates a negative impact on net income during 2002 when compared to 2001.

In the past, Polaris has been a party to, and in the future may enter into, foreign exchange hedging contracts for the Japanese yen, Euro, Taiwan dollar and the Canadian dollar to minimize the impact of exchange rate fluctuations within each year. At December 31, 2001, Polaris had open Japanese yen foreign exchange hedging contracts with notional amounts totaling $76.2 million U.S. dollars which mature throughout 2002.

Since 1995, Polaris has been manufacturing its own engines for selected models of PWC, motorcycles, ATVs and snowmobiles at its Osceola, Wisconsin facility. Also, 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.

FORWARD-LOOKING STATEMENTS

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 in future periods to differ materially from those anticipated by some of the statements made in this report. In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: product offerings, promotional activities 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,	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 40,530**	$ 2,369
Trade receivables, net of allowance for doubtful accounts of $3,606 and $2,545	**56,119**	56,130
Inventories	**152,717**	143,491
Prepaid expenses and other	**10,203**	4,922
Deferred tax assets	**45,748**	34,000
Total current assets	**305,317**	240,912
Property and Equipment		
Land, buildings and improvements	**54,350**	51,135
Equipment and tooling	**305,647**	267,484
	359,997	318,619
Less accumulated depreciation	**(189,674)**	(150,755)
Net property and equipment	**170,323**	167,864
Investments in Finance Affiliate and Retail Credit Deposit	**52,963**	45,468
Deferred Tax Assets	**9,361**	11,384
Goodwill and Other Assets, Net	**27,199**	24,558
Total Assets	**$ 565,163**	$ 490,186

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

December 31,	**2001**	2000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 101,554**	$ 89,498
Accrued expenses:		
Compensation	**34,615**	30,747
Warranties	**33,301**	34,216
Sales promotions and incentives	**95,280**	41,792
Other	**27,715**	26,234
Income taxes payable	**15,872**	15,897
Total current liabilities	**308,337**	238,384
Borrowings Under Credit Agreements	**18,043**	47,068
Total liabilities	**326,380**	285,452
Shareholders' Equity		
Preferred stock $0.01 par value, 20,000 shares authorized, no shares issued and outstanding	**–**	–
Common stock $0.01 par value, 80,000 shares authorized, 22,927 and 23,542 shares issued and outstanding	**229**	235
Additional paid-in capital	**–**	–
Deferred compensation	**(4,888)**	(3,300)
Retained earnings	**248,634**	207,613
Accumulated other comprehensive income (loss)	**(5,192)**	186
Total shareholders' equity	**238,783**	204,734
Total Liabilities and Shareholders' Equity	**$ 565,163**	$ 490,186

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,	**2001**	2000	1999
Sales	**$ 1,512,042**	$ 1,425,678	$ 1,328,620
Cost of sales	**1,167,668**	1,097,574	1,030,570
Gross profit	**344,374**	328,104	298,050
Operating expenses:			
Selling and marketing	**119,905**	122,028	112,116
Research and development	**35,708**	32,360	31,311
General and administrative	**58,943**	51,922	40,977
Total operating expenses	**214,556**	206,310	184,404
Operating income	**129,818**	121,794	113,646
Nonoperating expense (income):			
Interest expense	**7,251**	7,704	4,285
Income from financial services	**(14,355)**	(14,123)	(9,495)
Other expense (income), net	**(2,641)**	(173)	521
Income before income taxes	**139,563**	128,386	118,335
Provision for income taxes	**48,149**	45,577	42,009
Net income	**$ 91,414**	$ 82,809	$ 76,326
Basic net income per share	**$ 4.00**	$ 3.52	$ 3.09
Diluted net income per share	**$ 3.88**	$ 3.50	$ 3.07
Weighted average number of common and common equivalent shares outstanding:			
Basic	**22,864**	23,501	24,732
Diluted	**23,567**	23,666	24,900

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME in thousands

	Common Stock	Additional Paid-in Capital	Deferred Compensation	Compensation Payable in Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
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
Cash dividends declared, $0.80 per share	–	–	–	–	(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
Employee stock compensation	5	15,234	4,518	(5,975)	–	–	13,782
Cash dividends declared, $0.88 per share	–	–	–	–	(20,648)	–	(20,648)
Repurchase and retirement of common shares	(12)	(24,221)	–	–	(15,389)	–	(39,622)
Comprehensive income:							
Net income	–	–	–	–	82,809		
Foreign currency translation adjustments	–	–	–	–	–	186	
Total comprehensive income							82,995
Balance, December 31, 2000	235	–	(3,300)	–	207,613	186	204,734
Employee stock compensation	5	21,649	(1,588)	–	–	–	20,066
Cash dividends declared, $1.00 per share	–	–	–	–	(22,846)	–	(22,846)
Repurchase and retirement of common shares	(11)	(21,649)	–	–	(27,547)	–	(49,207)
Comprehensive income net of tax:							
Net income	–	–	–	–	91,414		
Foreign currency translation adjustment	–	–	–	–	–	(160)	
Effect of adoption of SFAS No. 133	–	–	–	–	–	(2,544)	
Unrealized loss on derivative instruments	–	–	–	–	–	(2,674)	
Total comprehensive income							86,036
Balance, December 31, 2001	$ 229	$ –	$ (4,888)	$ –	$ 248,634	$ (5,192)	$ 238,783

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

CONSOLIDATED STATEMENTS OF CASH FLOWS in thousands

For the Years Ended December 31,	**2001**	2000	1999
Cash Flows from Operating Activities			
Net income	**$ 91,414**	$ 82,809	$ 76,326
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**52,550**	46,997	39,281
Noncash compensation	**15,455**	11,820	9,586
Noncash income from financial services	**(12,463)**	(14,123)	(9,495)
Deferred income taxes	**(9,725)**	1,616	3,000
Changes in current operating items:			
Trade receivables	**11**	(2,837)	(10,258)
Inventories	**(9,226)**	(25,429)	(10,626)
Accounts payable	**12,056**	(2,307)	14,547
Accrued expenses	**57,922**	4,407	7,887
Income taxes payable	**(25)**	2,484	6,402
Others, net	**(9,388)**	2,229	(2,296)
Net cash provided by operating activities	**188,581**	107,666	124,354
Cash Flows from Investing Activities			
Purchase of property and equipment	**(53,982)**	(63,056)	(65,063)
Investments in finance affiliate and retail credit deposit	**(31,479)**	(8,857)	(11,366)
Distributions from finance affiliate and retail credit deposit	**36,448**	13,199	9,437
Other	**(3,753)**	(512)	–
Net cash used for investing activities	**(52,766)**	(59,226)	(66,992)
Cash Flows from Financing Activities			
Borrowings under credit agreements	**717,596**	502,621	501,275
Repayments under credit agreements	**(746,621)**	(495,553)	(481,775)
Repurchase and retirement of common shares	**(49,207)**	(39,622)	(52,412)
Cash dividends to shareholders	**(22,846)**	(20,648)	(19,732)
Proceeds from the exercise of stock options	**3,424**	947	–
Net cash used for financing activities	**(97,654)**	(52,255)	(52,644)
Increase (decrease) in cash and cash equivalents	**38,161**	(3,815)	4,718
Cash and Cash Equivalents			
Beginning	**2,369**	6,184	1,466
Ending	**$ 40,530**	$ 2,369	$ 6,184
Supplemental Cash Flow Information			
Interest paid during the year	**$ 35,091**	$ 40,957	$ 36,620
Income taxes paid during the year	**$ 55,548**	$ 43,044	$ 38,651

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

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Polaris Industries Inc. ("Polaris" or the "Company") a Minnesota corporation, and its subsidiaries, are 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 located in the United States, Canada, France and Australia.

Basis of presentation: The accompanying consolidated financial statements include the accounts of Polaris and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and are stated at cost, which approximates fair value. 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 (Note 2).

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 thousands):

December 31,	**2001**	2000
Raw materials and purchased components	**$ 22,107**	$ 27,670
Service parts, garments and accessories	**53,573**	50,407
Finished goods	**77,037**	65,414
	$152,717	$143,491

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 10-40 years for buildings and improvements and from 1-7 years for equipment and tooling. Fully depreciated tooling is eliminated from the accounting records annually.

Goodwill and other assets: Goodwill and intangible assets are stated net of accumulated amortization which totaled $14,348,000 at December 31, 2001, and $13,322,000 at December 31, 2000. Goodwill consists of cost in excess of the net assets of the business acquired which is amortized on a straight-line basis over 5-40 years. Intangible assets are amortized using the straight-line method over their estimated useful lives ranging from 5-17 years.

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

In June 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with SFAS 142. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. As of December 31, 2001, the Company has unamortized goodwill of $24,434,000 that will be subject to the transition provisions of SFAS 142. The Company is in the process of completing an impairment test to determine the impact of adopting SFAS 142 on its earnings and financial position, and believes that the results of such analyses will not result in any transitional impairment losses. Application of the non-amortization provisions of SFAS 142 is expected to result in an increase in pre-tax income of approximately $800,000 in fiscal 2002.

Product warranties: Polaris provides a limited warranty for ATVs for a period of six months and for a period of one year for its snowmobiles, motorcycles and PWC products. Polaris' standard warranties require the Company or its dealers to repair or replace defective product during such warranty period at no cost to the consumer. The warranty reserve is established at the time of sale to the dealer or distributor based on management's best estimate using historical rates and trends. Adjustments to the warranty reserve are made from time to time as actual claims become known in order to properly estimate the amounts necessary to settle future and existing claims on products sold as of the balance sheet date.

Sales promotions and incentives: Polaris generally provides for estimated sales promotion and incentive expenses, which are recognized as a sales reduction, at the time of sale to the dealer or distributor. Examples of sales promotion and incentive programs include dealer and consumer rebates, volume discounts, financing programs and sales associate incentives. Sales promotion and incentive expenses are estimated based on current programs and historical rates for each product line. In addition, Polaris provides a dealer incentive program whereby at the time of shipment Polaris withholds an amount until ultimate retail sale of the product. Polaris records this amount as a liability in the accompanying consolidated balance sheets as a component of Sales promotions and incentives accrual of $69,996,000 and $20,676,000 at December 31, 2001 and 2000, respectively.

Foreign currency translation: Polaris' Canadian and Australian subsidiaries use the U.S. dollar as their functional currencies. Polaris' French subsidiary uses the Euro as its functional currency. Assets and liabilities for Polaris' French subsidiary are translated at the foreign exchange rates in effect at the balance sheet date. Assets and liabilities for the Canadian and Australian subsidiaries are remeasured in U.S. dollars at their historical rates. Translation gains and losses from remeasurement of assets and liabilities that are not denominated in the functional currency are reflected in the results of operations for the Canadian and Australian subsidiaries. Translation gains and losses are reflected as a component of Accumulated other comprehensive income in the equity section of the balance sheet for the French subsidiary.

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 2), have not been material. Polaris provides for estimated sales promotion expenses which are recognized as a reduction of sales when products are sold to the dealer or distributor customer.

Major supplier: During 2001, 2000, and 1999, purchases of engines and related components totaling 12, 15 and 15 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 U.S. dollar and the Japanese yen.

Accounting for derivative instruments and hedging activities

SFAS No. 133: Polaris adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," on January 1, 2001. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge criteria are met, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The effect of adopting SFAS 133 was to establish the fair market value of certain interest rate swap agreements and foreign exchange contracts. The cumulative effect of adoption was $2,544,000, net of tax, and is reflected in accumulated other comprehensive income (loss) in the accompanying consolidated statements of shareholders' equity and comprehensive income.

Interest rate swap agreement: At January 1, 2001, Polaris had two interest rate swap agreements on $38,000,000 of long term debt. One swap agreement, related to $18,000,000 of debt and expiring in 2007, has been designated as and meets the criteria as a cash flow hedge. Initial adoption of SFAS 133 resulted in the recording of a liability for the fair value of this swap agreement of $1,283,000.

The other swap agreement, relating to $20,000,000 of debt, did not meet the criteria for hedge accounting. Initial adoption of SFAS 133 resulted in the recording of a liability of $53,000 with a corresponding charge to operations. On May 21, 2001 this swap agreement was terminated resulting in a charge to operations of $378,000.

Foreign exchange contracts: Polaris enters into foreign exchange contracts to manage currency exposures of certain of its purchase commitments denominated in foreign currencies and transfers of funds from its Canadian subsidiary. Polaris does not use any financial contracts for trading purposes. The contracts have been designated as and meet the criteria for cash flow hedges. At January 1, 2001, Polaris had open Japanese yen foreign exchange contracts with notional amounts totaling $64,997,000 U.S. dollars. Initial adoption of SFAS 133 resulted in the recordings of a liability of $2,601,000 for the fair value of the foreign exchange contracts. At December 31, 2001, Polaris had open Japanese yen contracts with notional amounts totaling U.S. $76,182,000 and a net liability fair market value of $5,989,000.

Comprehensive income: Comprehensive income reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For the Company, comprehensive income represents net income adjusted for foreign currency translation adjustments and the gain/loss on derivative instruments. The Company has chosen to disclose comprehensive income in the accompanying consolidated statements of shareholders equity and comprehensive income.

New accounting pronouncements: In April 2001, the Emerging Issues Task Force (EITF) of the FASB issued EITF No. 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products". EITF No. 00-25 addresses the timing, recognition, and classification in the income statement of certain promotional costs paid to a retailer or wholesaler by a vendor in connection with the sale of the vendor's products or promotion of sales of the vendor's products by the retailer or wholesaler. This guidance generally requires these costs to be recognized when incurred and reported as a reduction of revenue or an increase to cost of sales and requires restatement of previously reported results to the extent the Company's past accounting practice has differed from the requirements of EITF No. 00-25. The Company will adopt EITF No. 00-25 in the first quarter of 2002, which will result in a reclassification of cooperative advertising expenses resulting in an increase in previously reported cost of sales and a decrease in previously reported selling and marketing expenses by $12,986,000 in 2001, $7,720,000 in 2000 and $10,950,000 in 1999. This will have no impact on previously reported net income.

NOTE 2 FINANCING

Bank financing: Polaris is a party to two unsecured bank line of credit arrangements under which it may borrow up to $250,000,000 until maturity. Interest is charged at rates based on LIBOR or "prime." A $150,000,000 line of credit expires on June 14, 2004, and a $100,000,000 364-day line of credit expires on June 13, 2002 at which time the outstanding balances are due. The arrangements contain various restrictive covenants which limits investments, acquisitions and indebtedness. The arrangements also require Polaris to maintain certain financial ratios including a minimum tangible net worth, a minimum interest coverage and a maximum leverage ratio. Polaris was in compliance with each of the covenants as of December 31,2001.The following summarizes activity under Polaris' credit arrangements (in thousands):

	2001	2000	1999
Total borrowings at December 31	**$ 18,043**	$ 47,068	$ 40,024
Average outstanding borrowings during year	**$127,481**	$112,141	$ 80,359
Maximum outstanding borrowings during year	**$199,500**	$148,975	$131,500
Interest rate at December 31	**2.50%**	7.30%	6.16%

Polaris has entered into an interest rate swap agreement to manage exposures to fluctuations in interest rates. The effect of this agreement is to fix the interest rate at 7.21 percent for $18,000,000 of borrowings under the credit line until July 2007. The fair value of the interest rate swap was a liability of $1,977,000 as of December 31, 2001.

Letters of credit: At December 31, 2001, Polaris had open letters of credit totaling approximately $5,100,000. The amounts outstanding are reduced as inventory purchases pertaining to the contracts are received.

Customer financing programs: Certain finance companies, including Polaris Acceptance, an affiliate (Note 6), provide floor plan financing to dealers on the purchase of Polaris products. The amount financed by North American dealers under these arrangements at December 31, 2001, was approximately $620,000,000. Polaris has agreed to repurchase products repossessed by the finance companies up to an annual maximum of 15 percent of the average month-end balances 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 financing up to certain limits and subject to certain conditions. Such expenditures are included with selling and marketing expenses in the accompanying statements of operations.

NOTE 3 INCOME TAX MATTERS

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

For the Years Ended December 31,	**2001**	2000	1999
Current:			
Federal	**$ 51,766**	$ 41,251	$ 36,141
State	**3,701**	2,250	1,550
Foreign	**2,407**	460	1,318
Deferred	**(9,725)**	1,616	3,000
Total	**$ 48,149**	$ 45,577	$ 42,009

Reconciliation of the Federal statutory income tax rate to the effective tax rate is as follows:

For the Years Ended December 31,	**2001**	2000	1999
Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal benefit	**1.6**	1.3	1.0
Foreign sales corporation	**(1.2)**	(1.2)	(1.2)
Other permanent differences	**(.9)**	.4	.7
Effective income tax rate	**34.5%**	35.5%	35.5%

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 assets consist of the following (in thousands):

December 31,	**2001**	2000	1999
Current deferred tax assets:			
Inventories	**$ 4,948**	$ 4,857	$ 4,105
Accrued expenses	**38,052**	29,143	26,895
Derivative instruments	**2,748**	–	–
Total current	**45,748**	34,000	31,000
Noncurrent deferred tax assets:			
Cost in excess of net assets of business acquired	**19,410**	21,083	22,982
Property and equipment	**(14,654)**	(13,709)	(8,857)
Compensation payable in common stock	**4,605**	4,010	1,875
Total noncurrent	**9,361**	11,384	16,000
Total	**$ 55,109**	$ 45,384	$ 47,000

NOTE 4 STOCK-BASED COMPENSATION AND SAVINGS PLAN

Polaris sponsors a 401(k) retirement savings plan under which eligible U.S. employees may choose to contribute up to 15 percent of eligible compensation on a pre-tax basis, subject to certain IRS limitations. The Company matches 100 percent of employee contributions up to a maximum of five percent of eligible compensation. Matching contributions were $5,406,000, $5,284,000 and $4,767,000 in 2001, 2000 and 1999, respectively.

Polaris maintains a stock option plan (Option Plan) under which incentive and nonqualified stock options for a maximum of 3,100,000 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.

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. Options were granted under this plan during 1999 at an exercise price of $31.56.

Polaris maintains a restricted stock plan (Restricted Plan) under which a maximum of 1,050,000 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 for awards issued prior to 2000 if Polaris achieves certain performance measures. Awards issued in 2001 and 2000 did not contain performance measures. Shares of restricted stock granted, net of converted, lapsed and forfeited shares, totaled 20,648, 116,995, and 133,440 in 2001, 2000 and 1999, respectively.

Polaris sponsors a qualified non-leveraged Employee Stock Ownership Plan (ESOP) under which a maximum of 1,250,000 shares of common stock can be awarded. The shares are allocated to eligible participants accounts based on total cash compensation earned during the calendar year. Shares vest immediately and require no cash payments from the recipient. Substantially all employees are eligible to participate in the ESOP. Total expense related to the ESOP was $8,043,000, $5,888,000 and $6,199,000 in 2001, 2000 and 1999, respectively. As of December 31, 2001 there were 798,153 shares vested in the plan.

The following summarizes share activity in the Option and Broad Based Plans, and the weighted average exercise price for the Option Plan:

	Option Plan		Broad Based Plan
	Shares	Weighted Average Exercise Price	Shares
Outstanding as of December 31, 1998	1,077,725	$36.17	–
Granted	311,970	$32.47	337,900
Exercised	(29,768)	$29.54	–
Forfeited	(19,774)	$31.50	(19,300)
Outstanding as of December 31, 1999	1,340,153	$35.06	318,600
Granted	410,300	$29.96	–
Exercised	(31,931)	$27.30	–
Forfeited	(52,808)	$31.94	(28,100)
Outstanding as of December 31, 2000	1,665,714	$34.42	289,500
Granted	835,934	$48.56	–
Exercised	(113,080)	$30.84	–
Forfeited	(39,804)	$31.72	(27,450)
Outstanding as of December 31, 2001	2,348,764	$36.54	262,050

The following table summarizes information about stock options outstanding at December 31,2001:

		Options Outstanding		Options Exercisable	
Range of Exercisable Options	Number Outstanding at 12/31/01	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/01	Weighted Average Exercise Price
$25.75 to $36.63	1,524,064	6.8	$31.82	351,204	$30.87
$36.64 to $49.44	586,750	9.5	$44.26	–	–
$49.45 to $58.66	500,000	8.1	$54.06	250,000	$49.45

The weighted average exercise price of options exercisable as of December 31, 2001, 2000 and 1999 were $33.23, $29.37 and $30.91 respectively. The weighted average remaining contractual life of outstanding options was 7.6 years as of December 31, 2001, 2000 and 1999.

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 of which 23,431 equivalents have been earned and 17,773 shares have been issued to retired directors as of December 31, 2001.

Polaris accounts for all stock based compensation plans under APB Opinion No. 25, under which compensation costs of $15,455,000, $11,820,000 and $9,586,000, were recorded in 2001, 2000 and 1999, 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:

	2001	2000	1999
Net income (in thousands):			
As reported	**$ 91,414**	$ 82,809	$ 76,326
Pro forma	**87,200**	79,640	73,500
Net income per share:			
As reported	**$ 3.88**	$ 3.50	$ 3.07
Pro forma	**3.70**	3.37	2.95

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:

	2001	2000	1999
Risk free interest rate	**5.1%**	6.4%	6.6%
Expected life	**7 years**	7 years	7 years
Expected volatility	**17%**	18%	23%
Expected dividend yield	**1.9%**	2.4%	2.2%

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

	2001	2000	1999
Option Plan	**$ 7.30**	$ 6.73	$ 8.99
Restricted Plan	**$ 48.56**	$ 29.96	$ 32.47
ESOP	**$ 46.57**	$ 33.04	$ 36.25
Broad Based Plan	**$ –**	$ –	$ 8.99

NOTE 5 SHAREHOLDERS' EQUITY

Stock repurchase program: The Polaris Board of Directors has authorized the cumulative repurchase of up to 9,500,000 shares of the Company's common stock. During 2001, Polaris paid $49,207,000 to repurchase and retire 1,083,000 shares. Cumulative repurchases through December 31, 2001 were 6,864,000 shares for $232,459,000.

Shareholder rights plan: During 2000, the Polaris Board of Directors adopted a shareholder rights plan. Under the plan, a dividend of preferred stock purchase rights will become exercisable if a person or group should acquire 15 percent or more of the Company's stock. The dividend will consist of one purchase right for each outstanding share of the Company's common stock held by shareholders of record on June 1, 2000. Each right will entitle its holder to purchase one-hundredth of a new series of junior participating preferred stock at an exercise price of $150, subject to adjustment. The rights expire in 2010 and may be redeemed earlier by the Board of Directors for $0.01 per right.

Net income 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 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 and certain shares issued under the Restricted Plan. A reconciliation of these amounts is as follows (in thousands, except per share data):

	2001	2000	1999
Net income available to common shareholders	**$ 91,414**	$ 82,809	$ 76,326
Weighted average number of common shares outstanding	**22,669**	23,304	24,539
Director Plan	**25**	27	23
ESOP	**170**	170	170
Common shares outstanding – basic	**22,864**	23,501	24,732
Dilutive effect of Restricted Plan	**266**	31	–
Dilutive effect of Option Plan	**437**	134	168
Common and potential common shares outstanding – diluted	**23,567**	23,666	24,900
Basic earnings per share	**$ 4.00**	$ 3.52	$ 3.09
Diluted earnings per share	**$ 3.88**	$ 3.50	$ 3.07

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. As of December 31, 2001, approximately 131,000 shares have been purchased under this plan.

NOTE 6 FINANCIAL SERVICES ARRANGEMENTS

In 1996, a wholly owned subsidiary of Polaris entered into a partnership agreement with a wholly owned subsidiary of Transamerica Distribution Finance (TDF) to form Polaris Acceptance. Polaris Acceptance provides floor plan financing to Polaris' dealers in the United States. Polaris' subsidiary has a 50 percent equity interest in Polaris Acceptance. The receivable portfolio is recorded on Polaris Acceptance's books, which is consolidated onto TDF's books and is funded 85 percent with TDF debt and 15 percent by cash investment shared equally between the two partners. Polaris has not guaranteed the outstanding indebtedness of Polaris Acceptance. Substantially all of Polaris' U.S. sales are financed through Polaris Acceptance whereby Polaris receives payment within a few days of shipment of the product. The amount financed for dealers under this arrangement at December 31, 2001 was approximately $547,309,000. Polaris' trade receivables from Polaris Acceptance were $11,891,000 and $19,866,000 at December 31, 2001 and 2000, respectively.

Beginning in 1999, Polaris Acceptance entered into an income sharing agreement with Transamerica Retail Financial Services (TRFS), a subsidiary of TDF. TRFS provides private label retail credit financing to Polaris consumers through Polaris dealers in the United States. In October 2001, TRFS sold a significant portion of the retail portfolio to Household Bank, N.A. The remaining amount financed by consumers through TDF at December 31, 2001 was approximately $16,000,000.

Polaris' investment in Polaris Acceptance at December 31, 2001 of $41,826,000 is accounted for under the equity method, and is recorded as a component of Investments in Finance Affiliate and Retail Credit Deposit in the accompanying consolidated balance sheets. The partnership agreement provides that all income and losses of the floor plan and retail credit portfolio are shared 50 percent to Polaris' wholly owned subsidiary and 50 percent to TDF's wholly owned subsidiary. Polaris' allocable share of the income of Polaris Acceptance has been included as a component of income from financial services in the accompanying statements of operations. Summarized financial information for Polaris Acceptance is presented as follows (in thousands):

December 31,	**2001**	2000
Revenues	**$ 46,233**	$ 57,721
Interest and operating expenses	**21,307**	29,475
Net income before income taxes	**$ 24,926**	$ 28,246
Finance receivables, net	**$547,309**	$482,771
Other assets	**2,871**	2,233
	$550,180	$485,004
Notes payable	**$461,190**	$385,465
Other liabilities	**9,570**	11,171
Partners' capital	**79,420**	88,368
	$550,180	$485,004

In October 2001, a wholly owned subsidiary of Polaris entered into an agreement with Household Bank, N.A. (Household) to provide private label retail credit financing to Polaris consumers through Polaris dealers in the United States. The receivable portfolio is owned and managed by Household and is funded 85 percent with Household debt and 15 percent cash deposit shared equally between the two parties. The amount financed by consumers under this arrangement at December 31, 2001 was approximately $160,000,000. Polaris' deposit in the retail credit portfolio of $11,137,000 at December 31, 2001 was reflected as a component of Investments in Finance Affiliate and Retail Credit Deposit in the accompanying consolidated balance sheet. The income sharing agreement with Household provides that all income and losses of the retail credit portfolio are shared 50 percent to Polaris and 50 percent to Household. Polaris' allocable share of the income from the retail credit portfolio has been included as a component of income from financial services in the accompanying consolidated statements of operations. Under the terms of the agreement, either party has the right to terminate the agreement if profitability of the portfolio falls below certain minimum levels. Polaris' financial exposure under this agreement is limited to its deposit plus an aggregate amount of not more than $15,000,000.

Polaris also provides extended service contracts to consumers and certain insurance contracts to dealers and consumers through various third-party suppliers. Polaris does not retain any warranty, insurance or financial risk in any of these arrangements. Polaris' service fee income generated from these arrangements has been included as a component of income from financial services in the accompanying consolidated statements of operations.

NOTE 7 INVESTMENT IN MANUFACTURING AFFILIATE

Polaris is a partner with Fuji Heavy Industries Ltd. in Robin Manufacturing, U.S.A. (Robin). Polaris has a 40 percent ownership interest in Robin, which builds engines in the United States for recreational and industrial products. Polaris' investment at December 31, 2001 of $2,765,000 in Robin is accounted for under the equity method, and is recorded as a component of Goodwill and other assets in the accompanying consolidated balance sheets. Polaris' allocable share of the income of Robin has been included as a component of non-operating other expense (income) in the accompanying consolidated statements of operations.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Product liability: Polaris is subject to product liability claims in the normal course of business. Polaris carries excess product liability insurance coverage for catastrophic product liability claims for incidents that exceed its self-insured retention level. 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. The Company utilizes historical trends and actuarial analysis tools to assist in determining the appropriate loss reserve levels. At December 31, 2001 the Company has accrued $5,865,000 for the defense and possible payment of pending claims, which reserve is included as a component of the other accrued expenses in the accompanying consolidated balance sheets.

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 $2,128,000, $2,275,000, and $2,295,000, for 2001, 2000 and 1999, respectively. Future minimum payments, exclusive of other costs, required under noncancelable operating leases at December 31, 2001, total $3,763,000 cumulatively through 2004.

NOTE 9 SEGMENT REPORTING

Polaris has reviewed SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" and determined that the Company meets the aggregation criteria outlined since the Company's segments have similar (1) economic characteristics, (2) product and services, (3) production processes, (4) customers, (5) distribution channels, and (6) regulatory environments. Therefore, the Company reports as a single business segment.

The following data relates to Polaris' foreign operations (in thousands of U.S. dollars):

For the Years Ended December 31,	**2001**	2000	1999
Canadian subsidiary:			
Sales	**$181,493**	$151,906	$145,856
Identifiable assets	**23,906**	22,344	23,568
Other foreign countries:			
Sales	**88,071**	83,309	68,315
Identifiable assets	**17,040**	9,212	4,643

NOTE 10 QUARTERLY FINANCIAL DATA

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

	Sales	Gross Profit	Net Income	Diluted Net Income Per Share
2001				
First Quarter	$ 294,021	$ 65,836	$ 10,423	$ 0.44
Second Quarter	362,499	74,301	17,077	0.72
Third Quarter	431,133	102,861	32,207	1.38
Fourth Quarter	424,389	101,376	31,707	1.35
Totals	$1,512,042	$344,374	$ 91,414	$ 3.88
2000				
First Quarter	$ 279,072	$ 61,547	$ 9,749	$ 0.41
Second Quarter	344,698	74,866	16,188	0.68
Third Quarter	401,259	98,886	29,266	1.24
Fourth Quarter	400,649	92,805	27,606	1.17
Totals	$1,425,678	$328,104	$ 82,809	$ 3.50

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, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and comprehensive income and cash flows for each of the three years in the period ended December 31, 2001. 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP
Minneapolis, Minnesota
January 23, 2002

BOARD OF DIRECTORS

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

William E. Fruhan, Jr. (A, N*)
Professor of Business Administration – Harvard University

John R. Menard, Jr. (T)
President of Menards, Inc.

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

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

R.M. (Mark) Schreck (N, T*)
President, RMS Engineering and retired Vice President of Technology, GE

J. Richard Stonesifer (C,* S*)
Retired President and Chief Executive Officer of GE Appliances

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

W. Hall Wendel, Jr. (E,* T)
Chairman of the Board of Directors of Polaris Industries Inc.

Richard A. Zona (A,* S)
Chief Executive Officer, Zona Financial and retired Vice Chairman of U.S. Bancorp.

(A) Audit Committee
(C) Compensation Committee
(E) Executive Committee
(N) Nominating Committee
(S) Stock Award Compensation Committee
(T) Product Technology Committee
* Denotes Committee Chairman

CORPORATE OFFICERS

W. Hall Wendel, Jr.
Chairman

Thomas C. Tiller
President and Chief Executive Officer

Jeffrey A. Bjorkman
Vice President – Operations

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

Kenneth J. Sobaski
Vice President – Marketing and Business Development

GENERAL MANAGERS

Ronald A. Bills
General Manager – Personal Watercraft

Mark E. Blackwell
General Manager – Victory Motorcycles

Bennett J. Morgan
General Manager – All-Terrain Vehicles

Robert R. Nygaard
General Manager – Snowmobiles

Scott A. Swenson
General Manager – Parts, Garments and Accessories

OUR MOST FREQUENTLY ASKED QUESTIONS

1

CAN THE ATV MARKET CONTINUE TO GROW?

Yes. Historically, ATV sales have continued growing through economic cycles for two reasons. First, since only one-third of ATVs are used for purely recreational riding, work-related usage inherent to ATVs helps sustain industry growth during slow economic periods. Second, relatively low market penetration among large user groups such as hunters and outdoorsmen creates continued growth potential. Polaris' goal is to increase ATV market share through ongoing product innovations and addressing product niches. In 2001, such innovations included the all-new Sportsman 700 Twin, which was named "ATV of the Year" for 2002 by *ATV Magazine*, and our expanded RANGER line for farmers, outdoorsmen and commercial applications.

2

HOW HAS THE ECONOMIC DOWNTURN AFFECTED YOUR PRODUCT SALES?

Our sales haven't been historically sensitive to economic cycles, and this is again holding true through the current economic slowdown. 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 with incomes 48 percent higher than the national average. Two-thirds of ATVs are used for utility purposes as a tool rather than pure recreation, and snowmobiles have historically been more dependent on weather patterns than economic cycles. Proof is in the numbers — we have reported increased profits for 20 consecutive years.

3

WHAT ARE THE NEXT GROWTH OPPORTUNITIES FOR POLARIS?

We've laid out very clear plans for achieving future growth that includes two sets of activities: accelerate product innovation in each of our product lines in the coming years, and continue to diversify our product line. The Polaris Professional Series introduction in 2001 is one recent example of this diversification of our distribution channel. In addition, we are counting on growth from five key growth initiatives: 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 financial results since then prove it's the right plan for Polaris and our shareholders.

4

WHY DID POLARIS DEVELOP "THE WAY OUT" BRAND MESSAGE?

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, performance and value. 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 and services. 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 — along with quality that is quickly becoming best in class in all product segments.

5

FINANCIAL SERVICES HAS BECOME AN IMPORTANT EARNINGS CONTRIBUTOR FOR POLARIS. WHAT ARE THE RISKS?

Polaris provides floor-plan financing to dealers, along with other financial services such as retail credit, extended service contracts and insurance to Polaris retail customers. We have several partners that help us provide these services, including Transamerica and Household Bank, N.A. Through these arrangements Polaris shares in the income derived from these financial services. The results have been dramatic, generating $14.4 million of pretax profit in 2001 with a 28 percent return on investment. Polaris relies heavily upon every partner's knowledge and experiences in its respective areas in order to minimize losses and maximize profitability. For the floor-plan financing portion of the portfolio, credit losses have averaged less than three-tenths of one percent (.3 percent) of the portfolio during its six years in existence. For the more recent retail credit portfolio (approximately three years old), receivable losses have averaged less than 3 percent. Polaris and its partners continually monitor the allowance for loan losses and make additional provisions to the allowance as deemed appropriate.

6

WHY DID POLARIS DECIDE TO ENTER THE MOTORCYCLE MARKET?

Motorcycles embody several factors we consider as we look for growth opportunities:

- Strong market. The U.S. cruiser market has more than doubled in the past five years.
- Motorcycles fit 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.

While all the demographics are right in this market, it still takes time and resolve to start and build a successful business from the ground up. We have been in the motorcycle business for only three years. During that time, we have been concentrating on building the Victory brand, designing and building better-quality motorcycles and expanding the product line. Going forward, we now have a foundation upon which to build a successful business.

7

ARE SNOWMOBILES BANNED FROM NATIONAL PARKS?

No. And since Polaris is the world leader in snowmobiles, most people don't realize that about 75 percent of our business comes from other products. For example, ATVs make up the largest percentage of our revenue, with $840 million in sales last year. That said, Polaris, along with millions of snowmobilers across the country, was thrilled when the U.S. Congress rejected the anti-snowmobiling policy announced in the spring of 2000, providing an opportunity for snowmobilers and communities surrounding national parks to revisit the issue with leaders in the Bush Administration. No specifics were available at the time this report went to print, but we do not anticipate an outright ban of snowmobiles in Yellowstone Park. Rather, we expect reasonable rules and guidelines to emerge, perhaps referencing new EPA standards, lower speed limits and increased enforcement, and a daily limit in the number of sleds allowed in the park. A resolution of this issue is expected sometime in 2002.

Forward-looking statements made herein contain certain important factors that could differ materially from those anticipated. See Management's Discussion and Analysis of Financial Condition and Results of Operation beginning on page 14.

INVESTOR INFORMATION

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.

INDEPENDENT AUDITORS FOR 2001

Arthur Andersen LLP
Minneapolis, MN

TRANSFER AGENT AND REGISTRAR

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

Wells Fargo Bank Minnesota, N.A.
Shareowner Services
161 North Concord Exchange
South St. Paul, MN 55075-1139
1-800-468-9716
www.wellsfargo.com/com/shareowner_services

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 2, 2002, at the Polaris Industries Inc. corporate headquarters, 2100 Highway 55, Medina, Minn. A proxy statement will be mailed on or about March 29, 2002, to each shareholder of record on March 12, 2002.

SUMMARY OF TRADING

For the Years Ended December 31,

	2001		2000	
Quarter	**High**	**Low**	High	Low
First	**$ 51.65**	**$ 38.13**	$ 36.25	$ 25.56
Second	**47.00**	**36.00**	32.94	27.63
Third	**51.36**	**35.10**	36.25	29.19
Fourth	**58.70**	**37.30**	42.06	32.06

CASH DIVIDENDS DECLARED

Cash dividends are declared quarterly and have been paid since 1995. As of January 24, 2002, the quarterly dividend was increased to $0.28 per share.

Quarter	**2001**	2000
First	**$ 0.25**	$ 0.22
Second	**0.25**	0.22
Third	**0.25**	0.22
Fourth	**0.25**	0.22
Total	**$ 1.00**	$ 0.88

STOCKHOLDERS OF RECORD

Shareholders of record of the Company's common stock on March 1, 2002 were 2,592.

DIVIDEND REINVESTMENT PLAN

Shareholders may automatically reinvest their dividends in additional Polaris common stock through the Dividend Reinvestment Plan, which also provides for purchase of common stock by voluntary cash contributions. For additional information, please write, phone or visit the Wells Fargo Bank shareowner services Web site.

PRODUCT BROCHURES

For product brochures and dealer locations write or call:

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

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

INVESTOR RELATIONS

Security analysts and investment professionals should direct their business-related inquiries to:

Richard Edwards
Director Investor Relations
Polaris Industries Inc.
2100 Highway 55
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763-513-3477
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POLARIS

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