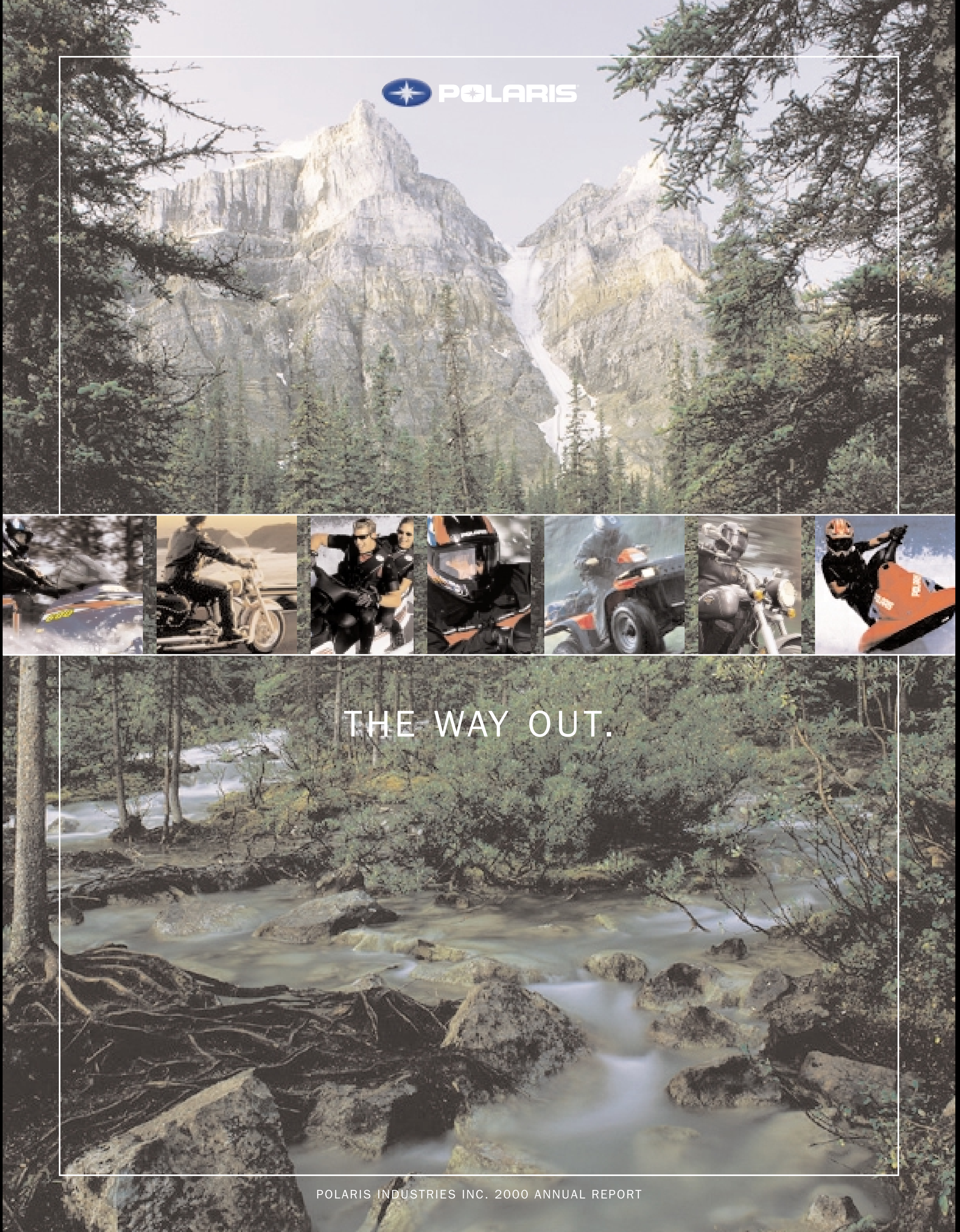


THE WAY OUT.

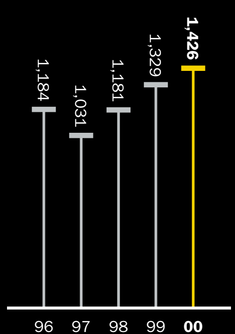
POLARIS INDUSTRIES INC. 2000 ANNUAL REPORT

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; Ballarat, Victoria, Australia; Passy, France; 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 52 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.

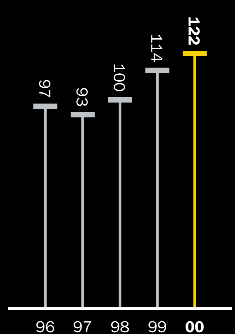
FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share data)

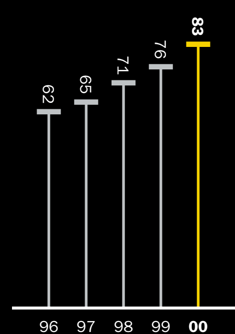
			Annual Growth Rate	
	2000	1999	Current Year	5 Years
Operating Data				
Sales	**$ 1,425,678**	$ 1,328,620	7%	5%
Operating income	**121,794**	113,646	7	4
Net income	**82,809**	76,326	8	6
Per common share — diluted	**3.50**	3.07	14	10
Percent of sales	**5.8%**	5.7%		
Balance Sheet Data				
Current assets	**$ 240,912**	$ 214,714	12%	7%
Property and equipment	**167,864**	150,922	11	16
Total assets	**490,186**	442,027	11	9
Long-term debt	**47,068**	40,000	18	3
Shareholders' equity	**204,734**	168,227	22	12
Per share	**8.65**	6.76	28	15
Dividends paid per share	**0.88**	0.80	10	15
Average common shares outstanding — diluted	**23,666**	24,900	(5)	(3)



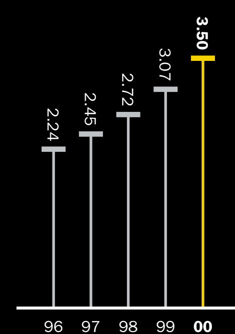
Sales
(dollars in millions)



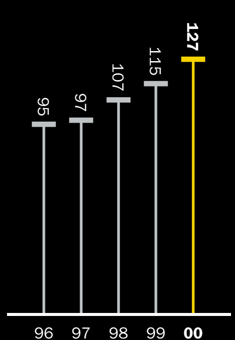
Operating Income(1)
(dollars in millions)



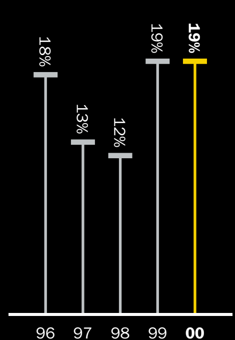
Net Income(1)
(dollars in millions)



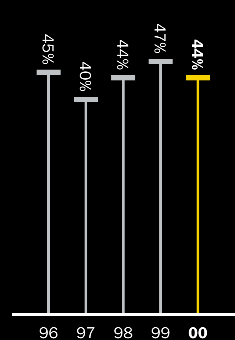
Net Income Per Share(1)
(dollars)



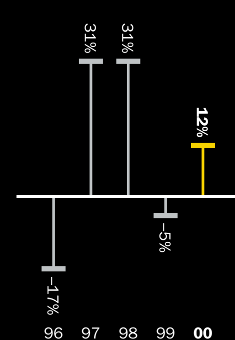
Cash Flow Provided(1)
(dollars in millions, before changes in current operating items and deferred taxes)



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.

TABLE OF CONTENTS

POLARIS PRODUCTS AT A GLANCE

ALL-TERRAIN VEHICLES (ATVs)

Polaris ATV innovations have become industry benchmarks ever since we introduced the first American-made ATV in 1985. We've pioneered such market-transforming improvements as automatic transmissions, long-travel suspensions, full floorboards and true four-wheel drive. Today, we offer more models than any other manufacturer, and we dominate the large four-wheel-drive segment with our high-performance Sportsman product line.

PRIMARY COMPETITORS

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

SNOWMOBILES

Polaris pioneered snowmobiles 47 years ago, and we've been the worldwide market share leader every year since the 1990-91 season. We maintain our leadership position by continually offering innovations and competitively priced models covering all market segments, including trail sport, two-up touring, trail luxury, performance, deep snow and kids' models.

PRIMARY COMPETITORS

- Arctic Cat
- Bombardier
- Yamaha

PERSONAL WATERCRAFT (PWC)

We entered the personal watercraft industry in 1992 and have emerged as a leader in bringing environmentally friendly models to market. Polaris was first to offer a Direct Injection (DI) feature that meets EPA 2006 emission requirements. DI models are 76% cleaner and offer 35% better fuel economy on average than carbureted models. We are also a leader with our Sound Reduction Technology — called Planet™ — that makes Polaris PWC up to 60% quieter than the industry average. Our model line focuses on the growing segment of the market, with a majority of production meeting demand for three or three-plus passenger models (mid- and full-size platforms).

PRIMARY COMPETITORS

- Bombardier
- Kawasaki
- Yamaha

VICTORY MOTORCYCLES

We entered the motorcycle market in 1998 with the introduction of the Victory V92C — a heavyweight V-twin cruiser. Victory takes the concept of a performance cruiser motorcycle to the next level, providing cruiser styling with industry-leading handling and braking. We are continuing to innovate, as evidenced by the introduction of a 2001 model lineup with more than 200 engineering changes and design improvements. Our 2001 Victory line also includes a third model, the V92C Deluxe.

PRIMARY COMPETITORS

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

PARTS, GARMENTS AND ACCESSORIES (PG&A)

PurePolaris™ Parts, Garments and Accessories have existed since Polaris entered the business 47 years ago. Today, the Parts, Garments and Accessories Division is our third-largest operating division with our highest operating margin rates. We provide a comprehensive assortment — more than 39,000 SKUs strong — of original equipment parts and accessories, along with exclusively designed and labeled apparel lines to further enhance the riding experience for our customers.

PRIMARY COMPETITORS

- Parts Unlimited (aftermarket distributor)
- Tucker Rocky (aftermarket distributor)
- Powersports OEMs

Forward-looking statements made herein contain certain important factors that could differ materially from those anticipated. See Management's Discussion and Analysis of Financial

2000 OVERVIEW

During 2000, the industry reported worldwide retail sales of approximately 775,000 ATV units, up 19% from 1999. Wholesale sales of Polaris ATVs grew 12% to $844 million, making ATVs our largest product line representing 59% of total Polaris sales. Our new Sportsman 500 H.O. and Sportsman 400 models extend our dominance in the “premium” market segment. Our new youth models represent an excellent new market opportunity, enabling consumers to become familiar with the Polaris brand at a young age and opening the ATV riding experience to the entire family.

The Polaris Ranger six-wheel-drive, side-by-side, general-purpose off-road utility vehicle also enjoyed considerable popularity during 2000, with retail sales up 14%.

HIGHLIGHTS OF THE YEAR

- Introduced three new youth models for riders aged six to 15, similar in style to our Scrambler and Sportsman adult products.
- Introduced the Sportsman 500 H.O. (High Output) which won the competitive “Shootout” in *Dirt Wheels* magazine and solidified our leadership as “King of the 4 x 4s.”
- Introduced the Sportsman 400 for the premium recreation utility segment, the ATV industry’s largest segment.
- Introduced three international Magnum models with a wealth of innovative features to meet the requirements of their respective markets.

OUTLOOK

The ATV market continues to be healthy and increasingly competitive with new product introductions and aggressive promotions. We expect overall industry growth to continue in 2001 at a double-digit rate. The Polaris ATV division is expected to continue growing through new product innovations, reaching new market niches and creating unique marketing and promotional campaigns.

2000 OVERVIEW

Approximately 213,000 units were sold worldwide by the snowmobile industry during the season ended March 31, 2000, down 9% from the previous season. The decrease was due to a third consecutive year of light or late snow across much of North America. Polaris believes it was the only manufacturer to gain market share during the 1999-00 season. In this difficult market environment, Polaris snowmobile sales declined only 3% to $311 million during calendar year 2000. While final industry-wide retail sales data for the 2000-01 season are not yet available, the return to normal winter conditions bodes well for future sales. Preliminary data indicates we’ve increased market share once again this season in an improving retail market.

HIGHLIGHTS OF THE YEAR

- *SnowGoer* magazine named our 600 XCSP “Sled of the Year,” calling it “the perfect sled.”
- *SnoWest* magazine named our 800 RMK “Sled of the Year” for the second consecutive year.
- *American Snowmobile* magazine named our 800 LE “Best in Class.”
- *SnowGoer* magazine applauded our new EDGE™ chassis, stating “EDGE™ sleds are lighter, handle better, cushion bumps with ease and are more comfortable to sit on. The only question was which EDGE™ to choose.”
- Congress rescinded the National Park Service’s announced ban on use of snowmobiles in our nation’s national parks.

OUTLOOK

We expect the industry to resume its long-term trend of single-digit-percent average annual growth after the 2000-01 season. Polaris will remain the market share leader through continued product innovation — including more environmentally friendly machines, a stronger brand message and aggressive promotions. Our model-year 2002 lineup includes the expansion of our highly acclaimed EDGE™ chassis and a variety of engine improvements. Most important, our new Snow Check Select™ program allows riders to customize their snowmobile with a number of factory-installed options such as reverse, electric start, color, track size and suspension choice.

2000 OVERVIEW

Most industry experts viewed the year in a positive light despite worldwide industry sales declining 10% to approximately 120,000 units. Polaris watercraft outperformed the market, posting a 9% growth in unit retail sales in the 2000 selling season. Sell-through also remained on plan, again showing low season-ending dealer inventory levels. Polaris PWC sales increased 27% to $68 million in calendar 2000. While regulatory issues continue to be a concern, momentum seems to be swinging toward granting equal access to waterways for all types of watercraft. Several bans were overturned and many proposed regulatory and legislative issues were averted.

HIGHLIGHTS OF THE YEAR

- Introduced the Virage TXi, a second Polaris PWC model that meets EPA 2006 emission requirements.
- Planet™ Sound Reduction Technology expanded to five models for 2001.
- Sponsored NASCAR celebrity Rusty Wallace charity watercraft ride supporting Speedway Children’s Charities.
- Launched several new accessories, including Ski/Tow Pylon and a wealth of high-performance parts.
- Polaris PWC won key endurance races, including Long Beach-2-Catalina and National Team Endurance Championship 300 Miler. Also captured four World and National Titles in closed-course racing.

OUTLOOK

We expect the market to continue in transition during 2001 and show moderate growth in 2002. Polaris is uniquely positioned as the only company with three years experience in DI technology for PWC. This experience and market strength is critical as EPA emissions regulations continue to take effect and consumers begin to demand DI technology for the ease of start, reliability and fuel-economy benefits. With low field inventories and a new generation of watercraft emerging, Polaris is uniquely positioned to continue outpacing industry growth.

2000 OVERVIEW

Victory motorcycles continued their thrust into the motorcycle market in 2000 with retail sales up more than 50% from 1999. This growth was less than our original expectation, however, resulting in a decision to adjust production levels to reduce dealer inventories. As a result, our Victory motorcycle wholesale sales declined to $20 million in 2000. In the U.S., industry cruiser motorcycle retail sales grew to 220,000 units, a 27% increase over 1999. Victory continues to have a strong presence at motorcycle events across the country, holding owner’s club rides and demonstrating product.

HIGHLIGHTS OF THE YEAR

- Increased retail sales more than 50%.
- Introduced a much-enhanced 2001 model line.
- Introduced the V92C Deluxe, an accessorized version of our best-selling V92C, which received positive acclaim from our dealer network and the press.
- Entered the Canadian and U.K. markets.
- Continued to strengthen Victory brand awareness through an aggressive advertising and events schedule.
- The Victory V92SC was named “Sport Cruiser of the Year” by *Easy Riders* magazine.

OUTLOOK

Retail sales for the Victory motorcycle are growing at a very strong rate, a trend we expect to continue next year. The U.S. motorcycle market appears on track to maintain a strong growth rate for the next several years. Victory motorcycle sales will become a significant element of our overall Polaris business as we continue our focus on building the brand, strengthening distribution, improving the product and extending the model line to cover additional market segments.

2000 OVERVIEW

PG&A grew 16% in 2000 with $183 million in sales. This growth was primarily due to new product innovations and a dedicated sales focus on developing our PG&A dealer channel. All of our products — Parts, Garments and Accessories — achieved double-digit revenue growth and successfully expanded their margins in 2000.

HIGHLIGHTS OF THE YEAR

- Improved average dollars of Parts, Garments and Accessories wholesaled per new unit by 11%.
- Introduced 1,100 new PG&A products.
- Created a dedicated PurePolaris™ sales force to U.S. and Canadian dealers.
- Unveiled the *purepolaris.com* e-commerce site to maximize ordering convenience and product availability for consumers. The site currently links to the Web sites of more than 900 of our dealer partners.

OUTLOOK

Opportunities for growth and profit remain abundant in this critical aspect of our business, and we expect to continue our strong, double-digit growth. Over the past two years, we have reinvented the business by investing in a dedicated PurePolaris™ sales force and marketing department, a new e-commerce consumer-direct channel, and an aggressive commitment to new product development and innovation. More than 1,700 new apparel and accessory products have been brought to market in the past two years alone. We will continue to see Polaris rapidly accelerate its growth and performance in PG&A during 2001 and well into the future.

Condition and Results of Operations beginning on page 14.

LETTER TO INVESTORS

W. Hall Wendel, Jr.
Chairman *(left)*

Thomas C. Tiller
President and Chief Executive Officer *(right)*

POLARIS had another terrific year in 2000. We delighted customers, won industry accolades, expanded our margins and delivered solid earnings growth. We gained market share in every product category, and began to deliver outstanding financial results from our growth initiatives. And because of this progress, we firmly believe the best is still ahead of us.

Here are a few reasons 2000 was a very good year for Polaris:

- Sales grew by 7 percent to a record $1.426 billion.
- Net income rose by 8 percent to $82.8 million.
- Earnings per diluted share increased by 14 percent to $3.50. Over the last 19 consecutive years, Polaris has increased earnings per share every year. And in recent years, the rate of increase has been accelerating.
- Cash flow provided increased by 10 percent to $127.3 million.
- We paid our 24th consecutive dividend and repurchased 1.2 million shares of common stock. Approximately 1.7 million remaining shares may be acquired under the existing repurchase authorization.
- Return on shareholders' equity was 44 percent, one of the highest in our industry despite a debt to total capital ratio of just 19 percent.
- Total yield to shareholders was 12 percent, versus a decline in the S&P 500 of 10 percent.

We have been relentless in our pursuit of the four goals we laid out two years ago:

- Reaching $2 billion in sales by 2002; $3 billion by 2007
- Growing EPS at least as fast as revenue
- Building a dominant brand with industry-leading quality
- Expanding our price to earnings multiple to 20+

We have accelerated our progress over the past 11 quarters, despite difficult currency exchange rates and unusually warm winter weather conditions. During this period, sales growth has averaged 12 percent and earnings per share grew even faster, at 15 percent. That progress is encouraging, especially since we're no longer bucking those negative trends. But now, absent an acquisition, $2 billion in sales in 2003 looks more realistic than the 2002 stretch goal we set back in 1998.

INVESTMENT IN PRODUCT INNOVATION, QUALITY AND PRODUCTIVITY

Careful investors often look for what can go wrong. Good leaders look for what can go right, and then invest and inspire people to make it so. We detect a positive spirit in our plants and dealer showrooms. ATVs continue to grow beyond expectations. With a return to more normal weather conditions, our snowmobile business is poised for sales growth in 2001. Watercraft sales are growing for the first time in years. Victory is gaining traction. Parts, Garments and Accessories (PG&A) are going gangbusters, and this category is still in the early development stages.

Across our businesses, we're beginning to see real operating leverage on the investments made over the past few years.

Coming off another year of 19 percent industry growth, we've again enjoyed record sales for our ATV line. We gained market share, and sustained our strong number-two position by introducing new, innovative products. These included the world's best-selling automatic ATV, the Sportsman 500, which was substantially improved with a new high-output engine, and its new little brother, the Sportsman 400. In keeping with our goal of extending the outdoor experience to the entire family, we introduced three models of ATVs designed for young people. A companion to last year's children's snowmobile, they are also proving to be a runaway hit.

ATVs are now big business. After ten years of double-digit growth, industry-wide ATV unit sales in North America now outnumber motorcycle sales. And Polaris has grown even faster than the industry, with ATVs now accounting for 59 percent of our sales.

With nearly two out of every three ATVs used for work, we expect ATV growth to continue, despite a slower economy. As long as rural labor markets remain tight, ATVs offer a productivity solution to farmers, ranchers and thousands of others who work and play in the outdoors.

Our snowmobile sales were number one in the industry for the 11th consecutive year. Thanks to investment in the EDGE™ platform, we've reduced assembly costs while increasing handling and performance for a number of models. And following three very warm winters, we welcomed the return of more normal weather conditions in North America for the 2000-01 season.

Our new model lineup, built around the EDGE™ chassis, was simply outstanding, leading to another season of increased market share. Three models — the 600 XCSP, 800 RMK and 800 LE — each won top awards from leading magazines. And in the spring of 2001, we announced a new Snow Check Select™ program that makes the Polaris riding experience even more personal. Customers can configure a sled to their specifications and take delivery in the fall. This innovative program will drive more advance orders and increase customer satisfaction. All of this bodes well for the future of our second largest product division.

Personal watercraft (PWC) retail sales showed modest growth for first time in five years — even though the overall industry was down. We've stayed committed to the market, which we believe will resume moderate growth next year. Our cleaner, quieter boats appeal to the stability-oriented family rider who will sustain the sport's popularity.

Retail sales of Victory motorcycles grew more than 50 percent, but we had to recalibrate our original optimistic expectations for the year. Now, we're delivering on our revised projections and reminding ourselves that it took over ten years to build a major league 20-model ATV line-up from scratch. We introduced our third model, a deluxe cruiser, and incorporated more than 200 engineering improvements throughout the 2001 models. Now, we have 350 dealers in North America with experience selling motorcycles, and we're expanding overseas to reach passionate international riders.

We've increased productivity with common parts, modular platforms and simpler designs. Thanks to a continuing focus on productivity, gross margins continue to expand — from 21.4 percent in 1998 to 22.4 percent in 1999, and 23.0 percent in 2000. Cost reductions come from a number of sources. We consolidated platforms for ATVs and for snowmobiles, increasing modularity and reducing part counts. When we make improvements to give our products a better ride, we look for ways to make them simpler to manufacture, too. For example, we reduced Victory's product cost by more than 10 percent last year. Improved purchasing practices and returnable steel shipping crates have helped lower material costs. And our workforce is well engrained with a spirit of continuous improvement that keeps coming up with new cost-saving ideas.

Over the next 18 months, we will invest substantially in ATV and snowmobile assembly lines at our Roseau, Minnesota, facility. The reconfigured manufacturing and delivery system will improve factory response time while reducing overall inventory in the system. Dealers, instead of having to forecast their model mix and demand far in advance, will be able to replenish sold ATV units quickly.

The dealership *is* Polaris to most consumers. We are dedicated to helping dealers build profitable, well-run operations with the right inventory at the right time, so their customers enjoy the best sales and service experience possible. In addition to our ATV replenishment initiative, we are dramatically increasing support of the dealer network with training, best practice sharing and customer satisfaction measures. We expect this investment to accelerate in coming years.

Growth Initiatives

Over the last two years, we described five catalysts for escalating the company's growth. We've made visible progress on all fronts, and each made a contribution to top-line sales and bottom-line earnings in 2000. In fact, these growth initiatives accounted for more than half of the increase in earnings per share from last year. And we expect the momentum to accelerate.

The Polaris Brand

This time a year ago, we introduced the idea that Polaris is not just selling quality products — we're selling an opportunity for people to get away from the stresses of everyday life. The annual report was one of the first places our new theme line, "The Way Out," made its appearance. Every day since, we've moved closer to our goal of surrounding customers at nearly every point of their life, positively associating Polaris with a better riding experience that offers an unequaled feeling of freedom.

Here are some of the ways we're living up to our brand promise:

- Marketing and Advertising. You'll see clear, sustained brand positioning, reinforcing what we promise through all communications, including advertising, catalogs and retail point of sale. Our television ads for ATVs really capture the rapture of getting away from civilization. Our ads depicting snowmobile enthusiasts are laugh-out-loud funny. And our co-marketing alliances make sure The Way Out message is front and center.
- The Internet. We've built the best consumer Web site in the industry, where riders can go for information about their sport and our products — and make online purchases of Polaris gear.

- Outstanding product quality and customer service. Although we're selling an experience, consumers' passion for the brand still starts with the product. We're investing to ensure that Polaris owners can count on industry-leading quality and outstanding customer service.
- Great dealers. Because customer satisfaction often hinges upon their experience with the dealer, we've placed great emphasis on fully and consistently supporting dealer development.
- Employee owners. Every Polaris employee takes to heart our three commandments: "Understand the riding experience. Live the riding experience. Work to make it better."

There's another important ingredient — time. Building and strengthening great brands takes awhile, with the patience and creativity to hammer a consistent message over and over. But the payoffs will be great from moving Polaris to a widely recognized and admired national brand: Greater demand, fierce loyalty from existing owners, increased market share, faster growth and ultimately, premium pricing.

PG&A

In 2000, PG&A became our third-largest source of revenue, with sales gains of 16 percent. Investment to rapidly accelerate growth from high-margin Parts, Garments and Accessories is clearly paying off. Over the past two years, we have introduced 1,700 new items ranging from Victory accessories designed by Arlen Ness, the world's foremost motorcycle customizer, to Polaris-branded gifts and novelties. And, we've made it even more convenient for customers to buy through our new PurePolaris™ online store. Check out the exciting variety for yourself at www.polarisindustries.com.

Alliances and Partnerships

A successful brand surrounds customers at every point in their lives. We are developing and leveraging relationships with trusted brands — ranging from Dodge Trucks to DeWalt® tools — to align the Polaris riding experience with other activities meaningful to potential buyers. Our NASCAR®, NFL, NHL and college hockey sponsorships provide a terrific way to put our products in front of outdoors-minded consumers. These positive associations consistently build on the national recognition created by our marketing and advertising campaigns.

We continue to evaluate joint ventures, licensing arrangements and potential acquisitions that can advance sales, earnings, brand awareness and shareholder value. In 2000, for example, we formed an alliance with ASV Inc. to distribute an innovative all-surface loader, leveraging our expertise in utility ATVs and our nationwide distribution system. We will introduce this unique product, along with some other innovative utility machines, under the Polaris Professional Series name.

Financial Services

Simplifying the sales process with convenient financing helps make a consumer's experience positive right from the start. We surpassed $135 million in retail financing volume, and wholesale financing was also strong. Operating income for Polaris Acceptance was up 47 percent. And we are just getting started. We see plenty of room for additional growth in retail credit products; today we are financing less than 10 percent of retail purchases. About 4 percent of buyers currently opt for an extended service contract. Both of these areas have the potential to more than double in the coming years.

International

International business took a 22 percent leap forward in sales this year, benefiting from focused international leadership and the purchase of a distributor serving France. We are now dealer-direct in three countries outside North America, and we are working more closely with our international distributors than ever before.

We Believe the Best Is Ahead of Us

Why? Because we have built a business designed to adapt — to withstand ups and downs — and deliver consistent results. And to that foundation, we've added new growth initiatives to accelerate top-line growth and also yield productivity gains. The economy may slow, but we're betting that the last 19 years were not a fluke. Our consistent growth is a direct result of an outstanding, dedicated group of employees, dealers and suppliers, committed to delivering on ever-higher expectations.

We see a lot going right for Polaris in the coming years, and we invite you to come along for the ride.

Hall Wendel

W. Hall Wendel, Jr.
Chairman

Thomas C. Tiller

Thomas C. Tiller
President and Chief Executive Officer

THE WAY OUT.
HOW DOES IT FEEL?

Forearms burning, I maneuver my Polaris between downed logs and overgrown foliage as the green of the woods blurs by. I'm completely in the now — riding the fine edge between control and chaos. **I**nstinct and years of reading trails guide my decisions. I build up speed to slice through the muddy stream ahead. Dark, cold water explodes upward and washes back to erase my path. **W**here did the hours go? As I salvage the remaining daylight to backtrack home — coat, pants, goggles caked with mud — I've never felt cleaner.

The World's Best-Selling Automatic ATV Just Got Better

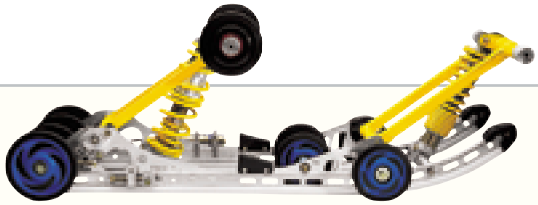
The Sportsman 500 is the world's best-selling automatic ATV, featuring superior power, true four-wheel drive and independent rear suspension. The versatile new 2001 model Sportsman 500 H.O. builds on these features, with a high-output engine that offers 20% more power to boost that feeling of exhilaration. Or if you need it, the brawn to get some work done once in a while.

Information that Clicks

In 2000, we launched the industry's most comprehensive Web site. Customers visit *polarisindustries.com* to learn about products or make purchases. They can exchange riding stories in chat rooms and access trail maps, event schedules and riding and safety tips.

You have two choices up here when the snow flies. Either wait for spring on the couch or get out there and conquer winter. **A**s my eldest daughter and I follow the trail into the woods on our sleds, I'm thankful we have this time together. The fresh air in the lungs, the occasional deer plunging through the snow, that familiar pine smell — these are pleasures only the cold months can give.

Stopping is just as important to this experience as going. We kill the engines and talk about the ride. Great conditions. Did you see those pheasants about a mile back? **T**he conversation tapers and the silence of the woods speaks volumes. We're both part of the surroundings now.



Our just-announced Snow Check Select™ program lets customers personalize their sleds by choosing from factory-installed options such as reverse, electric start, color, track size and suspension choice. Sleds ordered in spring are ready for fall delivery. We expect Snow Check Select™ to significantly increase advance preseason orders.

All Polaris customers can customize their rides — by themselves or through the local dealer — with a broad range of parts and accessories.

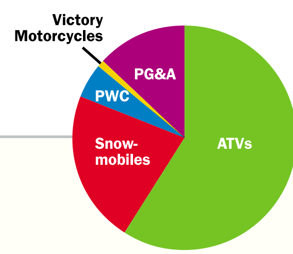
Another Award-Winning Year

Polaris snowmobiles received considerable acclaim in 2000, attesting to our world market leadership for the 11th consecutive year. *SnowGoer* magazine named the 600 XCSP "Sled of the Year," applauding the comfort and handling of its EDGE™ chassis. *SnoWest* magazine awarded "Sled of the Year" honors to the 800 RMK for the second consecutive year. *American Snowmobile* magazine named the 800 LE "Best in Class."

Do you know how different everything feels from the water? Even our four-year-old understands: A Day That's Too Hot becomes A Day That's Just Right once you leave dry land. **A**ll four of us can pile on our Genesis. It's as safe as a boat but as close to the water as a wakeboard. It seems like someone's always out on the lake. **O**ur teenager really loved our Mexico vacation — because lo and behold, Polaris watercraft were being rented right off our beach. We felt comfortable with him carving around the bay on his own because he was right at home. **H**e still thinks his parents are cool.

Extending the Riding Experience to a New Generation

Our Sportsman 90, Scrambler 90 and Scrambler 50 ATVs provide a safe, fun riding experience for youths ages 6 to 12. The 120 XC SP snowmobile is a 2/3-scale version of the Polaris 440 XC racing sled with a top speed of 8 mph. We also offer the stable Genesis and Genesis i PWC models that make it possible for families to enjoy the water together on one watercraft.

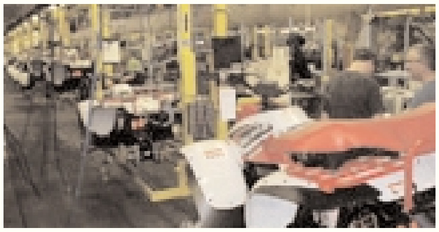


Polaris at a Glance
$1.426 billion in 2000 sales

- 59% All-Terrain Vehicles
- 22% Snowmobiles
- 5% Personal Watercraft
- 1% Victory Motorcycles
- 13% Parts, Garments & Accessories

Polaris sales reflect a diversified mix of motorsports products for work and play in all seasons.

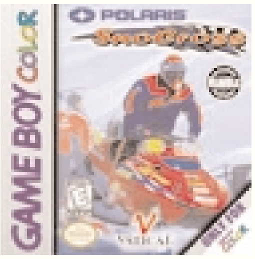
Some people might call this a Big Boy's Toy. Others may say I'm trying to recapture the past. My Victory's taking me in the other direction. **I** spent a lot of my life worried about where I was going. Now I'm out on the open road enjoying where I am, seeing the real America on the new American motorcycle. **B**est thing about this is that once I reach the horizon, there is another horizon begging to be discovered — and another one beyond that. It's all about going there, not getting there.



We dramatically reduced part counts and assembly time by increasing modularity of the platforms for ATVs and snowmobiles. We also reduced Victory's product cost by 10% while adding 200 design improvements to the 2001 models.

Financial Services Extend The Way Out to More in 2000

Providing financial services associated with the sale of our products is a key initiative for Polaris. Loan volumes under a retail financing program through Polaris Acceptance increased 58%, while extended service contract volume more than tripled.



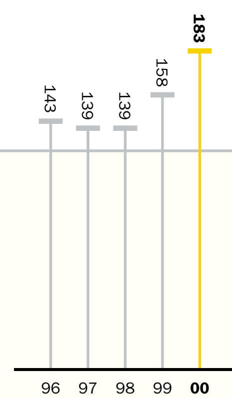
Licensing agreements with Sony Playstation®, Nintendo 64® and Nintendo GameBoy® help get the Polaris brand into households that currently do not own our equipment.

He votes Republican. I'm an Independent. He drives a truck. I like my VW. He dies for the Packers. Give me the Vikings. **W**e knew this was a mixed marriage going in. But there is at least one place we always see eye-to-eye. **W**e head to the dealership to look around. Every so often he shows me something, or I go looking for him. This would be perfect for the ATV. How about these covers for our sleds? That jacket looks good on you. **T**hank heavens we wear different sizes.

We unveiled our *purepolaris.com* e-commerce site in October 2000, just in time for holiday shopping. The e-commerce site offers more than 2,000 items online — from gloves to windshields, jackets to duffel bags. Nine hundred dealer Web sites currently link directly to *purepolaris.com*.

Resupply Initiatives Improve Dealer Profits

We tested an innovative ATV product resupply system with selected Polaris dealers during 2000. Instead of taking dealer orders for ATVs, the system ships a replacement ATV to the dealer each time a particular ATV model is sold. This results in lower dealer inventories, fewer stock-outs and reduced financing costs and discounts on unsold inventory. We expect to expand the replenishment program to additional dealers throughout 2001.

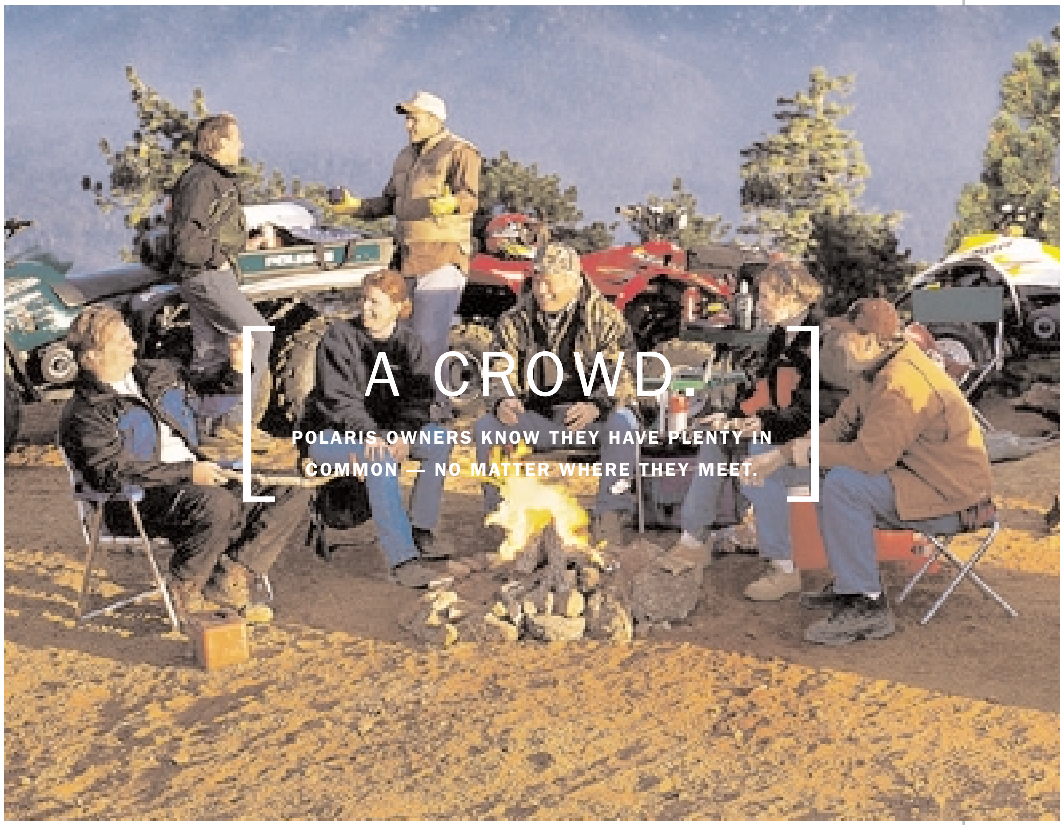


PG&A Sales
(dollars in millions)

PG&A Sales Growth

PG&A has become a key contributor to our growth initiatives. We increased the sales and profitability of this line by adding items without comparable increases in inventory.

Cutting the engines next to the river, we laugh at how wet everyone got on the way out here. Real hairy riding in a couple spots. We unpack our tents and dig in for the night. **E**veryone around the campfire does something different during the week. Jason's a trader. Renee's in PR. Jeff's a painter — I forgot to ask what kind. **T**his year, it's a mountaintop. Next year, Cabo, Sturgis or the Yukon. The group may change from year to year and place to place, but the bond doesn't.



A CROWD.

POLARIS OWNERS KNOW THEY HAVE PLENTY IN COMMON — NO MATTER WHERE THEY MEET.

University of Polaris Helps Dealers Thrive

In 2000, more than 1,200 dealer associates received classroom and Web-based training through the University of Polaris. Training focused on enhancing skills in management, retail sales, customer service, finance and business law. The program included 58 in-field classroom training sessions throughout the U.S. and Canada. An additional 750 product-training sessions were conducted over the Internet. Participating dealers averaged a 28% increase in retail sales.

ATV	Age 41, male, married. 40% first-time buyers. Average income: $56,000. Utility oriented: construction, farm, hunting, recreation, yard work.
Victory Motorcycle	Enthusiasts — owners of multiple bikes. Current Polaris customers. Japanese cruiser customers.
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.

Customer Demographics by Business Unit

Polaris products appeal to active people who spend a significant portion of their disposable income on recreation or utility products.

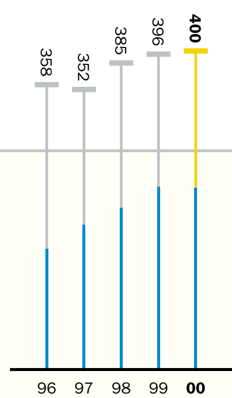
Lapping the Competition with NASCAR Sponsorships

We took advantage of one of the largest spectator sports in the U.S. — the NASCAR pro-racing circuit — to reach millions of people in our target customer demographic. Polaris ATVs sponsored Ward Burton's No.22 car for the 2000 Winston Cup and Busch Grand National Seasons.

I've been looking out the window all morning long. Four inches expected by suppertime and it's already coming down pretty heavy. Looks like a half day of vacation shaping up. **I** hooked up the trailer last night, just in case, after hearing the forecast. Judging by the parking lot on the way in this morning, it seems we all watched the weather. Same thing happened the first warm day last spring — Polaris PWC followed a lot of us here on trailers. **M**y supervisor calls these riding field trips Product Research. Time to go to work.

Polaris Serving the Community

We sponsored several events for charity in 2000. Our sleds blazed the trail on the Alaska Ride for ALS, Victory hit the highway for the Kyle Petty Ride Across America and the Minnesota Vikings Ride for Life motorcycle ride for children's charities. We rode the waves for the Rusty Wallace Splash for Kids on a Polaris PWC. The Polaris Foundation is dedicated to supporting non-profit organizations in communities in which our employees live. All together, Polaris and its employees contributed over $600,000 and tens of thousands of hours to community events and charitable organizations during 2000.



Sales Per Employee
(dollars in thousands)

- **Polaris**
- Industry Average

Sales Per Employee

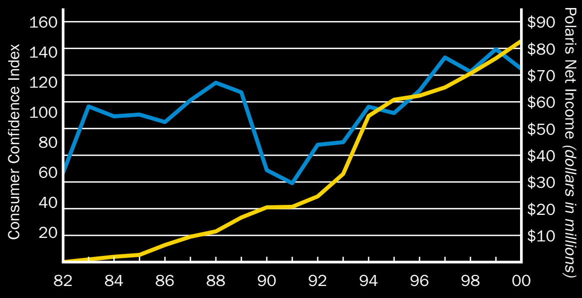
Polaris productivity levels, measured by sales per employee, are nearly twice the industry average. Contributing factors include a non-union workforce with compensation based on company performance, along with attractive profit-sharing and stock-option plans.

Our brand motto is etched in the heart of every Polaris employee, a majority of who own Polaris stock and machines of their own.

Clearly, our dedication to providing the best riding experience possible benefits our customers. But our focus on The Way Out pays for Polaris shareholders as well. We've built a consistent record of growth and profitability through economic cycles, fickle weather, changing fads and increased competition for the leisure dollar. How? By intimately understanding how to excite loyal — even fanatical — customers with quality Polaris products. And by steadily expanding the ways people can enhance their experiences. We've only begun to tap this potential. We will also continue to build and strengthen our dealer network, increase operational efficiency and promote a culture of dedicated employees who have a personal stake in company performance.

Clear, Consistent Branding Fuels Company Performance

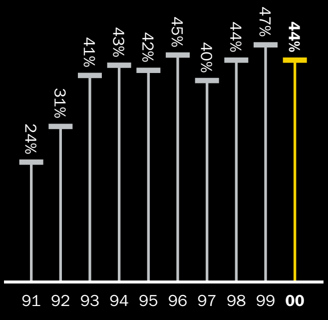
We dramatically increased 2000 advertising and promotional spending over 1999. We're delivering a consistent, persuasive story in a variety of ways — including television, enthusiast magazines, catalogs, our Web site, dealer locations and this annual report.



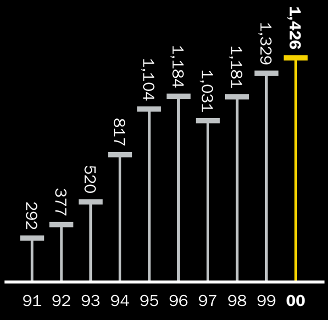
Polaris Performance that Defies Economic Cycles

Polaris net income has grown steadily the past 19 years despite fluctuations in the Consumer Confidence Index.

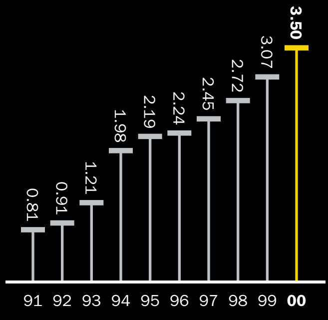
Polaris
Index



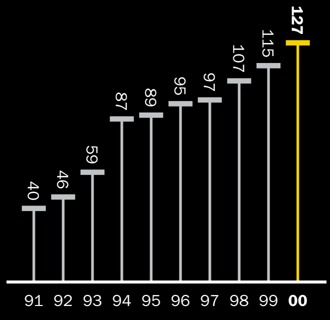
Return on Shareholder Equity



Sales
(dollars in millions)



Earnings Per Share
(dollars)



Cash Flow Provided
(dollars in millions)

11-YEAR SELECTED FINANCIAL DATA *in thousands, except per share and per unit data*

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

For the Years Ended December 31,	**2000**	1999	1998	1997
Statement of Operations Data				
Sales data:				
Total sales[3]	**$ 1,425,678**	$ 1,328,620	$ 1,180,648	$ 1,031,470
% change from prior year	**7%**	13%	14%	(13%)
Sales mix by product:				
All-terrain vehicles	**59%**	57%	56%	45%
Snowmobiles	**22%**	24%	27%	35%
Personal watercraft	**5%**	4%	4%	6%
Motorcycles	**1%**	3%	1%	—
PG&A	**13%**	12%	12%	14%
Gross profit data:				
Total gross profit[3]	**$ 328,104**	$ 298,050	$ 252,344	$ 222,608
% of sales	**23%**	22%	21%	22%
Operating expense data:				
Amortization of intangibles and noncash compensation	**$ 12,701**	$ 10,472	$ 8,703	$ 5,887
Conversion costs	**—**	—	—	—
Other operating expenses[1][3]	**193,609**	173,932	143,535[1]	123,619
% of sales	**14%**	13%	12%	12%
Actual, adjusted,[1] and pro forma data:[2]				
Net income	**$ 82,809**	$ 76,326	$ 70,624[1]	$ 65,383
Diluted net income per share	**$ 3.50**	$ 3.07	$ 2.72[1]	$ 2.45
Cash Flow Data				
Cash flow from operating activities	**$ 107,666**	$ 124,354	$ 121,385	$ 102,308
Purchase of property and equipment	**63,056**	65,063	61,532	36,798
Repurchase and retirement of common stock	**39,622**	52,412	37,728	39,903
Cash dividends to shareholders	**20,648**	19,732	18,582	16,958
Cash dividends per share	**$ 0.88**	$ 0.80	$ 0.72	$ 0.64
Cash distributions declared to partners	**—**	—	—	—
Cash distributions declared per unit	**—**	—	—	—
Balance Sheet Data *(at end of year)*				
Cash and cash equivalents	**$ 2,369**	$ 6,184	$ 1,466	$ 1,233
Current assets	**240,912**	214,714	183,840	217,458
Total assets	**490,186**	442,027	378,697	384,746
Current liabilities	**238,384**	233,800	204,964	191,111
Borrowings under credit agreement	**47,068**	40,000	20,500	24,400
Shareholders' equity/ partners' capital	**204,734**	168,227	153,233	169,235

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

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

(3) In 2000, the Company adopted Emerging Issues Task Force issue 00-10, "Accounting for Shipping and Handling Fees and Costs" and Emerging Issues Task Force issue 00-14, "Accounting for Certain Sales Incentives." Sales, cost of sales and operating expenses have been adjusted to reflect these accounting changes. See Note 1 in the Notes to Consolidated Financial Statements for further details.

1996	1995	1994	1993	1992	1991	1990
$ 1,184,368	$ 1,104,060	$ 816,713	$ 520,197	$ 376,903	$ 291,563	$ 288,943
7%	35%	57%	38%	29%	1%	19%
37%	33%	30%	27%	25%	25%	20%
36%	40%	43%	49%	54%	59%	66%
15%	16%	14%	9%	7%	—	—
—	—	—	—	—	—	—
12%	11%	13%	15%	14%	16%	14%
$ 231,020	$ 219,663	$ 175,211	$ 127,045	$ 101,328	$ 85,330	$ 84,352
20%	20%	21%	24%	27%	29%	29%
$ 5,325	$ 5,616	$ 14,321	$ 13,466	$ 11,997	$ 13,108	$ 12,116
—	—	12,315	—	—	—	—
128,278	112,389	72,913	60,352	48,640	40,504	41,424
11%	10%	9%	12%	13%	14%	14%
$ 62,293	$ 60,776	$ 54,703	$ 33,027	$ 24,602	$ 20,727	$ 20,465
$ 2.24	$ 2.19	$ 1.98	$ 1.21	$ 0.91	$ 0.81	$ 0.79
$ 89,581	$ 77,749	$ 111,542	$ 78,503	$ 55,316	$ 46,642	$ 54,782
45,336	47,154	32,656	18,946	12,295	15,988	7,158
13,587	—	—	—	—	—	—
16,390	116,639	—	—	—	—	—
$ 0.60	$ 4.27	—	—	—	—	—
—	—	50,942	47,217	44,507	42,581	42,582
—	—	$ 1.68	$ 1.67	$ 1.67	$ 1.67	$ 1.67
$ 5,812	$ 3,501	$ 62,881	$ 33,798	$ 19,094	$ 20,098	$ 32,025
193,405	175,271	206,489	109,748	74,999	59,200	66,893
351,717	314,436	331,166	180,548	146,681	135,509	138,704
161,387	155,722	161,457	98,055	69,054	52,646	46,602
35,000	40,200	—	—	—	—	—
155,330	118,514	169,709	82,493	77,627	82,863	92,102

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, 2000, and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included elsewhere herein.

RESULTS OF OPERATIONS

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 all-terrain vehicle (ATV) sales, resulting from the eleventh consecutive year of increased ATV retail sales, and higher Parts, Garments and Accessories (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 the new youth ATVs. The increased unit 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 unit 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 personal watercraft (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 more of the 2001 models were shipped to dealers earlier in 2000 in advance of the winter boat shows. 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 a result of increases in each of the Parts, Garments and Accessories across all product line categories. ATV PG&A sales were particularly strong in 2000, increasing 27 percent from 1999. The Company introduced over 1,100 new PG&A products during 2000 and established a dedicated PG&A sales force. 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 and Victory product lines due to manufacturing cost reductions, lower snowmobile promotional expenses, lower warranty costs and the margin benefit of increased sales of higher margin PG&A. These positive factors have been somewhat offset by the negative impact of the Japanese yen exchange rate and the increased amortization of tooling expenditures.

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, as well as investments in 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 75 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 component of the equity in income of affiliates increase of $4.6 million. This increase was partially offset by a $3.4 million increase in interest expense resulting from higher average borrowing levels.

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.

1999 vs. 1998

Sales increased to $1.329 billion in 1999, representing a 13 percent increase from $1.181 billion in 1998. The increase in sales was primarily due to higher ATV sales, resulting from the tenth consecutive year of increased ATV retail sales.

Sales of ATVs of $753.2 million in 1999 were 14 percent higher than $657.9 million in 1998. The increased sales reflect the continued double-digit growth of the industry as consumers find new and expanded uses for the product. Polaris' growth was consistent with the industry. The average per unit sales price for the year ended 1999 remained flat compared to the prior year period. Sales of ATVs comprised 57 percent of total Company sales in 1999 compared to 56 percent in 1998.

Sales of snowmobiles of $322.4 million in 1999 were one percent lower than $324.6 million in 1998. Snowmobile shipments and the average selling price per unit in 1999 were both essentially flat compared to the prior year period. Sales of snowmobiles comprised 24 percent of total Company sales in 1999 compared to 27 percent in 1998.

Sales of PWC of $53.7 million in 1999 were 11 percent higher than $48.2 million in 1998. The increase was attributable to a slight market share increase driven by the new Genesis model. Sales of PWC comprised four percent of total Company sales in 1999, the same as in 1998.

Sales of Victory motorcycles of $41.2 million in 1999 were significantly higher than $10.7 million in 1998. 1999 was the first full year of Victory production. Sales of Victory motorcycles comprised three percent of total Company sales in 1999 compared to one percent in 1998.

Sales of PG&A of $158.1 million in 1999 were 14 percent higher than $139.2 million in 1998. The increase in PG&A sales was primarily due to increased parts shipments for our snowmobile and ATV product lines. PG&A sales comprised 12 percent of total Company sales in 1999, the same as in 1998.

Gross profit increased to $298.1 million in 1999, representing an 18 percent increase over $252.3 million gross profit in 1998. This increase in gross profit dollars was a result of higher sales volume and an increase in gross profit margin percentage to 22.4 percent in 1999 from 21.4 percent in 1998. The increase in gross profit margin percentage was primarily a result of (a) manufacturing cost reductions, (b) increased margins across all product lines except PWC, and (c) increased sales of higher margin PG&A. These positive factors have been somewhat offset by shifts in sales mix to ATVs, which have a lower margin than snowmobiles, and the negative impact of Japanese yen and Canadian dollar exchange rates.

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

Operating expenses in 1999 increased 21 percent to $184.4 million from $152.2 million in 1998, excluding the provision for litigation loss. Expressed as a percentage of sales, operating expenses increased to 13.9 percent in 1999 from 12.9 percent in 1998. These increases are primarily related to a planned increase in expenses to build the infrastructure to support the Company's growth and brand recognition initiatives and a higher level of advertising expenditures. Operating expenses in 1998 included a $61.4 million provision for litigation loss related to the settlement of the Injection Research Specialists litigation. This is a one-time charge that does not affect the ongoing operations of the Company.

The decline in nonoperating expense (income) in 1999 from 1998 primarily reflects the unfavorability related to Canadian dollar hedging in 1999, which is the primary component of the other expense (income) change of $5.6 million. This decline is partially offset by the positive financial impact of the Company's equity in the income of Polaris Acceptance, which is the primary component of the equity in (income) of affiliates change of $1.9 million.

The provision for income taxes remained at a rate of 35.5 percent of pretax income in 1999. Polaris reduced its tax rate beginning in the third quarter of 1998 from 36.0 percent in prior periods as a result of tax planning opportunities Polaris has taken advantage of.

Net income in 1999 was $76.3 million, up from $31.0 million in 1998, primarily a result of the 1998 litigation settlement. Net income as a percent of sales was 5.7 percent in 1999, an increase from 2.6 percent in 1998. Net income per diluted share increased to $3.07 in 1999 from $1.19 in 1998.

LIQUIDITY AND CAPITAL RESOURCES

Polaris' primary sources of funds have been cash provided by operating activities, a $150 million bank line of credit 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 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. During 1998, Polaris generated net cash from operating activities of $121.4 million, which was utilized to fund capitalized expenditures of $61.5 million, cash dividends of $18.6 million and the repurchase of common stock of $37.7 million.

The seasonality of production and shipments causes working capital requirements to fluctuate during the year. Polaris has a $150 million unsecured bank line of credit arrangement maturing on March 31, 2002. The arrangement provides borrowing for working capital needs and the repurchase and retirement of common stock. Borrowings under the line of credit bear interest, 7.30 percent at December 31, 2000, based on LIBOR or "prime" rates. At December 31, 2000, Polaris had total borrowings under the line of credit of $47.1 million compared to $40.0 million at December 31, 1999. In addition, at December 31, 2000, Polaris had letters of credit outstanding of $8.3 million related to purchase obligations for raw materials.

The Polaris Board of Directors has authorized the cumulative repurchase of up to 7.5 million shares of the Company's common stock. During 2000, Polaris paid $39.6 million to repurchase and retire 1.2 million shares. Polaris had 1.7 million shares available to repurchase under the Board of Directors authorization as of December 31, 2000.

A wholly owned subsidiary of Polaris is a partner with Transamerica Distribution Finance in Polaris Acceptance. Polaris Acceptance provides floor plan financing to Polaris' dealers and distributors and provides other financial services to dealers, distributors and retail customers of Polaris including retail credit, extended service contracts and insurance. 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 distributors and dealers. These arrangements provide liquidity by financing distributor and dealer purchases of Polaris products without the use of Polaris' working capital. Substantially all of the sales of snowmobiles, ATVs, motorcycles and PWC and related Parts, Garments and Accessories are financed under these arrangements whereby Polaris receives payment within a few days of shipment of the product. The amount financed by distributors and dealers under these arrangements at December 31, 2000 and 1999, was approximately $502.0 million and $472.0 million, respectively. Polaris participates in the cost of dealer and distributor financing up to certain limits. Polaris has agreed to repurchase products repossessed by the finance companies to an annual maximum of 15 percent of the average amount outstanding during the prior calendar year. Polaris' financial exposure under these agreements is limited to the difference between the amount paid to the finance companies and the amount received on the resale of the repossessed product. No material losses have been incurred under these agreements. However, an adverse change in retail sales could cause this situation to change and thereby require Polaris to repurchase financed units.

Polaris has made significant capital investments to increase production capacity, quality, and efficiency, and for new product development and diversification. Improvements in manufacturing and distribution capacity include: (a) tooling expenditures for new product development across all product lines of $22.4 million during 2000, (b) continued investments of $7.2 million in returnable crates, which not only reduce costs but also are environmentally friendly and (c) the investment in the new corporate headquarters, which was completed in early 2000. Polaris anticipates that capital expenditures, including tooling, for 2001 will range from $65 million to $75 million.

Management believes that existing cash balances, cash flows to be generated from operating activities and available borrowing capacity under the line of credit arrangement will be sufficient to fund operations, regular dividends, share repurchases, and capital expenditure requirements for 2001. At this time, management is not aware of any factors that would have a material adverse impact on cash flow beyond 2001.

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

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 2000, purchases totaling 16 percent of Polaris cost of sales were from Japanese yen denominated suppliers. The weakening of the U.S. dollar in relation to the Japanese yen since mid-1998 has resulted in higher raw material purchase prices. Polaris' cost of sales in 2000 was negatively impacted by the Japanese yen exchange rate fluctuation when compared to the prior year. The dollar has began to strengthen in relation to the yen in early 2001, and in view of the foreign exchange hedging contracts currently in place, Polaris anticipates that the yen-dollar exchange rate will have a positive impact on cost of sales during 2001 when compared to 2000.

Polaris operates in Canada through a wholly owned subsidiary. Sales of the Canadian subsidiary comprised 11 percent of total Company sales in 2000. Polaris utilizes foreign exchange hedging contracts to manage its exposure to the Canadian dollar. The U.S. dollar weakened slightly in relation to the Canadian dollar in 2000 resulting in a positive financial impact on Polaris' gross margins when compared to 1999. In view of the currently weakening Canadian dollar and the foreign exchange hedging contracts currently in place, Polaris anticipates a negative impact on net income during 2001 when compared to 2000.

In the past, Polaris has been a party to, and in the future may enter into, foreign exchange hedging contracts for each of the Japanese yen, Euro, Taiwan dollar and the Canadian dollar to minimize the impact of exchange rate fluctuations within each year. At December 31, 2000, Polaris had open Japanese yen foreign exchange hedging contracts with notional amounts totaling $65.0 million U.S. dollars which mature throughout 2001.

Since 1995, Polaris has been manufacturing its own engines for selected models of PWC, motorcycles 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.

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

CONSOLIDATED BALANCE SHEETS *in thousands, except per share data*

December 31,	2000	1999
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 2,369**	$ 6,184
Trade receivables	**56,130**	53,293
Inventories	**143,491**	118,062
Prepaid expenses and other	**4,922**	6,175
Deferred tax assets	**34,000**	31,000
Total current assets	**240,912**	214,714
Property and Equipment		
Land, buildings and improvements	**51,135**	38,616
Equipment and tooling	**267,484**	236,951
	318,619	275,567
Less accumulated depreciation	**(150,755)**	(124,645)
Net property and equipment	**167,864**	150,922
Investments in Affiliates	**48,318**	38,310
Deferred Tax Assets	**11,384**	16,000
Intangible Assets, Net	**21,708**	22,081
Total Assets	**$ 490,186**	$ 442,027

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

December 31,	**2000**	1999
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 89,498**	$ 91,805
Accrued expenses:		
Compensation	**25,000**	35,291
Warranties	**34,216**	40,392
Sales promotions	**21,116**	19,999
Other	**52,657**	32,900
Income taxes payable	**15,897**	13,413
Total current liabilities	**238,384**	233,800
Borrowings Under Credit Agreement	**47,068**	40,000
Total liabilities	**285,452**	273,800
Shareholders' Equity		
Preferred stock $0.01 par value, 20,000 shares authorized, no shares issued and outstanding	**—**	—
Common stock $0.01 par value, 80,000 shares authorized, 23,542 and 24,226 shares issued and outstanding	**235**	242
Additional paid-in capital	**—**	8,987
Deferred compensation	**(3,300)**	(7,818)
Compensation payable in common stock	**—**	5,975
Retained earnings	**207,613**	160,841
Accumulated other comprehensive income	**186**	—
Total shareholders' equity	**204,734**	168,227
Total Liabilities and Shareholders' Equity	**$ 490,186**	$ 442,027

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,	**2000**	1999	1998
Sales	**$ 1,425,678**	$ 1,328,620	$ 1,180,648
Cost of sales	**1,097,574**	1,030,570	928,304
Gross profit	**328,104**	298,050	252,344
Operating expenses:			
Selling and marketing	**122,028**	112,116	92,745
Research and development	**32,360**	31,311	28,387
General and administrative	**51,922**	40,977	31,106
Provision for litigation loss (Note 8)	**—**	—	61,409
Total operating expenses	**206,310**	184,404	213,647
Operating income	**121,794**	113,646	38,697
Nonoperating expense (income):			
Interest expense	**7,704**	4,285	2,959
Equity in (income) of affiliates	**(14,350)**	(9,745)	(7,819)
Other expense (income), net	**54**	771	(4,805)
Income before income taxes	**128,386**	118,335	48,362
Provision for income taxes	**45,577**	42,009	17,347
Net income	**$ 82,809**	$ 76,326	$ 31,015
Basic net income per share	**$ 3.52**	$ 3.09	$ 1.20
Diluted net income per share	**$ 3.50**	$ 3.07	$ 1.19
Weighted average number of common			
and common equivalent shares outstanding:			
Basic	**23,501**	24,732	25,917
Diluted	**23,666**	24,900	25,986

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	Total
Balance, December 31, 1997	$ 260	$ 72,955	$ (3,133)	$ 7,346	$ 91,807	—	$ 169,235
First Rights conversion to stock	1	1,841	—	(1,864)	—	—	(22)
Employee stock compensation	3	11,543	(3,593)	1,362	—	—	9,315
Cash dividends	—	—	—	—	(18,582)	—	(18,582)
Repurchase and retirement of common shares	(11)	(37,717)	—	—	—	—	(37,728)
Net income	—	—	—	—	31,015	—	31,015
Balance, December 31, 1998	253	48,622	(6,726)	6,844	104,240	—	153,233
First Rights conversion to stock	—	323	—	(286)	7	—	44
Employee stock compensation	4	12,439	(1,092)	(583)	—	—	10,768
Cash dividends	—	—	—	—	(19,732)	—	(19,732)
Repurchase and retirement of common shares	(15)	(52,397)	—	—	—	—	(52,412)
Net income	—	—	—	—	76,326	—	76,326
Balance, December 31, 1999	242	8,987	(7,818)	5,975	160,841	—	168,227
Employee stock compensation	5	15,234	4,518	(5,975)	—	—	13,782
Cash dividends	—	—	—	—	(20,648)	—	(20,648)
Repurchase and retirement of common shares	(12)	(24,220)	—	—	(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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS *in thousands*

For the Years Ended December 31,	**2000**	1999	1998
Cash Flows from Operating Activities			
Net income	**$ 82,809**	$ 76,326	$ 31,015
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**46,997**	39,281	36,192
Noncash compensation	**11,820**	9,586	7,808
Equity in (income) of affiliates	**(14,350)**	(9,745)	(7,819)
Deferred income taxes	**1,616**	3,000	5,000
Changes in current operating items:			
Trade receivables	**(2,837)**	(10,258)	(443)
Inventories	**(25,429)**	(10,626)	32,108
Accounts payable	**(2,307)**	14,547	16,231
Accrued expenses	**4,407**	7,887	6,828
Income taxes payable	**2,484**	6,402	(9,206)
Others, net	**2,456**	(2,046)	3,671
Net cash provided by operating activities	**107,666**	124,354	121,385
Cash Flows from Investing Activities			
Purchase of property and equipment	**(63,056)**	(65,063)	(61,532)
Investments in and advances to affiliates	**(8,857)**	(11,366)	(9,112)
Distributions and repayments to affiliates	**13,199**	9,437	9,702
Other	**(512)**	—	—
Net cash used for investing activities	**(59,226)**	(66,992)	(60,942)
Cash Flows from Financing Activities			
Borrowings under credit agreement	**502,621**	501,275	338,200
Repayments under credit agreement	**(495,553)**	(481,775)	(342,100)
Repurchase and retirement of common shares	**(39,622)**	(52,412)	(37,728)
Cash dividends to shareholders	**(20,648)**	(19,732)	(18,582)
Other	**947**	—	—
Net cash used for financing activities	**(52,255)**	(52,644)	(60,210)
Increase (decrease) in cash and cash equivalents	**(3,815)**	4,718	233
Cash and Cash Equivalents			
Beginning	**6,184**	1,466	1,233
Ending	**$ 2,369**	$ 6,184	$ 1,466
Supplemental Cash Flow Information			
Interest paid during the year	**$ 40,957**	$ 36,620	$ 24,731
Income taxes paid during the year	**$ 43,044**	$ 38,651	$ 21,475

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.

Basis of presentation: All significant intercompany transactions and balances have been eliminated in consolidation. Certain numbers previously reported in the 1999 and 1998 financial statements have been reclassified to conform to 2000 presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

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 sales and expenses during the reporting period. Ultimate results could differ from those estimates.

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

For the Years Ended December 31,	**2000**	1999	1998
Canadian subsidiary:			
Sales	**$ 151.9**	$ 145.9	$ 140.0
Operating income	**2.8**	3.1	3.0
Identifiable assets	**22.3**	23.6	18.9
Other export sales	**$ 83.3**	$ 68.3	$ 61.7

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

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

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

December 31,	**2000**	1999
Raw materials and purchased components	**$ 27.7**	$ 28.0
Service Parts, Garments and Accessories	**50.4**	50.6
Finished goods	**65.4**	39.5
	$ 143.5	$ 118.1

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.

Intangible assets: Intangible assets are stated net of accumulated amortization totaling $13.3 million at December 31, 2000, and $12.5 million at December 31, 1999, and consist principally of cost in excess of the net assets of the business acquired which is amortized on a straight-line basis over 5-40 years. Other 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 intangible assets to determine potential impairment based upon future undiscounted cash flows from the related business. To date, management has determined no such impairment exists.

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

Foreign currency: Polaris' Canadian and Australian subsidiaries use the United States dollar as their functional currencies. Polaris' French subsidiary uses the French franc as its functional currency. Assets and liabilities are translated at the foreign exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average foreign exchange rate in effect. Translation and exchange gains and losses are reflected in the results of operations for the Canadian and Australian subsidiaries and are reflected as accumulated other comprehensive income in the equity section of the balance sheet for the French subsidiary.

Polaris enters into foreign exchange contracts to manage currency exposures of its purchase commitments denominated in foreign currencies and transfers of funds from its Canadian subsidiary. Polaris does not use any financial contracts for trading purposes. These contracts are accounted for as hedges, thus market value gains and losses are recognized at the time of purchase or transfer of funds, respectively. The criteria to determine if hedge accounting is appropriate are (1) the designation of a hedge to an underlying exposure, (2) whether or not overall risk is reduced and (3) if there is a correlation between the value of the foreign exchange contract and the underlying exposure. Gains and losses related to purchase commitments are recorded as adjustments to cost of sales while gains and losses related to transfers of funds are recorded as other expense (income) on the accompanying statements of operations. At December 31, 2000, Polaris had open Japanese yen foreign exchange contracts with notional amounts totaling $65.0 million United States dollars which mature throughout 2001. The fair value of these foreign exchange contacts was a liability of $2.7 million as of December 31, 2000.

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 at the time of sale to the dealer or distributor customer.

Comprehensive Income: Comprehensive income reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. For the Company, comprehensive income represents net income adjusted for foreign currency translation adjustments. The Company has chosen to disclose comprehensive income in the accompanying consolidated statements of shareholders equity and comprehensive income.

Major supplier: During 2000, 1999, and 1998, purchases of engines and related components totaling 15, 15 and 12 percent respectively of Polaris' cost of sales were from a single Japanese supplier. Polaris has agreed with the supplier to share the impact of fluctuations in the exchange rate between the United States dollar and the Japanese yen.

New accounting pronouncements: 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. Polaris has performed an analysis of this pronouncement and believes the adoption of SFAS No. 133 will not have a material impact on Polaris' financial position or results of operations.

Polaris adopted Emerging Issues Task Force Issue 00-10 (EITF 00-10), "Accounting for Shipping and Handling Fees and Costs," in 2000. EITF 00-10 requires amounts billed to customers related to shipping and handling to be classified as sales and the actual shipping and handling costs to be classified as cost of sales. Polaris had previously netted these amounts in sales. The adoption of EITF 00-10 by the Company resulted in a reclassification of freight expense from net sales to cost of goods sold of $47.3 million, $37.1 million and $29.7 million in 2000, 1999 and 1998, respectively.

Polaris adopted Emerging Issues Task Force Issue 00-14 (EITF 00-14), "Accounting for Certain Sales Incentives," in 2000. EITF 00-14 requires, among other things, that cash sales incentives be classified as a reduction of sales and sales incentives that involve a free product or service delivered at the time of sale be classified as a cost of sale. Polaris had previously classified all sales incentives as selling and marketing expense. The adoption of EITF 00-14 by the Company resulted in reclassification of cash sales incentives to net sales of $25.0 million, $29.6 million and $24.5 million in 2000, 1999 and 1998, respectively, and the reclassification of free product incentives to cost of sales of $4.4 million, $0.7 million and $1.4 million in 2000, 1999 and 1998, respectively.

NOTE 2 FINANCING

Bank financing: Polaris is a party to an unsecured bank line of credit arrangement under which it may borrow up to $150 million until maturity. Interest is charged at rates based on LIBOR or "prime" and the agreement expires on March 31, 2002, at which time the outstanding balance is due. The Company was in compliance with all covenants related to the line of credit at December 31, 2000. The following summarizes activity under Polaris' credit arrangement (in millions):

	2000	1999
Total borrowings at December 31	$ 47.1	$ 40.0
Average outstanding borrowings during year	$ 112.1	$ 80.5
Maximum outstanding borrowings during year	$ 149.0	$ 131.5
Interest rate at December 31	7.30%	6.16%

Polaris has entered into interest rate swap agreements to manage exposures to fluctuations in interest rates. The effect of these agreements is to fix the interest rate at 5.80 percent for $20 million of borrowings under the credit line until July 2002 and at 7.21 percent for $18 million of borrowings under the credit line until July 2007. The fair value of the interest rate swaps were a liability of $1.3 million as of December 31, 2000.

Letters of credit: At December 31, 2000, Polaris had open letters of credit totaling approximately $8.3 million. The amounts outstanding are reduced as inventory purchases pertaining to the contracts are received.

Customer financing program: Certain finance companies, including Polaris Acceptance, an affiliate (Note 6), provide floor plan financing to distributors and dealers on the purchase of Polaris products. The amount financed by distributors and dealers under these arrangements at December 31, 2000, was approximately $502.0 million. Polaris has agreed to repurchase products repossessed by the finance companies up to an annual maximum of 15 percent of the average amounts outstanding during the prior calendar year. Polaris' financial exposure under these arrangements is limited to the difference between the amount paid to the finance companies for repurchases and the amount received on the resale of the repossessed product. No material losses have been incurred under these agreements during the periods presented. As a part of its marketing program, Polaris contributes to the cost of dealer and distributor financing up to certain limits and subject to certain conditions. Such expenditures are included with 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 millions):

For the Years Ended December 31,	**2000**	1999	1998
Current:			
Federal	**$ 41.3**	$ 36.1	$ 10.4
State	**2.3**	1.6	0.7
Foreign	**0.4**	1.3	1.2
Deferred	**1.6**	3.0	5.0
Total	**$ 45.6**	$ 42.0	$ 17.3

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

For the Years Ended December 31,	**2000**	1999	1998
Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes (net of federal benefit)	**2.0**	1.5	2.5
Other permanent differences	**(1.5)**	(1.0)	(1.6)
Effective income tax rate	**35.5%**	35.5%	35.9%

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 millions):

December 31,	**2000**	1999	1998
Current deferred tax assets:			
Inventories	**$ 4.9**	$ 4.1	$ 4.1
Accrued expenses	**29.1**	26.9	24.9
Total current	**34.0**	31.0	29.0
Noncurrent deferred tax assets/liabilities:			
Cost in excess of net assets of business acquired	**21.1**	23.0	25.2
Property and equipment	**(13.7)**	(8.9)	(4.9)
Compensation payable in common stock	**4.0**	1.9	0.7
Total noncurrent	**11.4**	16.0	21.0
Total	**$ 45.4**	$ 47.0	$ 50.0

NOTE 4 STOCK-BASED COMPENSATION AND SAVINGS PLAN

The Company 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 $5.3 million, $5.0 million and $3.8 million in 2000, 1999 and 1998, respectively.

Polaris maintains a stock option plan (Option Plan) under which incentive and nonqualified stock options for a maximum of 2.35 million shares of common stock may be issued to certain employees. Options granted to date generally vest three years from the award date and expire after ten years.

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 800,000 shares of common stock may be awarded as an incentive to certain employees with no cash payments required from the recipient. The restrictions lapse after a three to four year period for awards issued prior to 2000 if Polaris achieves certain performance measures. Awards issued in 2000 did not contain performance measures. Shares of restricted stock granted, net of lapsed and forfeited shares, totaled 116,995, 133,440 and 119,160 in 2000, 1999 and 1998, respectively.

Polaris sponsors a qualified non-leveraged Employee Stock Ownership Plan (ESOP) under which a maximum of 1.25 million shares of common stock can be awarded. The shares are allocated to eligible participants accounts based on total cash compensation earned during the calendar year. The shares vest immediately with no required cash payment from the recipient. Substantially all U.S. employees are eligible to participate in the ESOP. Total expense related to the ESOP was $5.9 million, $6.2 million, and $6.8 million in 2000, 1999, and 1998, respectively. As of December 31, 2000 there were 635,777 shares vested in the plan.

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

	Option Plan		Broad Based Plan
	Shares	Exercise Price*	Shares
Outstanding as of December 31, 1997	495,743	$29.33	—
Granted	691,590	$40.15	—
Exercised/converted	(33,425)	$29.00	—
Forfeited	(76,183)	$30.94	—
Outstanding as of December 31, 1998	1,077,725	$36.17	—
Granted	311,970	$32.47	337,900
Exercised/lapsed	(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/lapsed	(31,931)	$27.30	—
Forfeited	(52,808)	$31.94	(29,100)
Outstanding as of December 31, 2000	1,665,714	$34.42	289,500
Exercisable/vested as of December 31, 2000	328,704	$29.37	—

* Weighted average

Shares outstanding under the Option Plan have exercise prices ranging from $25.75 to $49.45 and a weighted average remaining contractual life of 7.6 years.

Polaris maintains a nonqualified deferred compensation plan (Director Plan) under which directors who are not Polaris officers or employees can elect to receive common stock equivalents in lieu of director's fees, which will be converted into common stock when board service ends. A maximum of 75,000 shares of common stock has been authorized under this plan and 34,266 shares have been earned as of December 31, 2000.

Polaris accounts for all stock based compensation plans under APB Opinion No. 25, under which compensation costs of $11.8 million, $9.6 million, and $7.8 million were recorded in 2000, 1999 and 1998, 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:

	2000	1999	1998
Net income (in millions):			
As reported	**$ 82.8**	$ 76.3	$ 31.0
Pro forma	**79.6**	73.5	29.3
Net income per share:			
As reported	**$ 3.50**	$ 3.07	$ 1.19
Pro forma	**3.37**	2.95	1.13

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:

	2000	1999	1998
Risk free interest rate	**6.4%**	6.6%	5.6%
Expected life	**7 years**	7 years	7 years
Expected volatility	**18%**	23%	14%
Expected dividend yield	**2.4%**	2.2%	2.0%

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

	2000	1999	1998
Option Plan	**$ 6.73**	$ 8.99	$ 5.57
Restricted Plan	**$ 29.96**	$ 32.47	$ 34.89
ESOP	**$ 33.04**	$ 36.25	$ 39.19
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 7.5 million shares of the Company's common stock. During 2000, Polaris paid $39.6 million to repurchase and retire 1.2 million shares. Cumulative repurchases through December 31, 2000 are 5.8 million shares for $183.3 million.

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

	2000	1999	1998
Net income available to common shareholders	**$ 82,809**	$ 76,326	$ 31,015
Weighted average number of common shares outstanding	**23,304**	24,539	25,709
First Rights	**—**	—	21
Director Plan	**27**	23	17
ESOP	**170**	170	170
Common shares outstanding — basic	**23,501**	24,732	25,917
Dilutive effect of Option Plan	**134**	168	69
Dilutive effect of Restricted Plan	**31**	—	—
Common and potential common shares outstanding — diluted	**23,666**	24,900	25,986
Basic earnings per share	**$ 3.52**	$ 3.09	$ 1.20
Diluted earnings per share	**$ 3.50**	$ 3.07	$ 1.19

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, 2000, approximately 103,000 shares have been purchased under this plan.

NOTE 6 INVESTMENTS IN AFFILIATES

In 1996, a wholly owned subsidiary of Polaris entered into a partnership agreement with Transamerica Distribution Finance to form Polaris Acceptance. Polaris Acceptance provides floor plan financing to Polaris' dealers and distributors and provides other financial services including retail credit, extended service contracts, and insurance to dealers, distributors and retail customers of Polaris. Polaris' subsidiary has a 50 percent equity interest in Polaris Acceptance.

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

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

December 31,	**2000**	1999
Revenues	**$ 117.5**	$ 81.7
Cost of goods sold, interest and operating expenses	**88.7**	61.5
Net income before income taxes	**$ 28.8**	$ 20.2
Finance receivables, net	**$ 482.8**	$ 408.8
Other assets	**31.3**	21.3
	$ 514.1	$ 430.1
Notes payable	**$ 385.5**	$ 338.6
Other liabilities	**33.3**	14.2
Shareholders' equity and partners' capital	**95.3**	77.3
	$ 514.1	$ 430.1

NOTE 7 COMMITMENTS AND CONTINGENCIES

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

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

Leases: Polaris leases buildings and equipment under noncancelable operating leases. Total rent expense under all lease agreements was $2.9 million, $2.9 million, and $2.5 million, for 2000, 1999 and 1998, respectively. Future minimum payments, exclusive of other costs, required under noncancelable operating leases at December 31, 2000, total $0.2 million cumulatively through 2003.

NOTE 8 LITIGATION SETTLEMENT

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

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.

NOTE 10 QUARTERLY FINANCIAL DATA

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

	Sales	Gross Profit	Net Income	Diluted Net Income Per Share
2000				
First Quarter	$ 279.1	$ 61.5	$ 9.7	$ 0.41
Second Quarter	344.7	74.9	16.2	0.68
Third Quarter	401.3	98.9	29.3	1.24
Fourth Quarter	400.6	92.8	27.6	1.17
Totals	$1,425.7	$ 328.1	$ 82.8	$ 3.50
1999				
First Quarter	$ 242.2	$ 53.7	$ 9.1	$ 0.36
Second Quarter	326.7	68.0	15.1	0.60
Third Quarter	389.3	91.9	27.2	1.10
Fourth Quarter	370.4	84.5	24.9	1.02
Totals	$1,328.6	$ 298.1	$ 76.3	$ 3.07

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, 2000 and 1999, 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, 2000. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP
Minneapolis, Minnesota
January 26, 2001

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 a third of all ATVs sold 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. We don't believe the ATV market is anywhere near saturated since 40% of purchasers are first-time buyers. Polaris will continue to increase ATV market share through continued product innovations. In 2000, such innovations included our youth ATV targeted toward our existing customer base and our expanded RANGER line for farmers, outdoorsmen and commercial applications.

2 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 and performance. But that meant we created a slightly different brand for each vehicle line. With our new brand initiative, we're developing a single, focused brand position that works for all Polaris products. It focuses on the superior riding experience that consumers get from our products — whether they're cruising the open road, jumping waves or traversing trails.

3 HOW COULD AN ECONOMIC DOWNTURN AFFECT YOUR PRODUCT SALES?

Historically, our sales haven't been sensitive to economic cycles. Several factors allow us to ride out economic waves: our vehicles are affordably priced, they can often be used for both work and play, and they've become an integral part of our customers' lifestyles. Plus, the majority of Polaris owners are Baby Boomers, who earn incomes 48% 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 19 consecutive years.

4 WHAT PLANS FOR FUTURE GROWTH DOES POLARIS HAVE?

We've laid out a very clear plan for achieving future growth that includes two sets of activities. Product innovation in each of our product lines will continue, and in fact, accelerate in the coming years. 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.

5 WHAT IS THE POLARIS INTERNET STRATEGY?

We're leveraging the Internet in three key ways: with consumers, dealers and suppliers.

- With consumers, the Internet allows us to market our products and services — and more importantly, it allows us to better communicate with and support them to strengthen relationships. We revised our consumer Web site (www.polarisindustries.com) so customers and prospective customers can quickly find information about products, riding tips or help in selecting trails. The revision also includes the addition of the *purepolaris.com* e-commerce site that offers more than 2,000 garments and accessories for sale online. Take a look and let us know what you think. And keep checking back, because the site will continue to expand in support of a better riding experience.
- We have expanded our dealer Web site to provide information on deliveries, orders and product announcements. In addition, we now allow dealers to place parts, garment and accessory orders, submit warranty claims and view invoices. This will allow us to eliminate more than 300,000 paper invoices that go to our dealers each year.
- To improve communication up and down the supply chain, we launched a supplier extranet. The site includes our current policies and procedures, real-time part issues information, our supplier report card and current part delivery requirements. This Web site allows even the smallest suppliers to send and receive important information quickly without significant expense. Most importantly, the connection is already improving quality, reducing lead times and reducing surprises — for both the suppliers and us.

6 WHY IS POLARIS SO AGGRESSIVE IN ITS SHARE REPURCHASE PROGRAM?

We initiated a repurchase program in 1996 and have extended it every year since because we feel Polaris' share price does not reflect the true value of the company. We're very confident in the long-term prospects of Polaris, and expressed that confidence by investing $39.6 million to repurchase and retire 1.2 million shares in 2000, for a cumulative total of 5.8 million repurchased shares since 1996.

7 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, and the European market has increased nearly 50% in that same time.
- Motorcycles fit with our existing engineering, manufacturing, distribution and marketing processes.
- They supplement ATVs as another year-round product to offset the seasonal sales of snowmobiles and PWC.
- Motorcycles appeal to customers who already have a strong affinity for the Polaris brand.

8 ARE SNOWMOBILES BANNED FROM NATIONAL PARKS?

No. Since Polaris is the world leader in snowmobiles, most people don't realize that about 75% of our business comes from other products. For example, ATVs make up the largest percentage of our revenue, with $844 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. The snowmobile industry looks forward to working with the new Department of Interior leadership and members of Congress to achieve reasonable snowmobile rules and guidelines.

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 Operations beginning on page 14.*

INVESTOR INFORMATION

INDEPENDENT AUDITORS

Arthur Andersen LLP
Minneapolis, MN

DIVIDENDS

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

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

FORM 10-K

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

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

ANNUAL SHAREHOLDERS' MEETING

The meeting will be held at 9 a.m., Thursday, May 3, 2001, at the Polaris Industries Inc. corporate headquarters, 2100 Highway 55, Medina, Minn. A proxy statement will be mailed on or about March 20, 2001 to each shareholder of record on March 13, 2001.

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

SUMMARY OF TRADING

For the Years Ended December 31,

	2000		1999	
Quarter	**High**	**Low**	High	Low
First	**$ 36.25**	**$ 25.56**	$ 39.94	$ 27.00
Second	**32.94**	**27.63**	45.69	29.94
Third	**36.25**	**29.19**	45.00	33.75
Fourth	**42.06**	**32.06**	40.13	32.50

STOCK EXCHANGES

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

CASH DIVIDENDS DECLARED

Quarter	**2000**	1999
First	**$ 0.22**	$ 0.20
Second	**0.22**	0.20
Third	**0.22**	0.20
Fourth	**0.22**	0.20
Total	**$ 0.88**	$ 0.80

Shareholders of record of the Company's common stock on March 1, 2001: 2,731.

Share price on March 1, 2001: $46.25.

PII
Listed
NYSE
THE NEW YORK STOCK EXCHANGE

POLARIS

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