



POLARIS INDUSTRIES INC. 2002 ANNUAL REPORT

## DEPENDABLE PERFORMANCE IN AN UNPREDICTABLE WORLD

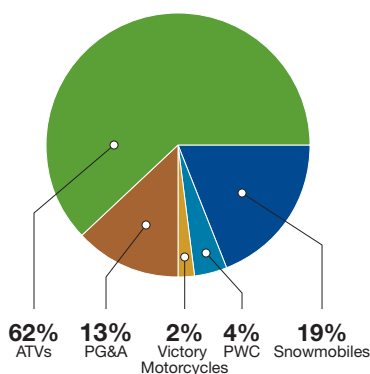
**In 2002 we saw:** Corporate scandals and a shaken stock market, declining consumer confidence, a war on terrorism, increased environmental regulation, lousy weather,

**AND**

**another record year for Polaris.**



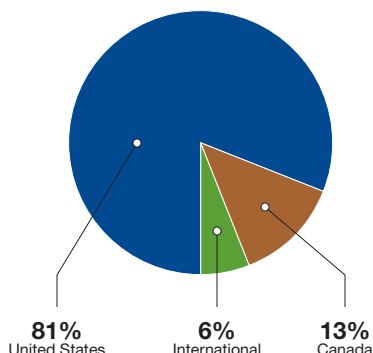
## PERCENTAGE OF SALES BY PRODUCT LINE



### \$1.521 Billion in 2002 Sales

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

## PERCENTAGE OF SALES BY GEOGRAPHIC AREA



### Worldwide Opportunities

While the United States is the world's largest market for Polaris products, international markets represent a significant growth opportunity.

On the Cover: In 2002 Polaris introduced the all new, award winning Predator™ 500 ATV.

Forward-looking statements made herein contain certain important factors that could differ materially from those anticipated. See Management's Discussion and Analysis of Financial Condition and Results of Operation beginning on page 11 of the Form 10-K included with this report.



### All-Terrain Vehicles (ATVs)

Polaris introduced the first American-made ATV in 1985 and ever since we have pioneered such market-transforming improvements as automatic transmissions, long travel/independent rear suspensions, full floorboards, single lever hydraulic braking and on-demand AWD (true 4-wheel drive). Today we dominate both the youth segment and the large 4-wheel drive segment with our Sportsman product line. Our *RANGER* off-road utility vehicle line has redefined the market with its industry-leading power and ride quality.

### Victory Motorcycles

For the 2003 model year, we introduced the new Victory Vegas™ and the Custom Order Program. The Vegas expands Victory's offerings into the lucrative "Custom Cruiser" segment which represents 27 percent of the heavyweight cruiser and touring market. The Custom Order Program is an industry first, allowing customers to go online and custom configure a bike choosing from over 520 combinations. They can order their unique bike from their Victory dealer, have it custom built at our factory and save thousands of dollars.

### Snowmobiles

Polaris pioneered snowmobiles 48 years ago, and we've been the worldwide market share leader every year since the 1990-91 season. We maintain our leadership position by continually offering product and program innovations and competitively priced models covering all market segments: trail sport, two-up touring, trail luxury, performance, deep snow and kid's.

### Personal Watercraft (PWC)

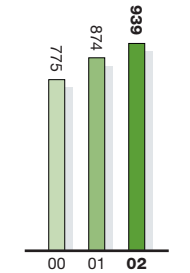
Polaris has been a leader in innovation and bringing environmentally friendly models to the PWC market since 1992. First introduced in 1998, Direct Injection models comprise 50 percent of the model year 2003 line, are 76 percent cleaner and offer industry leading fuel economy. We introduced the MSX line of PWC, which includes two models with turbocharged four-stroke engines, the cleanest and most technologically advanced engines available. All our runabout models are rated for three passengers, the growing heart of the market.

### Parts, Garments and Accessories (PG&A)

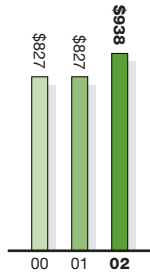
Pure Polaris PG&A complete the riding experience. We have designed and engineered PG&A to enhance the performance of Polaris products ever since we introduced the first snowmobile in 1954. Pure Polaris offers over 40,000 service parts, a diverse array of accessories and Polaris-designed clothing products tailored to meet the needs of the Polaris rider. Pure Polaris also offers retail credit, extended service contracts and insurance products to facilitate the consumer's buying experience.

2002 Overview

The \$5 billion ATV industry recorded worldwide retail sales of approximately 939,000 ATV units, up seven percent from 2001. Polaris ATV retail sales outpaced the industry by growing nine percent and market share grew by 0.6 points, establishing Polaris as the clear number-two manufacturer. We entered the large and lucrative high-performance sport ATV segment with the well-received Predator 500. We grew our Sportsman family, the ATV industry's best-selling ATV family, by 34 percent, driven by product innovation with the 700 Twin and the new 600 Twin. *RANGER* retail sales grew a staggering 114 percent, the largest single share gainer in the utility vehicle market.



Worldwide Industry  
(units in thousands)



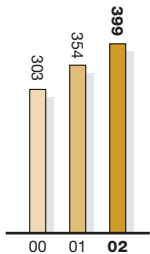
Historical Sales  
(dollars in millions)

Primary Competitors

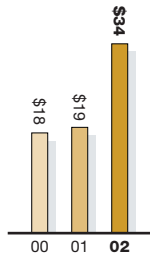
- Arctic Cat
- Bombardier
- Honda
- John Deere
- Kawasaki
- Suzuki
- Yamaha

2002 Overview

Motorcycle sales in the U.S. continued to expand in 2002. The cruiser and touring segments of the motorcycle market where Victory currently participates, experienced good growth in 2002 over 2001, increasing 13 percent for both segments combined. Victory continued to expand its presence through major motorcycle shows and rallies, plus an increased number of Victory Riders Association rides.



U.S. Industry  
(units in thousands)  
Cruisers and Touring



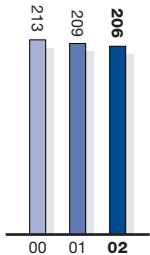
Historical Sales  
(dollars in millions)

Primary Competitors

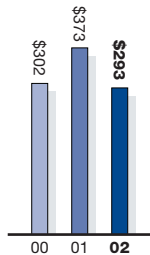
- Harley-Davidson
- Honda
- Indian
- Kawasaki
- Suzuki
- Yamaha

2002 Overview

Approximately 206,000 units were sold worldwide by the snowmobile industry during the season ended March 31, 2002, down one percent from the previous season. The North American market was down slightly due to poor snow conditions. International industry sales were up slightly. Polaris increased its industry-leading share in the 2001-02 season. Final industry-wide retail sales for the 2002-03 season are not yet available but sales through January 2003 are down in North America due to poor snowfall in the prime riding markets and reduced riding in the previous season.



Worldwide Industry  
(units in thousands)  
Season ended March 31



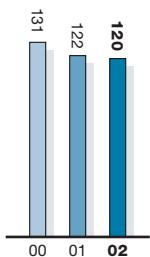
Historical Sales  
(dollars in millions)

Primary Competitors

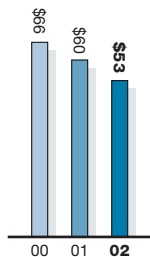
- Arctic Cat
- Bombardier
- Yamaha

2002 Overview

The worldwide PWC market declined a modest two percent for the season ended September 30, 2002. Honda entered the PWC market in 2002 and reinforced views that the market is poised to recover. Polaris watercraft outperformed the market again, posting six percent growth in unit retail sales for the season while reducing dealer inventories. Momentum seems to be swinging toward equal access to waterways for all watercraft as the PWC industry moves toward cleaner, quieter, family oriented machines.



Worldwide Industry  
(units in thousands)  
Season ended September 30



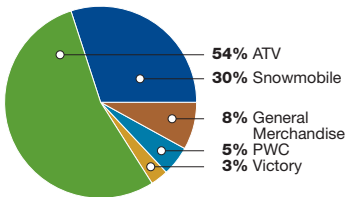
Historical Sales  
(dollars in millions)

Primary Competitors

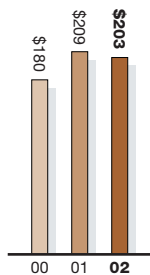
- Bombardier
- Honda
- Kawasaki
- Yamaha

2002 Overview

Pure Polaris PG&A sales were down three percent in 2002 to \$203 million. The business continued to see strong growth in the non-snow segments with sales in ATV, Victory and PWC combined up 17 percent in 2002. The strongest growth was in the areas of ATV/*RANGER* accessories, Victory accessories and International PG&A. This growth was more than offset by a decline in our snow PG&A business due to a second consecutive year of poor riding conditions. Pure Polaris operating margins remained the highest in the Company.



PG&A Product Mix by Product Line



Historical Sales  
(dollars in millions)

Primary Competitors

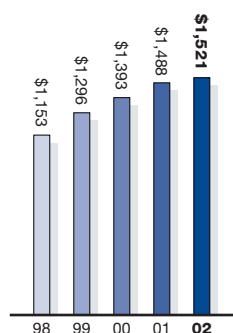
- Parts Unlimited (aftermarket distributor)
- Powersports OEM's
- Tucker Rocky (aftermarket distributor)

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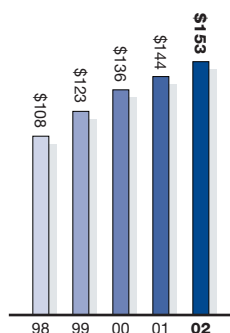
<b>IFC</b>	Polaris Products at a Glance
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## FINANCIAL HIGHLIGHTS (dollars in thousands, except per share data)

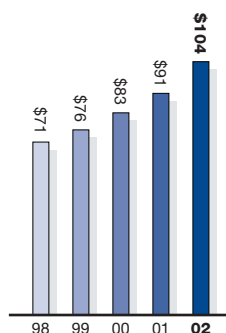
			Annual Growth Rate	
	2002	2001	Current Year	5 Years
<b>OPERATING DATA</b>				
Sales	<b>\$ 1,521,282</b>	\$ 1,487,651	2%	9%
Operating income	<b>152,934</b>	144,173	6	9
Net income	<b>103,592</b>	91,414	13	10
Per common share—diluted	<b>4.39</b>	3.88	13	12
Percent of sales	<b>6.8%</b>	6.1%		
<b>BALANCE SHEET DATA</b>				
Current assets	<b>\$ 343,659</b>	\$ 305,317	13%	10%
Property and equipment (net)	<b>169,596</b>	170,323	—	12
Total assets	<b>608,646</b>	565,163	8	10
Long-term debt	<b>18,027</b>	18,043	—	-6
Shareholders' equity	<b>277,106</b>	238,783	16	10
Per share	<b>11.73</b>	10.13	16	13
Dividends paid per share	<b>1.12</b>	1.00	12	12
Average common shares outstanding—diluted	<b>23,616</b>	23,567	—	-2



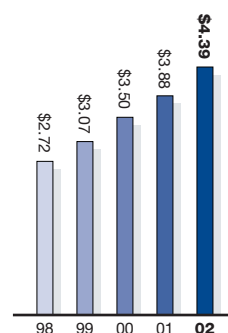
**Sales**  
(dollars in millions)



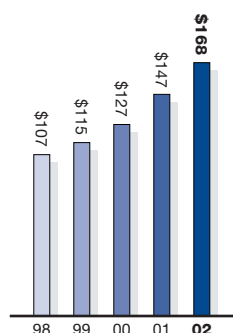
**Operating Income<sup>(1)</sup>**  
(dollars in millions)



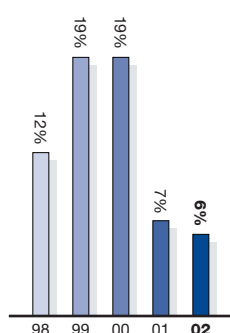
**Net Income<sup>(1)</sup>**  
(dollars in millions)



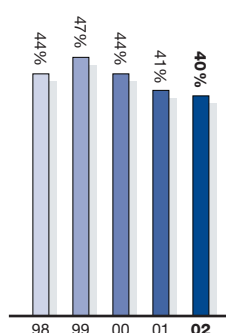
**Net Income Per Share<sup>(1)</sup>**  
(dollars)



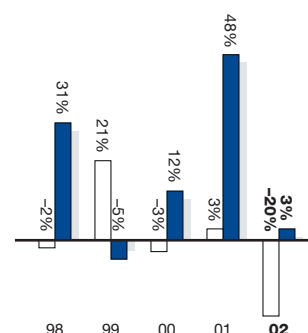
**Cash Flow Provided<sup>(1)</sup>**  
(dollars in millions, before changes in current operating items and deferred taxes)



**Debt to Total Capital Ratio**



**Return on Average Shareholder Equity<sup>(1)</sup>**



**Total Yield to Investors**  
■ Polaris  
□ Russell 2000 Index

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

**POLARIS INDUSTRIES INC.** is headquartered in Medina, Minnesota, and designs, manufactures and markets innovative, high-quality, high-performance motorized products for recreation and utility use. • Our product lines consist of all-terrain recreational and utility vehicles (ATVs), snowmobiles, personal watercraft (PWC), motorcycles and related parts, garments and accessories (PG&A). Polaris engineering, manufacturing and distribution facilities are located in Roseau, Minnesota; Osceola, Wisconsin; Spirit Lake, Iowa; Vermillion, South Dakota; Passy, France; Ballarat, Victoria, Australia; Winnipeg, Manitoba; Gloucester, United Kingdom; Askim, Norway; Östersund, Sweden; and Hudson, Wisconsin (joint venture with Fuji Heavy Industries, Ltd.). • Our wholesale finance company, Polaris Acceptance, is a 50/50 joint venture with a subsidiary of Transamerica Distribution Finance. Polaris products are sold through a network of nearly 2,000 dealers in North America, five subsidiaries and 40 distributors in 126 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.

## LETTER TO INVESTORS FROM THE CEO

**2002 was another good year for Polaris in a tough environment.** Polaris delivered the results we promised in the face of an uncooperative economy and an unpredictable world. We invested in our future with new products, people, and facilities while strengthening our balance sheet. Here are the 2002 numbers:

- Sales grew by two percent to a record \$1.521 billion. ATV and Victory growth offset a substantial decline in snowmobiles, driven by the weather.
- Net income grew by 13 percent to \$103.6 million. Net margins expanded by 70 basis points. Earnings have increased for 14 consecutive years, and for the last 19 consecutive quarters, we've reported both increased sales and EPS.
- Cash flow provided climbed 14 percent.
- Return on shareholders' equity was 40 percent, and there was \$63.2 million of cash (net of debt) on the balance sheet at year end. Debt to total capital ratio was just six percent.
- We repurchased 1.2 million shares, bringing our cumulative repurchases to 8.1 million shares.
- Our total yield to investors was up three percent in a year when the S&P 500 declined 22 percent and the Russell 2000 was down 20 percent.



In addition to our financial accomplishments, we saw a number of strategic wins during the year. After a tough 2001, the ATV business got back on its feet and outperformed the market. Victory had its most successful year yet with sales up 81 percent, and our quality initiative continued to drive improvement across the business. And to drive future success, we introduced more new products in 2002 than any year in our history.

But there were also some setbacks and challenges in 2002. The entire snowmobile industry, including Polaris, saw a substantial decline in retail sales driven by the weather. We withstood a major flood in our largest facility, and the macroeconomic environment remained challenging for the third straight year.

We achieved our results in 2002 the same way we always have — by delivering innovative products with high quality, low cost operations. These core competitive advantages, along with our diversity of businesses, brought us through 2002 in good shape, and they will help us to continue to deliver predictable performance in the future.

**Why ATVs continued to grow.** The ATV market continues to be very competitive, with aggressive promotions and new entries, but we have been able to counter these threats with our focus on innovation, quality and cost — plus diversification into new segments.

The Sportsman 700 began 2002 named as “ATV of the Year” by *ATV Magazine* and turned out to be everything we had hoped. *RANGER*, our off-road super utility vehicle aimed at customers who want heavy-duty ATVs for both work and recreation, delivered substantial growth. The *RANGER* also provides a platform for the Polaris Professional Series of Workmobiles™ designed for the commercial side of the utility ATV market. And perhaps most importantly, we introduced our first true sport ATV, the Predator™, a compelling machine which will attack a \$500 million sport ATV market, which is largely incremental to Polaris.

**Snowmobiles had terrific products but disappointing sales.** When you are recognized for having the best quality and the leading brand of snowmobiles, it's no fun to see sales decline for lack of snow. Sleds are just 19 percent of our sales, and we know how to manage the impact on Polaris when the industry has a down year, but it's tough on dealers when their customers can't get out and ride.

The Rocky Mountain King models positioned us atop one of the two segments that grew in the 2001/2002 season. We made exciting new options available through our Snow Check Select customization program, and we shifted some of our plant capacity to ATVs, keeping margins healthy even though sled sales were down 21 percent. Introducing new products while carefully managing the dealer inventories can help us weather consecutive seasons of below-average demand, but we'd sure like to see it snow.

**The personal watercraft market flattened out.** After five years of decline, PWC industry retail sales were about flat in 2002. We did modestly better than the industry, and gained market share for the fourth straight year. With the new MSX, we introduced an all new platform with eye-popping styling that has appeal domestically and in the international market, where there's a solid growth opportunity. Three new Polaris Liberty marine engines introduced buyers to a new standard for clean, quiet watercraft, with no compromise in performance. Virtually all personal watercraft sold today are multi-passenger models, and with these vastly improved engines, our PWC are among the most environmentally friendly boats on the water. As a small percentage of our business, PWC represents little downside and a meaningful potential growth opportunity as the market comes back and we continue to improve our position.

**Our Parts, Garments, and Accessories Division slipped a bit in 2002 driven by poor snowmobile related sales.** Because riding was way down, sales of snowmobile parts and clothing were also adversely impacted. But sales of ATV, Victory, PWC, and *RANGER* related PG&A items grew double digits, and nearly offset the snowmobile decline. While snowmobiles represent about 19 percent of our business, because of the more than 1 million Polaris snowmobiles in operation, they represent about 30 percent of our PG&A sales.

**Strategically, our most important accomplishment in 2002 was getting Victory going.** We didn't expect it to take this long to break into the motorcycle market, but we finally have the critical mass to grow this business. In 2002, Victory achieved a nearly 50 percent improvement in retail sales, which cleaned up inventory and nearly doubled our sales over 2001. The new Vegas™ cruiser is generating the kind of excitement that greeted the introduction of the first Victory. About 80 percent of motorcycle buyers choose to customize their bikes, and we expect more new models and our Victory Custom Order program to fuel double-digit sales growth in 2003 and beyond.

We now have bikes that appeal to the largest cruiser and touring motorcycle segments—a 399,000-unit market in the U.S. that grew 13 percent last year. We will continue to grow motorcycles as we have ATVs—by introducing superior products one segment at a time, building the brand and strengthening the dealer network. When we add it all up, it seems reasonable to expect similar retail sales growth again in 2003.

**Our quality improvements give us operating leverage.** Two years ago, without a lot of external fanfare, we committed to improving quality across all our product lines. More than any other single accomplishment, this “industry-leading quality” initiative enabled us to deliver our 2002 financial results.

Quality improvement provides an immediate payback by speeding time to market, reducing costs and increasing margins. It continues to benefit Polaris down the road, in the form of decreased warranty claims, competitive differentiation and customer loyalty. Our internal quality report card shows plant defect rates are down 42 percent. Supplier defect rates are 29 percent lower. Problems per vehicle produced are down 16 percent on a weighted average basis. And every time we knock a few percentage points off one of these measures, indirect costs also improve. Before long, we will be fulfilling an order in half the time it took two years ago—and doing twice as much with the same people and equipment. Look for these improvements to continue, because there's no end to ideas for reducing waste, removing defects and meeting new customer needs. Achieving industry leading quality remains our single most important objective.

**Our balance sheet has never looked better.** Our capital structure reinforces our business philosophy. The combination of no net debt, consistent generation of cash flow and sustained operational leverage from quality and productivity gives Polaris unmatched flexibility in uncertain times. Even if we can't predict what will happen, we can keep ourselves in a position with people, processes and capital to respond. Whether we're facing swings in consumer trends, another geopolitical crisis or new environmental regulations, we have a tremendous advantage—the ability to adapt faster than our competitors, and that translates to the bottom line.

Our acquisition strategy is unchanged. We continue to look, patiently, for the right acquisition opportunity within our industry and related industries. An acquisition must be the right fit — financially, strategically and culturally — and it must complement our existing business.

**Distribution is the next big improvement opportunity.** Dealers are critical to building the Polaris brand, because that's the way customers buy the product, obtain financing, get service and meet other people who share their passion. Our dealers are the face of Polaris to the customer. So we've made more than 100 improvements across our dealer network, ranging from re-engineered order and delivery processes to a simplified co-operative advertising program. Based on excellent returns from helping dealers who invest in their stores, we've doubled our capital assistance budget available to dealers. Fewer than half our current dealers were fully engaged in selling PG&A, so we've developed a simplified do-it-yourself retailing program that has increased the average PG&A sales per ATV. The Victory experience taught us the importance of signing up committed, expert dealers located in the right markets. We're applying best practices developed with Victory as we establish commercial distribution for the Polaris Professional Series, where we have 170 very good dealers and expect to add 100 more in 2003. There's more work to do, but the signs are encouraging.

**Governance.** The highly visible corporate governance scandals during the past year have affected every public company, including Polaris and our shareholders. I am proud of our history of integrity, and in 2002 we took additional steps to strengthen our policies, procedures, and our Board. We have always had the basics of good governance — an active Board comprised of well-qualified, independent Directors, a simple business, and clear disclosures. In 2002 we increased our disclosures even more, and took the additional step of adding a non-executive Chairman of the Board. Chairman Greg Palen and CFO Mike Malone address some of these items later in this report.

**Investing in communities.** Polaris has always downplayed our charitable contributions and community involvement. We don't seek credit simply for being a good corporate citizen. But after the flood of 2002, there's no way I can hold back my pride in the people and character of this Company. When the Roseau River swelled to record levels last June, nearly every building in town was damaged. But not the Polaris plant. It was saved by our employees, many of whom left their own flooded homes to defend their workplace against the rising river. They also helped rescue the local hospital and school, pumped out basements and shored up dikes using Polaris vehicles and other equipment pulled from the plant's inventory. When that job was finished, they went back to work without missing a beat. Roseau is special because it is where Polaris was born nearly 50 years ago, but we've found other great communities in Osceola, Spirit Lake and Vermillion. No matter how we are tested in the future, you can count on 3,500 people made of the same great stuff.

Again this year I want to thank our investors, employees, suppliers, dealers and business partners for your support and trust in us. Polaris could not succeed without them.

Finally, longtime shareholders will note that this is the first letter I have written to investors that I have not shared with Hall Wendel, who retired as Chairman in 2002. I have benefited from his guidance and am honored to carry forward the strong culture that Hall helped build here at Polaris. On behalf of the employees, dealers, suppliers and shareholders of Polaris, I want to thank Hall for his more than thirty years of service to our Company. Polaris would simply not exist today without Hall's contribution to the Company.

We did not predict many of the events of 2002. We had to adjust our plans as the challenges unfolded. Yet we found a way to deliver another record year by running our business better than ever. We still face uncertainty, but you can be confident that Polaris will weather whatever comes. We have done it for the last fourteen years, and I'm confident that we will do it for the foreseeable future.



**Thomas C. Tiller**

President and Chief Executive Officer

## LETTER TO INVESTORS FROM THE CHAIRMAN



In May 2002, I was named to succeed Hall Wendel Jr. as the non-executive Chairman of the Board of Polaris Industries Inc. Since I became a Director in 1994, the Board has gradually increased its proportion of independent Directors while retaining the institutional knowledge critical to good stewardship. With the retirement of Hall Wendel and Bob Moe, who served Polaris as executives and directors for a combined 64 years, CEO Tom Tiller is now the sole Director from the ranks of Company management. On behalf of the Board of Directors and all shareholders, I want to thank both Hall and Bob for their contributions and commitment to Polaris. While they will be missed, they have left an impeccable legacy of creating value for our shareholders. You can see it in our record of paying dividends for 61 consecutive quarters as a public company, the ongoing repurchase of the Company's common stock and the steady growth in the value of Polaris.

We value active Board members who talk straight and have a passion for our business. All Directors ride Polaris products, and we conduct group rides each year. As members of the Polaris team, our Directors experience our products in the same manner as our customers and live the riding experience. Our Directors have outstanding and broad experience, and they share their time, skill and knowledge generously. Each attended at least 75 percent of the meetings of the Board and committees on which the Director served during 2002. The Board focuses on making sure that Directors serve on committees where they can make the best use of their talents and experience to benefit Polaris. No two Board members have the same committee assignments, which we believe encourages Board independence and diversity of opinion.

Andris Baltins, a Director since 1994, is our longest tenured Board member. Andris is a member in one of the law firms that regularly provide legal services to Polaris. This year Andris voluntarily resigned from the Audit Committee and the Compensation Committee in order that Polaris shareholders could be assured that the activities of those two committees would not be influenced by that relationship. The Board and our shareholders will continue to benefit from Andris' business knowledge and technical expertise.

The Board of Directors is elected by and accountable to Polaris' shareholders and is responsible for the oversight of management and the direction and control of the Company. Directors serve on committees that assist the Board in meeting its responsibilities.

The Audit Committee assists the Board of Directors in fulfilling its fiduciary responsibilities by overseeing the integrity of the Company's financial statements and its compliance with legal and regulatory requirements, the Company's independent auditor's qualifications and independence, and the performance of both the Company's independent and internal auditors. It consists entirely of independent Directors. In 2002, Polaris retained Ernst & Young as its independent auditors. Polaris has no consulting or other relationships with its auditors that would compromise their independence.

A Compensation Committee assists the Board of Directors in establishing a philosophy and policies regarding executive and director compensation, provides oversight to the administration of the Company's director and executive compensation programs and administers the Company's stock-based compensation programs, which are all fully disclosed.

The Corporate Governance and Nominating Committee provides oversight and guidance to the Board to ensure that the Board of Directors is composed of active, independent Directors with the expertise and energy to oversee the continuing growth of the Company. In addition, we have adopted a series of Corporate Governance Guidelines that assist the Board of Directors in the performance of its duties and responsibilities, including a process for annual performance evaluation of the Board and CEO.

Our business benefits from Directors who understand the importance of ongoing product innovation and quality improvement to our business. The Technology Committee focuses on appropriate investments in technology that will sustain our long-term business performance.

Given the scrutiny that has been given to corporate governance nationally — I want to assure you that the Board remains committed to Polaris' history of integrity, shareholder friendly policies and straightforward financial reporting.

We are proud to serve you as Directors.

A handwritten signature in dark ink, appearing to read 'G. Palen', written in a cursive style.

**Gregory R. Palen**  
Chairman

## POLARIS INDUSTRIES INC. BOARD OF DIRECTORS



### BOARD OF DIRECTORS

(seated left to right)

**Thomas C. Tiller**

President and Chief Executive Officer of Polaris Industries Inc.  
Committees: Executive,\* Technology

**Gregory R. Palen**

Chairman of the Board of Polaris Industries Inc. and Chief Executive Officer of Spectro Alloys and Palen/Kimball Company  
Committees: Audit, Executive, Corporate Governance and Nominating,\* Technology

(standing left to right)

**William E. Fruhan, Jr.**

Professor of Business Administration – Harvard University  
Committees: Audit, Corporate Governance and Nominating

**Richard A. Zona**

Chief Executive Officer, Zona Financial and retired Vice Chairman of U.S. Bancorp.  
Committees: Audit,\* Compensation

**John R. Menard, Jr.**

President of Menards, Inc.  
Committee: Technology

**R.M. (Mark) Schreck**

President, RMS Engineering and retired Vice President of Technology, GE  
Committees: Corporate Governance and Nominating, Technology\*

**Andris A. Baltins**

Member of the law firm of Kaplan, Strangis and Kaplan, P.A.

(not pictured)

**George W. Buckley**

Chairman and Chief Executive Officer of Brunswick Corporation  
Committee: Compensation

**J. Richard Stonesifer**

Retired President and Chief Executive Officer of GE Appliances  
Committee: Compensation\*

\*Committee Chairman

### CORPORATE OFFICERS

**Thomas C. Tiller**

President and Chief Executive Officer

**Jeffrey A. Bjorkman**

Vice President – Operations

**John B. Corness**

Vice President – Human Resources

**Michael W. Malone**

Vice President – Finance, Chief Financial Officer and Secretary

**Kenneth J. Sobaski**

Vice President – Sales, Marketing and Business Development

### GENERAL MANAGERS

**Ronald A. Bills**

General Manager – Personal Watercraft, Polaris Professional Series

**Mark E. Blackwell**

General Manager – Victory Motorcycles

**Michael D. Dougherty**

Director – International Operations

**William C. Fisher**

Chief Information Officer

**Bennett J. Morgan**

General Manager – All-Terrain Vehicles

**Robert R. Nygaard**

General Manager – Snowmobiles

**Scott A. Swenson**

General Manager – Parts, Garments and Accessories

WE CAN'T STOP THE WORLD  
FROM BEING UNPREDICTABLE,  
BUT THAT DOESN'T STOP POLARIS  
FROM BEING DEPENDABLE.

HERE ARE SOME OF THE REASONS  
INVESTORS CAN COUNT ON  
OUR PERFORMANCE.

## ALL-TERRAIN VEHICLES

Hard-driving sport riders demand power, superior handling and a suspension that keeps them in control. The new Predator™ 500 delivers all three in a standard package that is priced to win.



## FIVE REASONS TO REALLY LIKE THE ALL-TERRAIN VEHICLE BUSINESS

**1. We sell more ATVs than any other product, and we've still got plenty of room to grow.** The \$5 billion ATV market has continued to grow steadily since the early '90s. The fastest-growing part of the industry is utility vehicle applications, where we have full range of new offerings. Polaris isn't just riding this rising segment—we're gaining market share.

**2. We're gaining momentum outside our traditional strongholds.** Twenty-five states account for nearly 80 percent of the industry's retail ATV sales. Of those, 15 states are already strong Polaris markets, but we still have ample opportunity to grow in the other 10 sunbelt states. Until now, we've concentrated on the recreational/utility segment. Introduction of the Predator™ 500 makes an additional \$500 million market segment available to Polaris with a product that appeals to sport riders.

**3. New blood continues to come into the ATV market.** About 40 percent of ATV buyers are just getting their first taste of the riding experience, but they're people we already know intimately—largely enthusiasts and outdoorsmen, just like us.

**4. ATV sales ride out bumps in the economy.** A consumer can get into an entry-level Trail Boss 330 for less than \$4,000. A rancher who wants dependable, backcountry four-wheel drive can load up a Sportsman 400 with a heavy-duty winch and other

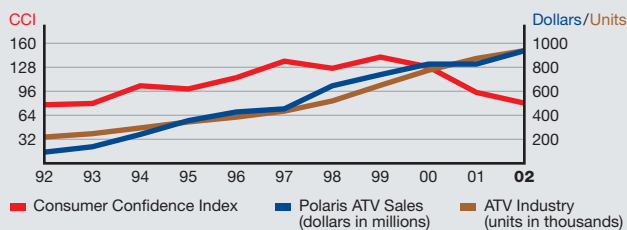


Introducing the Sportsman 600 Twin fills out our smooth-riding Sportsman 4X4 ATV line.

goodies and still stay under \$7,000. Two-thirds of ATVs are used for work or a combination of work and leisure, so it's not hard to justify bringing one home.

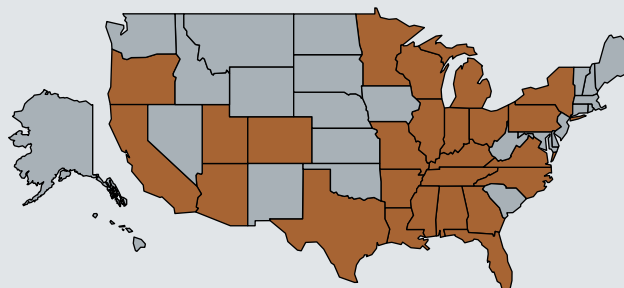
**5. The *RANGER*.** It's powered by rugged, time-tested engines, equipped with our best-selling automatic transmission and driven in 2x4 or true 4X4 and 6X6 fashion. You'll see this hardworking platform hunting big game, doing landscaping, herding cattle and out-hauling the competition all over the map. Retail sales more than doubled in 2002 as the *RANGER* continues to gain market share. No other off-road utility vehicle can compete with the *RANGER*'s traction, power and comfort.

### ATV MARKET SNAPSHOT



#### ATV Industry Unit Sales vs. Consumer Confidence Index

Although the ATV industry is not completely immune to changes in economic conditions, both the industry and Polaris have performed well in good and bad times. A high percentage of first-time buyers coming into the market and the utility nature of ATVs have helped insulate the industry and Polaris from swings in the overall economy.



#### U.S. Top 25 States for ATV Retail Sales

Polaris ATV sales are already strong in the top 25 states where ATVs are sold, but there is still room to grow, particularly in the sunbelt states. The top 25 states represent approximately 80 percent of ATV retail sales in the U.S.



With long travel front and rear suspension and available on-demand four-wheel drive, the *RANGER* has redefined expectations in the fast-growing \$1 billion utility vehicle market.

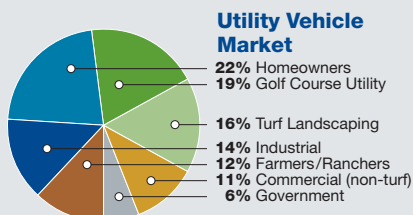
### PRODUCT INNOVATION: LESS IS MORE

We reduced our 2003 model year ATV lineup by 26 percent — and still offered more choices. Among six new models, we introduced the Predator 500, which gives us our first machine in the fast-growing big bore sport segment. A scaled down version, the Predator 90, will extend our number-one position in the youth segment. We also unveiled the new Mossy Oak® Camo series for hunters and rolled out 15 Polaris Pure Escape packages that allow owners to customize their ATVs for more specialized applications — from logging to landscaping. Making it easier to adapt a vehicle to multiple uses is just one more way Polaris stands out from the competition.

**COMPETING HEAD-TO-HEAD** The utility vehicle segment grew at a 16 percent compound annual growth rate over the last three years. *RANGER* sales growth is outpacing this rate fivefold, and it's easy to see why. The *RANGER* truly stands out when you're mired in mud at a work site or picking your way across a boulder field. *RANGER* focuses on multi-acre homeowners, small landscape contractors, outdoorsmen, farmers and ranchers who make up more than half the utility vehicle market.

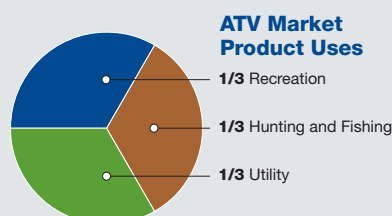
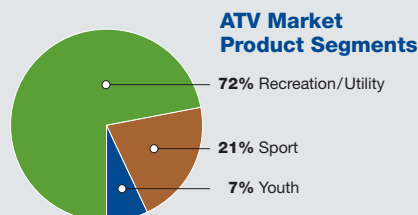
Before Polaris entered the commercial segment of the market with the Polaris Professional Series of Workmobiles™, most offerings were glorified golf carts. The PPS product line includes task vehicles built on our *RANGER* and Magnum ATV platforms and the light-footprint ASL 300 track vehicle. These compact, heavy-duty Workmobiles feature safety and suspension modifications that make them far superior to competitors in the commercial segment. We've extended the Polaris Professional Series to include portable pumps and generators.

**FLEXIBILITY RULES** We build all our full size ATVs in two domestic factories located in Roseau, Minnesota, and Spirit Lake, Iowa. These facilities can quickly shift from producing one model to another, allowing us to respond to changes in market demand. Using more common platforms and proven components helps reduce cost and improves quality, allowing us to deliver more premium features for a standard price.



### ATV Customer Demographic

• Male • Age: 43 • Married • Average income: \$57,000 • Half live in rural counties



### HIGHLIGHTS OF THE YEAR

- *ATV Magazine* named the new Sportsman 700 Twin "ATV of the Year" for 2002.
- *ATV Sport* and *ATV Rider* magazines named Predator "ATV of the Year" for 2003.
- Introduced the Sportsman 600 Twin to successfully flank the world's best-selling ATV family.
- Successfully entered the 113,000-unit high-performance sport ATV segment with the all new Predator 500, the ultimate combination of power, speed and handling.
- Introduced the Predator 90, a youth version of our Predator 500, fueling excitement and retail sales for our industry-leading youth lineup.
- Doubled the *RANGER* off-road utility vehicle business driven by an all new 6x6, ergonomic improvements, and increased marketing investment.



## VICTORY MOTORCYCLES

The new Vegas™ moves Victory into the lucrative custom cruiser segment. Stretched, low-slung and dripping chrome, it combines the head-turning quotient of a custom bike with the head-snapping power of the 1507cc Freedom™ V-twin engine. The award-winning buzz created by Vegas helps create excitement for the entire Victory line.

### FOUR REASONS VICTORY IS TAKING OFF

**1. The U.S. motorcycle market is big — and growing fast.** Selling approximately 860,000 units per year, it's about the same size as the ATV market and grew nine percent in 2002. The cruiser and touring market, where Victory competes, grew 13 percent for 2002. This underlying market growth provides a nice foundation for all the work we've done to build momentum for Victory.

**2. Victory's strategy is working now.** Over the last four and a half years, Victory has methodically built a position in the lucrative premium cruiser and touring segments. It's the same way we built our ATV success. Not taking the market by storm, but patiently going after one segment at a time with one new machine at a time — all the while looking for ways to improve quality and lower cost. It also took time to build a motorcycle-centric dealer network. But as a result, despite the soft economy, we boosted Victory's retail sales nearly 50 percent in 2002.

**3. The Vegas opens up a lucrative new segment for Victory that is 27 percent of our targeted market segments.** With the addition of the Vegas custom cruiser, we now have four models aimed at distinct segments in the upper end of the cruiser and touring market, where riders seek performance, style and an American bike. Customers in this segment have been riding for decades and are ready for a comfortable bike with a custom look. Vegas is designed to delight them.

**4. We've introduced a radical new way to buy a bike.**

As a group, no one on wheels has more passion than bikers for a unique, custom ride. So Victory adapted the Snow Check Select custom order program that has proven so successful with Polaris snowmobiles. In the late summer 2002 inaugural edition of the Victory Customer Order Program, consumers had a two-month window to place their order for spring 2003 delivery. More than 500 combinations were available for the 2003 model year line up.



**PASSION FOR PERSONALIZATION:  
HOW CUSTOM ORDERING WORKS**

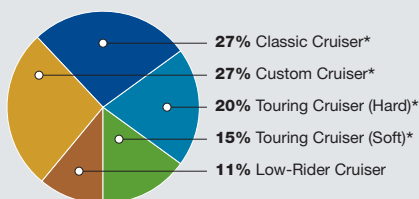
Dealer and industry promotion create excitement about the Custom Order Program. In the period leading up to its launch, Web site traffic jumped 10-fold and the Victory call center handled triple the normal inquiries. Additionally, the program pushes orders into the “pre-season,” allowing for advance production planning at the Spirit Lake factory.

At the showroom or from home, consumers can configure their own factory-built Victory Classic Cruiser or Touring Cruiser by choosing the colors of the bodywork, engine and frame, selecting wheels and tires, and adding a Deluxe Touring Package. Other options, such as factory custom paint, may also be applied. An online tool immediately reflects how different options would change the look — and price — of the bike.

Buyers save significantly compared to replacing major parts on a stock bike. They have the comfort of knowing the installation was done right, at the factory. When the finished bike arrives, the dealer handles final preparation and adds any other accessories the customer ordered, completing the customization.



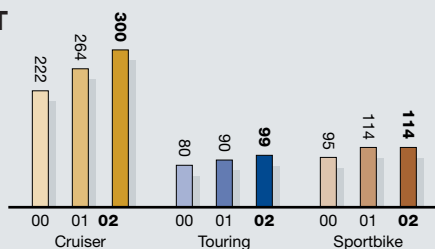
**VICTORY MARKET SNAPSHOT**



**Premium and Touring Cruiser Market Breakdown**

Victory offers four models targeted at each of the largest segments in the lucrative premium cruiser and touring cruiser market segments.

\* Victory participates in this segment



**U.S. Motorcycle Market On-Highway Segments**  
(units in thousands)

Victory addresses two of the top three on-highway segments of the U.S. motorcycle market.

**Victory Customer Demographic**

• Age: 47 • Average income: \$78,000 • Enthusiast owner of multiple bikes, with 25 years riding experience

**HIGHLIGHTS OF THE YEAR**

- Significant improvement in product quality measures.
- Strong gross margin expansion.
- Victory visibility increased dramatically in the major motorcycle enthusiast publications with articles praising the new Victory Vegas.
- Strong increases in Web site and 800 # dealer locator traffic and reported floor traffic from dealers.
- Retail unit sales up nearly 50 percent.
- Dealer inventories down 30 percent and non-current inventory down 70 percent.
- Sales to dealers up 81 percent.

# SNOWMOBILES

Meet the sled that *SnowGoer* magazine dubbed “the biggest, baddest factory mountain masher in the universe.” The 800 RMK gets vertical like no other sled in the world, powered by the Polaris Liberty 800 twin-cylinder variable exhaust engine with new Grafal coated pistons. Sleds in this mountain class need a lightweight design that can handle deep powder, big bumps and marathon climbs.



## FOUR REASONS TO KEEP THE FAITH IN SNOWMOBILES

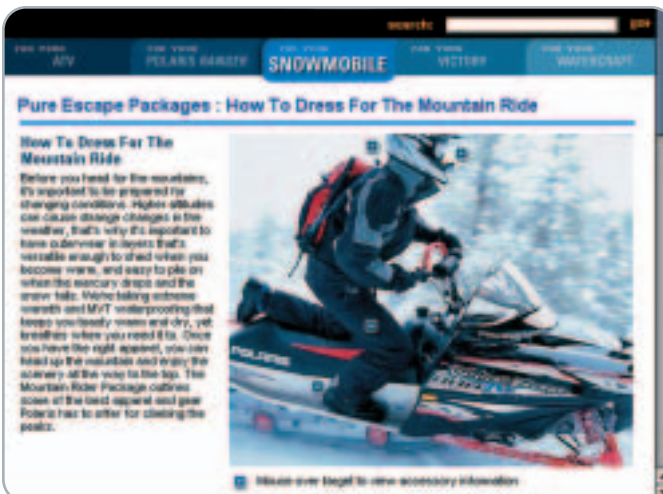
**1. Market leadership.** Polaris has stayed the dominant brand in snowmobiling for well over a decade. That’s a direct result of our ongoing product innovation and industry leading quality. Being number-one in quality means fewer product defects, which translate to lower warranty costs and higher customer satisfaction. Product innovation and a strong brand are especially important in low-snow years, when it’s the loyal and hardcore riders who are still ready to buy.

**2. We can’t change the weather, but we know how to deal with it.** When the snow flies, so do sales. But over the past five winters, with four poor snow years, North American sales are down an average of five percent per year. Conversely, the industry averaged nearly nine percent compound annual growth over the previous 10 seasons that had only three subpar snowfalls. Our flexible manufacturing processes allow the Roseau factory to expand or contract production in

response to weather. A steady stream of innovative new models generates excitement. And our proven Snow Check Select custom order program helps pull sales far in advance of the next season’s weather forecast.

**3. We’re on top of environmental regulation.** With our quiet, low-emission Liberty four-cycle engine, we’ve already exceeded performance standards proposed for 2010. But four-strokes aren’t for everyone, so we’ll keep improving our lighter and zippier two-stroke engines as well. After all, we’ve already shown we could build a clean two-stroke engine for personal watercraft.

**4. Getting the most from engineering innovation.** The RMK 800 Vertical Escape, powered by a Liberty engine aboard a mountain-refined EDGE™ chassis, is the latest shining example of how we apply technology innovations across multiple platforms. This approach reduces cost and increases product reliability — which helps us maintain our leadership position year after year.



A sleek mountain sled isn't all you need to conquer the deep powder. From the Polaris Web site to the showroom, we sell solutions that enhance the riding experience—including specialized gear that helps riders adjust to the quickly changing conditions in the high mountains.

**EARLY SEASON EXCITEMENT** For nearly 50 years, we've sharpened strategies for expanding our customer base and stimulating snowmobile sales in the off-season. Our Snow Check Select program provides incentives for advance orders, but first, we need to get people in to see the new models. Each spring, we sponsor a festive Sneak Peek preview at dealers around the country, offering customers a chance to get up close and touch the new sleds, try on gear and talk to dealers about what Polaris has to offer. All the model year 2003 previews featured "WOW" (Way Out Women)—female Polaris snowmobile enthusiasts who offered advice and information to women who are experienced riders as well as those looking to become involved in the sport.



**IMPROVED SLED MODEL** In addition to introducing exciting all new models, Polaris designs snowmobiles so that existing models can benefit from continuous innovation in the product line. Here's how the Classic Touring 700 sled benefited from our ongoing product development.

## SNOWMOBILE MARKET SNAPSHOT

### Snowmobile Industry Segment

Polaris is the market share leader in five of six market segments for the season ending March 31, 2002.

SEGMENT	% OF NORTH AMERICA	POLARIS' BEST SELLER IN SEGMENT
Performance	40%	Indy 600 XC SP
Two-Up Touring	19%	600 Classic Touring
Deep Snow	18%	RMK 800
Trail Luxury	14%	Indy 600 Classic
Trail Sport	5%	Indy Supersport
Youth	4%	120 XC SP

### Snowmobile Customer Demographic

• Age: 38 • Average income: \$70,000 • Performance oriented: trail riding, mountain riding, sport • Miles ridden: 1,200 per year

### HIGHLIGHTS OF THE YEAR

- A Polaris-sponsored blind consumer study rated Polaris snowmobiles highest in overall quality.
- Introduced new EDGE Touring models which allow the consumer to easily transform these models from two-up machines to stylish one-up cruisers. This led *American Snowmobiler* magazine to name the Indy 700 Classic Touring their "Crossover Sled of the Year."
- The Vertical Escape was named *Snow West* magazine's "2003 Sled of the Year," plus *Snow Goer* magazine's "Mountain Sled of the Year" and *Snow Tech* magazine's "Mountain Sled of Choice."
- Expanded our award winning EDGE chassis to include our entry level and hybrid (SKS) models. *Snow Goer* magazine said, "The Indy 340 is the center piece of what an entry level snowmobile is about." *Snow Tech* magazine said of the SKS, "It corners, it floats, the ride is awesome."
- Expanded our Pro X model line-up designed for the high-performance rider. *Snow Tech* magazine said, "Riders will love the ride, handling and overall performance."

## PERSONAL WATERCRAFT

The three-passenger MSX personal watercraft line introduced in 2002 combines styling, stability and excitement. Offering a choice of the 110 and 150 horsepower Polaris Marine Liberty Turbo Four-Stroke or the 140 horsepower high output direct injection engines, the MSX is the cleanest and quietest boat on the water, without sacrificing performance. Says NASCAR driver Rusty Wallace, shown test driving an MSX 150: "I just can't explain how incredible this watercraft looks and handles. It is truly an awesome performing boat — and that compliment doesn't come easily from a race car driver!"



## THREE REASONS THE PERSONAL WATERCRAFT INDUSTRY WILL REBOUND

**1. PWC sales decline has slowed.** That may not sound encouraging, but after dropping about 35 percent between 1998 and 2001, North American PWC sales appear to be reaching the support level. Throughout this period, our focus has been to gain market share by improving quality and cost-competitiveness while introducing new models that target the growing three-seater segment. It's working.

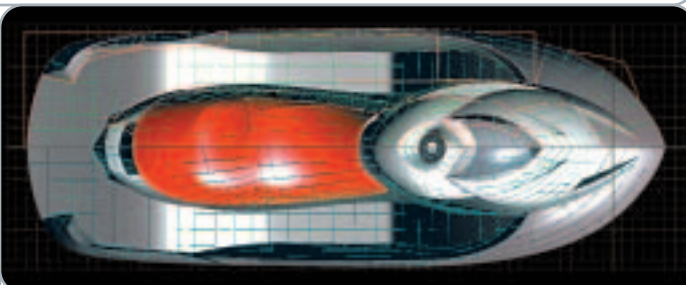
**2. The regulatory outlook is improving.** Issues regarding PWC use are being resolved so consumers are less concerned about future limits on the sport.

Greater certainty and clarity will allow the industry to resume growth.

**3. New engines and new buyers are changing the sport.** Although the market is still identified with younger riders, industry sales are trending dramatically toward families and three-passenger boats. We're aggressively developing technology for this cleaner, quieter future. Our new marine Liberty Turbo Four-Stroke engines meet California's Very Low Emissions standard and beat EPA 2006 Emissions Standards by more than 50 percent. Polaris PLANET™ (Polaris Low Acoustic Noise Exhaust Technology), suppresses exhaust sound and cancels out noise frequencies, reducing sound levels by more than 60 percent.



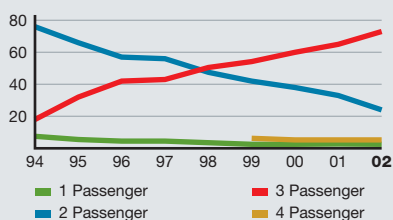
Our new Polaris Marine Liberty Turbo Four-Stroke engines deliver all the benefits of four-stroke technology — quiet operation, performance at altitude, power and torque for towing, and higher horsepower in a lighter engine.



The new MSX hull design looks radical, but it also upholds the Polaris tradition of stability and predictable handling that keeps riding fun for families.

## PWC MARKET SNAPSHOT

### PWC Market Trends by Segment (units in thousands)



### PWC Customer Demographic

- Age: 41
- Average income: \$95,000+
- 50 percent new buyers, with emphasis on larger, more stable boats



**SPORT BOAT LAUNCH** In early 2003, we introduced the Polaris EX2100 Sport Boat line, the result of a strategic alliance with Baja Marine and Mercury Marine, divisions of Brunswick Corporation. The line will be marketed exclusively by Polaris through a channel of select Polaris Sport Boat dealers, starting in spring 2003.

## HIGHLIGHTS OF THE YEAR

- Introduced the revolutionary new MSX platform.
- Introduced revolutionary four-stroke, turbocharged PWC engine technology.
- PLANET sound reduction technology now available on all sit-down models.
- Made further improvements to quality and reliability with new inspection stations, audit procedures, and even further improved durability test standards.
- Successfully introduced a new stand-up race-only model (Polaris Octane) as a brand marketing effort to build excitement with key enthusiasts about Polaris PWC.
- Best results ever in PWC racing — won 20 key world and national titles.



## PARTS, GARMENTS AND ACCESSORIES

Pure Polaris is the name we give to the service parts, Polaris-designed clothing and wide array of accessories that are non-standard equipment — plus the financial services — that enhance the experience of being a Polaris owner.

### THREE REASONS PG&A IS OUR NUMBER-THREE REVENUE PRODUCER

#### 1. PG&A is a lot more than oil filters and sweatshirts.

We offer more than 40,000 items related to our core products, plus extended service contracts, consumer financing and insurance. While some are small, fun items, like caps, beverage coolers and bobble-head dolls, others are hardworking tools, like mowers, plows and log splitters that make our customers' work easier. This diversity produced \$203 million in sales for 2002, with gross profit margins at almost twice what we earn on wholegood unit sales.

#### 2. People want to personalize "The Way Out."

Everyone has their own version of the perfect getaway, and mass-produced products can only get them so close. We know how to get them closer by integrating PG&A into our product development process, followed

by solid merchandising and consistent promotion of the Polaris brand. Our research tells us that 38 percent of consumers will pay a 20 percent premium for a customized ride. More than any power sports competitor, we've tapped into this desire by making it easy to envision and acquire a personal "Way Out" — through dealers or the online Pure Polaris store.

#### 3. It's a recession-resistant source of revenue from an installed base of more than 2 million Polaris machines.

Loyal Polaris owners represent a significant opportunity for incremental sales growth, and we're continuing to find new ways to make them targeted special offers. With new products introduced each year, we have a compelling way to re-connect owners with the brand. Even when overall consumer spending is down, PG&A can increase traffic, sales and margins for dealers. For Polaris, the products and financial services represent a low risk, low investment revenue stream.

## SELLING MORE THAN A VEHICLE

Every purchase of a Polaris vehicle represents the opportunity to sell additional products that enhance the riding experience, plus services that make ownership worry-free. To see the Pure Escape Packages available for all Polaris products, visit [www.purepolaris.com](http://www.purepolaris.com). Here's one example of how it works with an ATV.

Pure Escape accessory packages help owners of all Polaris vehicles recognize new ways to use their machine or increase its performance and style. Because ATVs can be used in such a wide variety of applications, selecting the appropriate accessories can be a challenge. We present customer solutions that allow them to choose related products more easily for the jobs they have in mind.



(1)



(2)



(3)



(4)

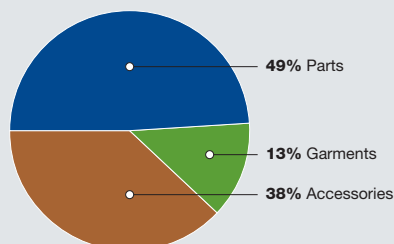


(5)



The buyer starts with a Sportsman 400 featuring four-wheel drive and the world's best-selling automatic transmission. He picks up a helmet (1) and jersey (2) from the in-store displays. Adding options like a 2500 lb. Warn™ winch (3), hand guards (4) and a double tube bumper (5) from the Sportsman Supreme package, the ATV is ready for the hobby farm and the deep woods.

## PG&A MARKET SNAPSHOT



### 2002 PG&A Product Mix by Product Line

The top-selling garment categories include helmets and snow outerwear jackets and bibs. Top-selling accessory categories include Polaris oil, covers, rack and extenders, ATV winch kits and plow kits.



**ELECTRIC SCOOTER** Fun and practical accessories — like this Pure Polaris Electric Scooter — offer almost unlimited ways to extend the Polaris brand and generate new sales.

## HIGHLIGHTS OF THE YEAR

- Increased average dollars of garments and accessories wholesaled per new unit across all product lines.
- Introduced Retail Performance Merchandising programs to assist our dealers in driving retail sales of PG&A products.
- Introduced 16 ATV accessory packages that customize an ATV to meet the need of a particular market segment.
- Made significant improvements in service and product quality.
- Grew our retail credit and extended service contract volumes by 86 percent and 20 percent respectively.



## QUALITY AND PRODUCTIVITY

Investments in our Roseau, Minnesota, and Spirit Lake, Iowa, facilities dramatically increase our ability to customize our products to consumers' requests. We expect steadily growing demand for custom orders and units with factory-installed accessories.

### **3,502 REASONS WE'RE THE HIGH QUALITY / LOW COST LEADER**

#### **3,500 Polaris employees who love what they do.**

Sure, every company says its people are important, but we have the numbers to back it up. Nearly 100 percent of our employees own Polaris stock and ride Polaris products. With sales per employee nearly twice the average for peer companies, the Polaris workforce is the most productive in the industry. Even in a year when our largest facility was hit by floods that nearly wiped out the town, sales per employee grew once again.

**3,501. Innovative design that creates excitement — and cost savings.** Our experienced product design teams understand that innovation is more than making exciting, high-performing new products. It's also making them more durable, easier to operate and simpler to produce. When any new product

development starts at Polaris, engineers think about how the customer will use it, including specialized accessories... How the factory can build it using common platforms and proven components to increase reliability and reduce cost... And how the competition will hate to see it.

**3,502. The fastest, most flexible factories in the industry.** Since 2000, we've invested more than \$45 million to make our plants more productive. Today, our production facilities can quickly switch from making one product to another. We can accelerate testing of product quality and durability. All this has reduced by 40 percent the time it takes to fill an order, compared to two years ago. Speed and flexibility mean we can make what's selling today — not what we thought would sell two months ago. And we're getting faster. In 2002, we announced the start of \$10 million more in plant expansion, engineering facilities and technology improvements.



## HOW INVESTMENT IN OPERATIONS PAYS OFF

**A lightweight racing heavyweight.** For racing across snow, lighter is better. That's why our engineers look for creative ways to whittle weight from every snowmobile. Trimming weight can mean trimming costs, too.

**Payoff:** The 2003 Pro X chassis came in about 15 pounds lighter than last year's model.

**Lower prices for popular models.** As we saw in 2002, when demand slows, competitors with excess inventory resort to price promotions to move their product. Our lower manufacturing costs and cleaner dealer pipeline allow Polaris to compete on price while maintaining healthy margins.

**Payoff:** 2003 model year Sportsman 500 MSRP is \$400 less than model year 2002.

**A dream bike for less.** This Touring Cruiser, ordered through the Victory Custom Order Program, arrives at the dealer with most of the buyer's preferred options factory installed. The dealer completes additional modifications in one day.

**Payoff:** One week more of riding. Less cost to the customer than aftermarket conversion.

**American-made powerplant.** Polaris now manufactures approximately 40 percent of our engines domestically, including the new 700 and 600 twin cylinder engines for our Sportsman line.

**Payoff:** Less foreign exchange risk, control of innovative technology and low cost to manufacture.

**A competitive EDGE.** The EDGE™ chassis, now found on more than two-thirds of our sled models, is built with stronger, self-piercing rivets that require fewer parts compared to earlier models. This reduces weight for better performance and labor for lower cost. Nine 2003 model sleds also incorporate the industry's lightest hydraulic brake system.

**Payoff:** Less cost to manufacture and reduced warranty costs from proven components.

### U.S. Polaris Engineering, Manufacturing and Distribution Facilities

#### Medina, MN

- Headquarters

#### Roseau, MN

- Snowmobiles
- ATVs
- RANGER
- PPS
- ATV engineering
- Sled engineering

#### Osceola, WI

- Fabricated components
- Exhaust systems
- Clutches
- Seats
- Engines
- Victory engineering

#### Spirit Lake, IA

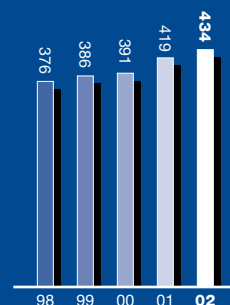
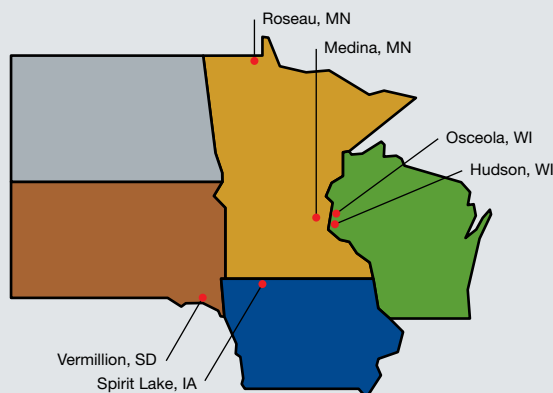
- ATVs
- PWC
- Victory motorcycles
- PWC engineering

#### Vermillion, SD

- PG&A distribution center

#### Hudson, WI

- Engines from a joint venture with Fuji Heavy Industries, Ltd. (Robin)



#### Sales per Employee

(dollars in thousands)

Polaris sales per employee is nearly twice the industry average.



PARTS, APPAREL & ACCESSORIES

## BUILDING THE BRAND

You can get a tempting taste of "The Way Out," no matter where you are. Our online store [www.purepolaris.com](http://www.purepolaris.com) leads visitors to products of interest and locates a nearby dealer. Our main site is deeper with video, product selection tools and information about the sports—and it's easier to navigate than ever.

find a dealer

search:

go

### FOUR REASONS THE POLARIS BRAND IS STRONGER THAN EVER

**1. One company.** As we've added new product lines with Victory, *RANGER* and the Polaris Professional Series, we've made sure we still act like one company, with a common motto: "Understand the riding experience, live the riding experience, work to make it better." Wherever you encounter "The Way Out," there's no mistaking it was brought to you by Polaris.

**2. Dealers are investing in their stores.** The before and after pictures are dramatic. Even more so, the return on investment. In 2002, more than 250 dealers reset their retail space. A number of these are multi-brand retailers who dedicate only a portion of their store to Polaris products. Using a do-it-yourself Retail Performance Merchandising program, dealers could spend a few hours and less than \$1,000 to bring more of "The Way Out" brand into their store.

**3. Polaris is investing in dealers.** Three years ago, we quietly started offering capital assistance grants to Polaris dealers for major renovations or to build new stores. We kick in about five percent of their capital costs in exchange for a three-year retail commitment from the dealer. More than 50 grants later, dealers are seeing an average 35 percent retail growth over three years, and we project a return on investment of 44 percent for Polaris.

**4. More markets, more visibility and more excitement.** Victory has made urban locations more important to us, because that's where the motorcycle riders concentrate. So we're continuing to add dealerships and open superstores in the top metro markets. Recreation-oriented dealers don't typically reach the business owners who buy Workmobiles™. So we are building a new network of outdoor power equipment dealers, currently about 170, that will continue to grow in 2003.



#### UPGRADING RETAIL ▶

More than 300 dealers have revitalized their stores using retail merchandising kits or capital assistance funding from Polaris. Sales increase significantly with expanded floor space and improved display of Polaris products.



▲ **MOSSY OAK® ATV** Polaris continues to develop co-branding relationships with companies that reach people with outdoor-oriented lifestyles. In 2002, we introduced the Mossy Oak Camo edition of our top-selling ATVs. Polaris also was named the official power sports partner of Cabela's, the world's foremost outdoor outfitter. Polaris ATVs receive high-profile co-promotions in Cabela's retail displays, catalogs and special events that reach hunting, fishing and camping enthusiasts in 120 countries.



## COMMUNITY INVOLVEMENT

During the Roseau flood, Polaris employees and Roseau residents strengthened dikes using 75 ATVs and a fleet of PPS All-Surface Loaders and Utility Task Vehicles designed to work in muddy conditions. They also went house to house helping homeowners with nearly 150 water pumps and 50 generators.

### THREE SIGNS OF OUR COMMITMENT

**1. Loyalty goes both ways.** When a historic flood threatened Roseau, Minnesota, Polaris saw the enormous loyalty of our employees—and the town saw the Company's commitment, too. Despite suffering damage to their own homes, hundreds of employees turned out to fight rising waters near the newly expanded Polaris plant.

After waters receded, Polaris employees donated \$500,000 to flood relief and the Company helped secure rapid government emergency aid. We've also invested more to rebuild the community, starting a new \$7 million engineering facility and making zero-interest loans available to employee homeowners needing to rebuild.

**2. Raising awareness and fighting disease.** Whenever possible, we support community and charitable causes where the interests of our customers, dealers, employees and marketing partners coincide.

For the third straight year, Polaris sponsored the Rusty Wallace Splash for Kids watercraft charity ride, which benefits needy children with heart disease around the world. Another Polaris-sponsored event benefiting critically ill children is the Kyle Petty Charity Ride, led by Petty on his Victory motorcycle. Polaris snowmobilers and dealers figure prominently in fundraising for the Minnesota Chapter of the ALS (Lou Gehrig's disease) Association.

**3. Going easy on the earth.** For the last five years, we've worked closely with regulators developing new rules that will govern power sports. We believe that cooperation among industry associations, government agencies and riders' clubs will preserve the environment—and ensure safe and responsible riders access to public lands and waterways. Our PWC and sleds have led the way with cleaner, quieter engines, and we're working on additional designs for all product lines that will strengthen our advantage by reducing noise, emissions and environmental impact.



**SPORTSMAN 700** Military outfitted Polaris Sportsman 700s have been serving in Afghanistan since September 2001, where they have passed formidable tests of their toughness. Perhaps the best testimonial comes from Staff Sergeant Clark A. Gabriel, Jr., an Airborne Ranger who hit a landmine while on patrol on the Sportsman 700:

"If it wasn't for this kick-ass ATV that all of you there built, I know I wouldn't be alive to write this letter. We replaced the front end, winch, gas tank, fenders and the footplates and it runs like new. Tell me another ATV that can take that kind of abuse."

### HIGHLIGHTS OF THE YEAR

Making first-time home purchases more affordable serves as a recruiting and retention tool in the Roseau area. The Polaris Foundation, along with other community-based organizations provided down-payment assistance to 23 Polaris employees.

Other contributions included:

- YMCA of Okoboji, Iowa
- Northwest MN Foundation
- University Children's Foundation
- University of MN Foundation
- Big Brothers Big Sisters of Greater Minneapolis
- Youth Hockey Association
- Gillette Children's Foundation
- Greater Twin Cities United Way
- Children's Cancer Research

## 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, including the information referenced under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," located in the Form 10-K included in this report.

For the Years Ended December 31,	2002	2001	2000	1999
<b>Statement of Operations Data</b>				
Sales data:				
Total sales	\$ 1,521,282	\$ 1,487,651	\$ 1,393,039	\$ 1,296,409
% change from prior year	2%	7%	7%	12%
Sales mix by product:				
All-terrain vehicles	62%	56%	59%	57%
Snowmobiles	19%	25%	22%	24%
Personal watercraft	4%	4%	5%	4%
Motorcycles	2%	1%	1%	3%
PG&A	13%	14%	13%	12%
Gross profit data:				
Total gross profit	\$ 332,280	\$ 306,997	\$ 287,746	\$ 254,889
% of sales	22%	21%	21%	20%
Operating expense data:				
Amortization of intangibles and noncash compensation	\$ 16,437	\$ 16,482	\$ 12,702	\$ 10,472
Conversion costs	—	—	—	—
Other operating expenses	177,552	160,697	153,250	130,771
% of sales	12%	11%	11%	10%
Actual and pro forma data: <sup>(2)</sup>				
Net income	\$ 103,592	\$ 91,414	\$ 82,809	\$ 76,326
Diluted net income per share	\$ 4.39	\$ 3.88	\$ 3.50	\$ 3.07
<b>Cash Flow Data</b>				
Cash flow from operating activities	\$ 192,771	\$ 188,581	\$ 107,666	\$ 124,354
Purchase of property and equipment	56,575	53,982	63,056	65,063
Repurchase and retirement of common stock	76,389	49,207	39,622	52,412
Cash dividends to shareholders	25,273	22,846	20,648	19,732
Cash dividends per share	\$ 1.12	\$ 1.00	\$ 0.88	\$ 0.80
Cash distributions declared to partners	—	—	—	—
Cash distributions declared per unit	—	—	—	—
<b>Balance Sheet Data</b>				
(at end of year)				
Cash and cash equivalents	\$ 81,193	\$ 40,530	\$ 2,369	\$ 6,184
Current assets	343,659	305,317	240,912	214,714
Total assets	608,646	565,163	490,186	442,027
Current liabilities	313,513	308,337	238,384	233,800
Borrowings under credit agreement	18,027	18,043	47,068	40,000
Shareholders' equity/partners' capital	277,106	238,783	204,734	168,227

(1) In 1998, Polaris entered into a settlement agreement related to a trade secret infringement claim brought by Injection Research Specialists, Inc. The one-time provision for litigation loss amounted to \$61.4 million, or \$1.53 per diluted share in 1998. The settlement had no effect on the future operations of the Company. Excluding this charge, other operating expenses, net income and diluted net income per share for 1998 would have been \$102.8 million, \$70.6 million and \$2.72 per share, respectively.

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

1998	1997	1996	1995	1994	1993	1992
\$ 1,152,812	\$ 1,008,538	\$ 1,156,579	\$ 1,078,784	\$ 804,597	\$ 511,924	\$ 370,522
14%	(13%)	7%	34%	57%	38%	29%
56%	45%	37%	33%	30%	27%	25%
27%	35%	36%	40%	43%	49%	54%
4%	6%	15%	16%	14%	9%	7%
1%	—	—	—	—	—	—
12%	14%	12%	11%	13%	15%	14%
\$ 211,644	\$ 188,414	\$ 193,996	\$ 185,272	\$ 157,354	\$ 114,159	\$ 90,882
18%	19%	17%	17%	20%	22%	25%
\$ 8,703	\$ 5,887	\$ 5,325	\$ 5,616	\$ 14,321	\$ 13,466	\$ 11,997
—	—	—	—	12,315	—	—
164,244 <sup>(1)</sup>	89,425	91,254	77,998	55,056	47,466	38,194
14% <sup>(1)</sup>	9%	8%	7%	7%	9%	10%
\$ 31,015 <sup>(1)</sup>	\$ 65,383	\$ 62,293	\$ 60,776	\$ 54,703	\$ 33,027	\$ 24,602
\$ 1.19 <sup>(1)</sup>	\$ 2.45	\$ 2.24	\$ 2.19	\$ 1.98	\$ 1.21	\$ 0.91
\$ 121,385	\$ 102,308	\$ 89,581	\$ 77,749	\$ 111,542	\$ 78,503	\$ 55,316
61,532	36,798	45,336	47,154	32,656	18,946	12,295
37,728	39,903	13,587	—	—	—	—
18,582	16,958	16,390	116,639	—	—	—
\$ 0.72	\$ 0.64	\$ 0.60	\$ 4.27	—	—	—
—	—	—	—	50,942	47,217	44,507
—	—	—	—	\$ 1.68	\$ 1.67	\$ 1.67
\$ 1,466	\$ 1,233	\$ 5,812	\$ 3,501	\$ 62,881	\$ 33,798	\$ 19,094
183,840	217,458	193,405	175,271	206,489	109,748	74,999
378,697	384,746	351,717	314,436	331,166	180,548	146,681
204,964	191,111	161,387	155,722	161,457	98,055	69,054
20,500	24,400	35,000	40,200	—	—	—
153,233	169,235	155,330	118,514	169,709	82,493	77,627

## LETTER TO INVESTORS FROM THE CFO



At Polaris, we take tremendous pride in our record of ethics and integrity. We believe in maintaining complete, accurate and transparent financial statements and disclosures. Quarter to quarter and year to year, we report results in a clear and consistent fashion so investors can understand the Company's operations and trust the direction of management. Of course, dependable performance makes financial reporting a simpler job. Our 10-year track record of 15 percent compounded annual sales growth and 17 percent compounded earnings per share growth speaks for itself.

Polaris is not a complicated business. Our business model is based upon designing high quality, innovative products; manufacturing them at low cost; and marketing them to consumers we understand through an independent dealer network that orders product before we build it. Polaris has no sophisticated special purpose entities, no conflicts of interest with officers or directors and no tricky or aggressive accounting gimmicks. Our conservative accounting policies include revenue recognition and sales promotion and incentive practices that are customary in our industry when retailing through dealers. The Company maintains reserves that we believe are adequate to cover the risks associated with unsold inventory, as well as product warranty and product liability claims that arise in the normal course of business. We make substantial disclosures related to our relationships with our financial services business partners and the associated risks and obligations of Polaris in order to make that part of our business transparent to our shareholders. The Company employs a consistent, predictable financial forecasting model that gives us confidence in providing forward-looking earnings guidance to our investors. We are proud to have met or exceeded our earnings per share guidance range for over 20 consecutive quarters.

As now required by the SEC, Tom Tiller and I have certified Polaris' financial statements for 2002. We already have the proper financial controls in place and we expect no difficulties complying with any provisions of the Sarbanes-Oxley Act.

To comply with decisions of the Financial Standards Account Board's Emerging Issues Task Force (EITF), Polaris implemented new accounting rules during the first quarter of 2002. Floor plan financing expenses that previously were included in selling and marketing expenses are now recorded as an offset to sales (EITF Issue 01-09). Cooperative advertising expenses that previously were included in selling and marketing expenses are now recorded in cost of sales (EITF Issue 00-25). In addition, income from financial services, which was previously reported as non-operating income, is now reported as a component of operating income to better reflect income from ongoing operations of the Company, of which financial services has a significant impact. Certain amounts in the 2001 periods presented in the financial statements have been reclassified to conform to the 2002 presentation. These changes had no impact on previously reported net income or shareholders' equity.

We have a history of generating strong cash flow from operating activities, and we emphasize capital efficiency. Our policy is to utilize the cash provided by operations where it will provide the best return for our shareholders. In 2002, we generated operating cash flow of \$192.8 million, which we used for capital investments and new product development, cash dividends to shareholders and repurchasing and retiring common shares. Pursuing this approach has produced a strong balance sheet and a return on average shareholder equity averaging 43 percent over the past five years. During the past five years, the Company has returned a total of \$362.4 million to the shareholders of the Company through cash dividends and share repurchases. At year end, the Company is in a solid cash position (\$81.2 million) with very low debt (six percent debt to total capital ratio), positioning us to respond to growth opportunities as well as react to unforeseen events.

We will continue to review our policies, controls, processes and disclosures to ensure that investors continue to have the utmost confidence in the management of Polaris to act in the best interests of the shareholders.

A handwritten signature in black ink that reads "MICHAEL MALONE". The signature is stylized with a cursive-like flow.

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

## OTHER INVESTOR INFORMATION



### STOCK EXCHANGES

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

### INDEPENDENT AUDITORS

Ernst & Young LLP  
Minneapolis, MN

### TRANSFER AGENT AND REGISTRAR

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

Wells Fargo Bank Minnesota, N.A.  
Shareowner Services  
161 North Concord Exchange  
South St. Paul, MN 55075-1139  
1-800-468-9716  
[www.wellsfargo.com/com/shareowner\\_services](http://www.wellsfargo.com/com/shareowner_services)

### ANNUAL SHAREHOLDERS' MEETING

The meeting will be held at 9 a.m., Thursday, April 24, 2003, at the Polaris Industries Inc. corporate headquarters, 2100 Highway 55, Medina, Minn. A proxy statement will be mailed on or about March 17, 2003, to each shareholder of record on February 27, 2003.

### SUMMARY OF TRADING

Quarter	For the Years Ended December 31,			
	2002		2001	
	High	Low	High	Low
First	\$66.25	\$52.05	\$51.65	\$38.13
Second	76.75	61.40	47.00	36.00
Third	77.00	58.00	51.36	35.10
Fourth	67.55	56.00	58.70	37.30

### CASH DIVIDENDS DECLARED

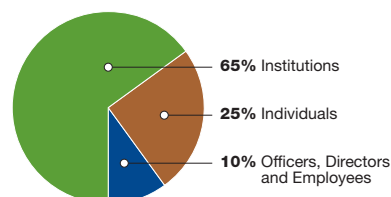
Cash dividends are declared quarterly and have been paid since 1995. As of January 23, 2003, the quarterly dividend was increased to \$0.31 per share.

Quarter	2002	2001
First	\$ .28	\$ 0.25
Second	.28	0.25
Third	.28	0.25
Fourth	.28	0.25
Total	\$ 1.12	\$ 1.00

### SHAREHOLDERS OF RECORD

Shareholders of record of the Company's common stock on February 27, 2003 were 2,620.

### SHAREHOLDER COMPOSITION



### DIVIDEND REINVESTMENT PLAN

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

### PRODUCT BROCHURES

For product brochures and dealer locations, write or call:  
Polaris Industries Inc.  
2100 Highway 55  
Medina, MN 55340  
1-800-Polaris (1-800-765-2747)

### INTERNET ACCESS

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

[www.polarisindustries.com](http://www.polarisindustries.com)  
[www.victory-usa.com](http://www.victory-usa.com)

### INVESTOR RELATIONS

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

Richard Edwards  
Director Investor Relations  
Polaris Industries Inc.  
2100 Highway 55  
Medina, MN 55340  
763-513-3477  
[richard.edwards@polarisind.com](mailto:richard.edwards@polarisind.com)

### RESEARCH COVERAGE AS OF FEBRUARY 2003

A.G. Edwards  
Bank of America Securities  
Craig-Hallum Partners  
Prudential Securities  
Raymond James & Associates  
SBK Brooks Investment Corp.



POLARIS INDUSTRIES INC.  
2100 HIGHWAY 55  
MEDINA, MN 55340

763-542-0500

763-542-0599 FAX

[www.polarisindustries.com](http://www.polarisindustries.com)

