

# DETERMINED

THE MINDSET OF A WINNER



**POLARIS**

POLARIS INDUSTRIES INC. 2005 ANNUAL REPORT

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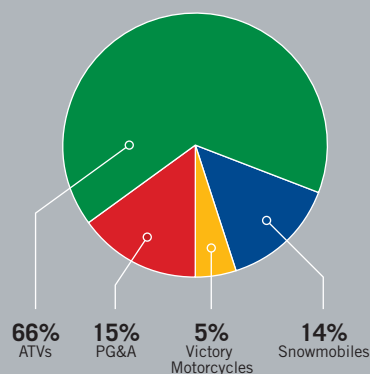
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**POLARIS INDUSTRIES INC.** is headquartered in Medina, Minnesota, and designs, manufactures and markets innovative, high-quality, high-performance motorized products for recreation and utility use. • Our product lines consist of all-terrain recreational and utility vehicles (ATVs); snowmobiles; motorcycles; and related parts, garments and accessories (PG&A). Polaris engineering, manufacturing and distribution facilities are located in Roseau and Wyoming, Minnesota; Osceola, Wisconsin; Spirit Lake, Iowa; Vermillion, South Dakota; Passy, France; Ballarat, Victoria, Australia; Winnipeg, Manitoba, Canada; 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. • We have a 25 percent investment in Austrian motorcycle manufacturer KTM Power Sports AG • Polaris products are sold through a network of nearly 1,700 dealers in North America, five subsidiaries and 40 distributors in 126 countries outside North America. • 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 and shares in thousands, except per share data)

	2005	2004	% Change
<b>FOR THE YEAR</b>			
Sales from continuing operations	\$ 1,869,819	\$ 1,773,206	5%
Operating income from continuing operations	214,786	211,637	1
Net income from continuing operations	144,285	136,813	5
Percent of sales	7.7%	7.7%	
<b>PER SHARE</b>			
Net income from continuing operations (diluted)	\$ 3.29	\$ 3.04	8%
Dividends paid	1.12	0.92	22
Net book value	8.42	8.03	5
<b>FINANCIAL POSITION</b>			
Total assets	\$ 768,956	\$ 792,925	- 3%
Stockholders' equity	369,657	361,732	2
Average shares outstanding (diluted)	43,881	45,035	- 3
<b>OTHER INFORMATION</b>			
Property and equipment (net)	\$ 222,336	\$ 200,901	11%
Capital expenditures	89,770	88,836	1
Depreciation and amortization	67,936	59,339	14
Borrowings under credit agreement	18,000	18,000	—
Return on average shareholder equity	39%	40%	
Average dividend yield	1.9%	1.6%	
Average number of employees	3,645	3,616	1

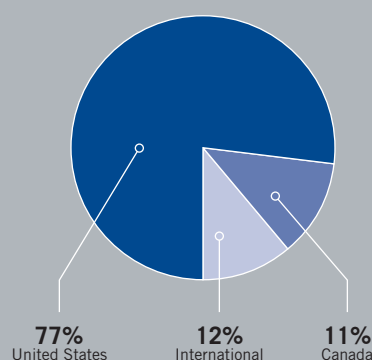
### PERCENTAGE OF SALES BY PRODUCT LINE



#### \$1.870 BILLION IN 2005 SALES

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

### PERCENTAGE OF SALES BY GEOGRAPHIC AREA

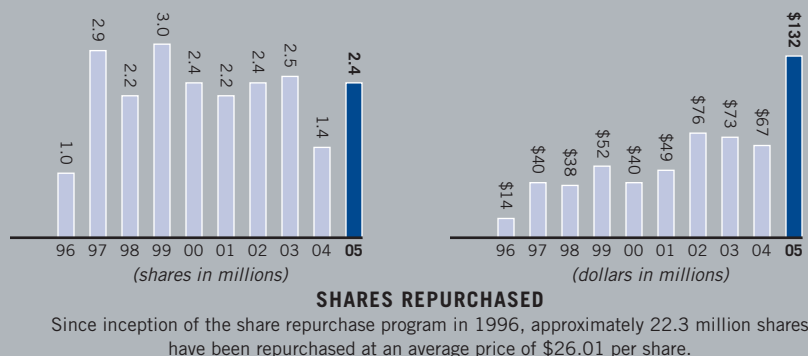
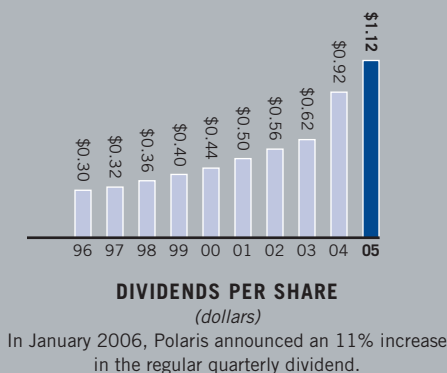
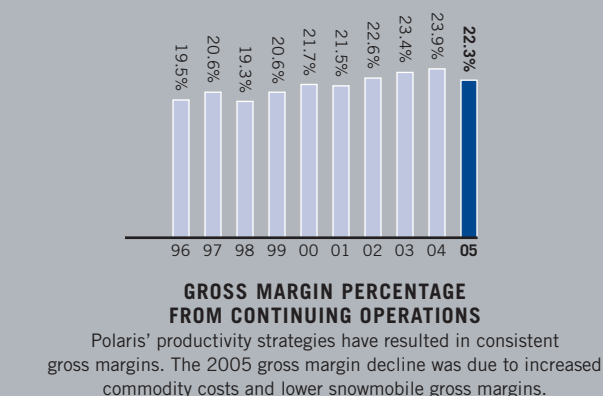
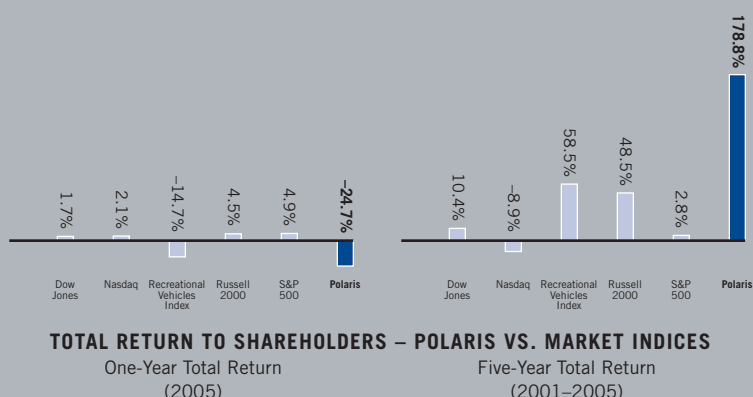
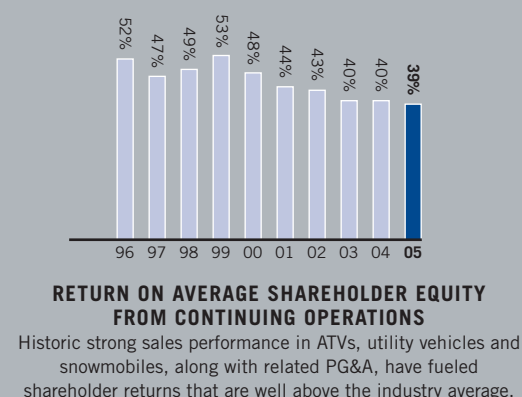
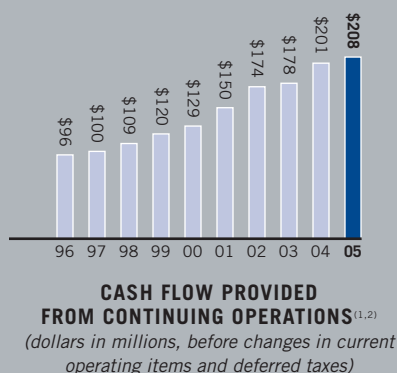
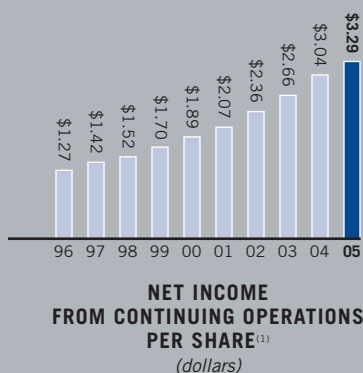
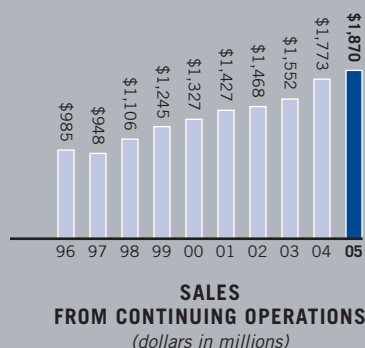


#### WORLDWIDE OPPORTUNITIES

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

**NOTE:** All periods presented reflect the classification of the marine products division's financial results, including the loss from discontinued operations and the loss on disposal of the division, as discontinued operations.

**THE SCORECARD** 2005 represents the 24th consecutive year of record earnings per share from continuing operations in a challenging economic and industry environment. Polaris has consistently delivered increasing shareholder value through strong cash flow generation and high returns on shareholder equity. The Company's balance sheet remains strong with minimal debt, ample borrowing capacity and access to the capital markets to fund our growth initiatives.



**NOTE:** All periods presented reflect the classification of the marine products division's financial results, including the loss from discontinued operations and the loss on disposal of the division, as discontinued operations.

- (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 \$0.77 per diluted share, has been excluded from the 1998 financial data presented.
- (2) A reconciliation of the Company's calculation of Cash Flow Provided to the most directly comparable cash flow measure, as required by Regulation G, appears on page 19 of this Annual Report.



**POLARIS AT A GLANCE** Forward-looking statements made herein involve certain important factors that could change and cause actual results to differ materially from those anticipated. See Management's Discussion and Analysis of Financial Condition and Results of Operation beginning on page 14 of the Form 10-K included with this report.



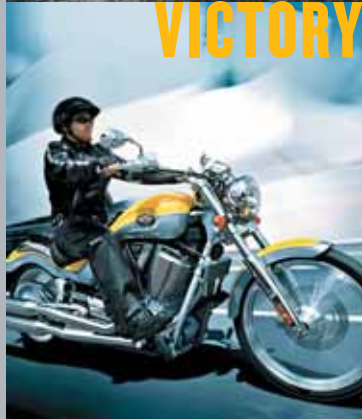
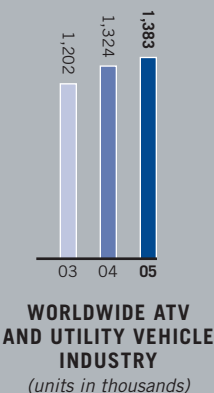
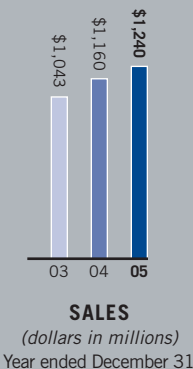
## ATVS

### ALL-TERRAIN VEHICLES (ATVs)

Polaris introduced the first American-made ATV in 1985 and pioneered such market-transforming improvements as automatic transmissions, long travel/independent rear suspensions (IRS), full floorboards, single-lever hydraulic braking, on-demand AWD (true 4-wheel-drive) and the industry's first electronic fuel injected 4x4. Today, we hold a dominant position in 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, and our Outlaw™ sport quad takes handling to another level with the industry's first IRS on a sport ATV.

### PRIMARY COMPETITORS

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

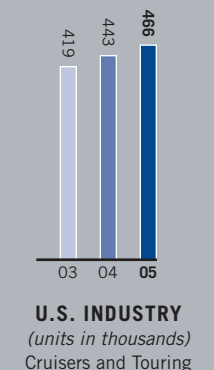
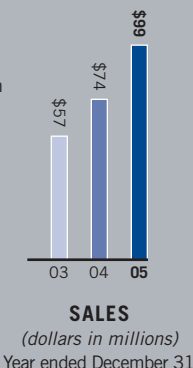


## VICTORY

**VICTORY MOTORCYCLES** For the 2006 model year, three completely new models were introduced, including the Vegas Jackpot™ and two new custom cruisers from Arlen and Cory Ness based on the Jackpot platform. Additionally, several of our current models were fitted with the 100-cubic-inch engine and the new 6-speed transmission that was introduced in our Hammer™ cruiser model last year. The Custom Order Program continued for model year 2006, allowing customers to go online and configure a bike from thousands of combinations.

### PRIMARY COMPETITORS

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

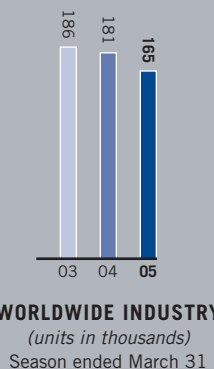
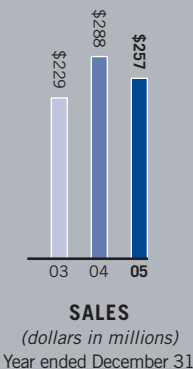


## SNOWMOBILES

**SNOWMOBILES** Polaris pioneered snowmobiles more than 50 years ago, and we are a recognized leader in the industry. We remain competitive in the snowmobile business by continually offering product and program innovations, and competitively priced models covering all market segments: trail sport, 2-up touring, trail luxury, performance, deep snow and youth. For model year 2006, we introduced 15 new sleds and five new engines with several new innovations, including the industry's first truly adjustable steering, Rider Select™ We are committed to uncompromising ride, performance and handling.

### PRIMARY COMPETITORS

- Arctic Cat
- Bombardier
- Yamaha



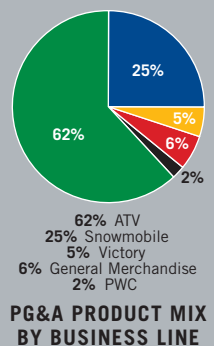
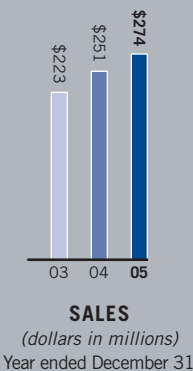
## PG&A

### 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 approximately 50,000 items consisting of 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.

### PRIMARY COMPETITORS

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





Thomas C. Tiller – Chief Executive Officer



Bennett J. Morgan – President and Chief Operating Officer

## DEAR FELLOW SHAREHOLDERS:

2005 was a good year for Polaris—better than any in our history by most measures—but the results fell somewhat short of our expectations.

- Sales grew by \$97 million to a record \$1.87 billion, an increase of 5 percent.
- Net income from continuing operations also increased 5 percent to \$144.3 million, extending our earnings growth streak to 24 consecutive years.
- Earnings per share from continuing operations increased by 8 percent to \$3.29 per share.
- Return on shareholders' equity was 39 percent, while our debt-to-total-capital ratio remained a very comfortable 5 percent.
- After two years of more than 50 percent price appreciation, our share price fell off its historic highs and finished 26 percent lower than at the start of the year, resulting in a total annual return to investors in 2005 of a negative 25 percent. Our five-year total return remains a respectable 23 percent per year.

## SUMMARY OF 2005

We anticipated that 2005 would be tough, but the year proved even more challenging than we had planned. We were squeezed from two directions: the market slowed and our costs escalated. As usual, during the last year there were some significant accomplishments, as well as some disappointments:

**Victory broke through.** Entering the motorcycle business was a big undertaking for Polaris, and at times, the progress has been slow. But in recent years, Victory has been building tangible momentum. Each year the bikes have gotten better looking and more reliable, at a lower cost, and the brand has gained higher awareness. Victory customers love their motorcycles, and the powerful word-of-mouth referrals have brought people into the Victory family. Financially, while the numbers were improving, it wasn't until 2005 that we broke through. The motorcycle business delivered a profitable fourth quarter in 2005, and we anticipate a profitable full year in 2006. Not only has the brand turned the corner, the business is now making money. This is significant because we expect the rapid, profitable growth of Victory to continue into the next decade.

**RANGERS and international sustained double-digit growth.** Our largest business, ATVs, consists of three parts: traditional ATVs sold in North America, the *RANGER* utility vehicle business and international sales. While the North American market slowed, we delivered solid growth in both *RANGER* and ATV sales outside of North America, particularly in Europe. Our deliberate, country-by-country approach to international markets continues to build steam. In 2005, we grew international sales 20 percent, and international sales accounted for over 12 percent of total company revenue, compared to 6 percent just a few years ago.

**Parts, garments and accessories (PG&A) delivered solid performance.** We introduced new Lock & Ride™ accessories like the *RANGER* cab that don't just personalize vehicles—they transform them. This business posted revenue gains, high margins and good execution across the board.

In addition to these operational successes, we made three strategic moves that will provide substantial benefits over the next several years.

**KTM partnership.** During the summer of 2005 we announced the purchase of 25 percent of Austrian motorcycle manufacturer KTM. KTM has a 50-year history comparable to Polaris' and is currently the second-largest motorcycle manufacturer in Europe. KTM and Polaris form a natural partnership; we compete against largely the same competitors, but are not direct competitors ourselves. We have the potential to help each other, while strengthening each of our own businesses.

For Polaris specifically, the KTM partnership offers us the following benefits:

- **A stronger European presence.** As the North American market for ATVs slows, it is critical that we expand our presence in Europe. While we have been quite successful on our own, Europe is KTM's home market, so they can help accelerate our progress. The KTM brand is among the strongest in Europe, the KTM dealer network is large and powerful, and KTM's engineering and manufacturing facilities in Austria are world class.
- **A technology partner.** KTM has some of the best engine technology in the world, and its more than 100 world championships in racing demonstrate its performance and reliability in a way that enthusiasts instantly recognize.
- **Additional scale to reduce component costs for both companies.** In cases where we purchase components from the same suppliers, we'll purchase jointly to gain economies of scale.
- **A complementary presence in motorcycles.** Victory competes in the heavyweight cruiser market. KTM offers a line of off-road and performance on-road motorcycles that complement the line of Polaris ATVs and Victory motorcycles.
- **An experienced management team with a track record of success.** For the last 14 years, KTM has produced growth through the same recipe that has made Polaris successful — innovation.

Similarly, we believe that Polaris can provide specific benefits to KTM in terms of a strong North American presence, chassis technology, a strong market presence in ATVs, and a similar demonstrated track record of performance.

We have structured the first two years of our strategic partnership to answer two questions. First, we want to know if these apparent financial benefits can actually be realized. Second, we want to know if we can build a good working relationship between the two organizations. To do this, we are collaborating on seven, well-chosen strategic projects that will help demonstrate whether the marriage will work — in such vital areas as product development, sourcing, engine technology, manufacturing, dealer financing and distribution. We are optimistic about having a good cultural fit and mutual financial benefits, but, sometimes, mergers that look beautiful in the boardroom may get ugly in the cubicles. By following this approach, we'll have specific, tangible financial results to measure before we make the final decision on a next step. If the first phase is successful

and both companies agree to proceed, Polaris will have an opportunity in late 2007 to purchase a majority share of KTM at a price based on predetermined pricing formulas to be derived from operating results of both companies in 2007.

Although we're focused on making this deal work, we haven't closed the door on other internal and external opportunities to accelerate growth and profitability. With our strong balance sheet and healthy cash flow, we can continue to fund other good ideas, pay dividends and buy back stock for the foreseeable future. We believe that purchasing Polaris stock at current market prices continues to be an excellent use of the Company's capital.

**Completion of R&D center.** Experienced Polaris investors know that innovation has been the lifeblood of the company throughout its history, fueling the organic growth of the company over the long run. Over the last 25 years, for example, Polaris has grown by a factor of 150 — all based on the innovative ideas of our team.

One of the most important developments of 2005 was the opening of the new Product Development Center in Wyoming, Minnesota. With this high-tech facility we are making a \$35 million investment in the future — the largest single capital investment in company history — attracting the best people to work with state-of-the-art tools to design the finest vehicles. And it is paying off already. If you are product development nuts, as we are, this may be one of the most fun, magical places to work on the planet. We believe that over the next 20 years, the Wyoming R&D center will prove to be one of our best investments ever.

**Restructuring the retail financial services eliminated the credit risk and preserves the upside.** A restructured retail financing agreement removed all credit, direct interest rate and funding risk we had under our prior contract. In August 2005, we received \$50 million in a return of our cash investment and, in the future, Polaris will receive income based on the volume of retail credit business generated. We anticipate that the future income levels from the new agreement to be comparable to our old structure, but without the credit risk.

In addition to the successes, there were also some disappointments in 2005:

**Execution in snowmobiles was below our expectations.** We had a number of challenges: warranty and product costs were up, and market share and margins were down. We did not perform to our expectations in our heritage business, and it showed in our financial results. In addition, due to unfavorable weather conditions, the market contracted further. While we can't predict the weather, we expect to execute significantly better in 2006.

**Commodity prices hurt.** Higher prices for oil and raw materials didn't just affect our component, manufacturing and transportation costs. Consumers faced with rising gasoline prices and interest rates thought twice about making big purchases. Inventory backed up at dealers and the factory. We will work through it, but the impact on our gross margins was significant. As we reduce inventory and intensify our productivity efforts, we expect to generate gross margin expansion in 2006.

**The ATV and snowmobile markets slowed.** In each of our businesses, we face formidable global companies with the brands, resources and dealer networks to compete very aggressively. This is nothing new. But in 2005 we saw actual declines in the North American ATV and snowmobile industries. The increases in interest rates and general maturing of the markets led to the first fall off in the core traditional North American ATV market in a number of years.

**Increased inventory levels.** We could have done a better job forecasting the market, and could have reacted more quickly to unforeseeable sales-dampening events like Hurricanes Katrina and Rita. We will spend a good part of the first half of 2006 reducing inventory back to more normalized levels.

### THE ROAD AHEAD – 2006 AND BEYOND

After a successful but challenging 2005, what can investors expect in the future from Polaris?

In the near term, we will focus on improving our execution, particularly in snowmobiles, getting dealer and factory inventory back in line, executing the KTM cooperative projects, and driving innovation. Longer term, we remain committed to achieving the strategic goals outlined last year.

In last year's annual letter to shareholders, we laid out a new definition of long-term success and a plan for achieving it. Nothing that happened in the almost brutal environment of 2005 has swayed us from our goals or caused us to lose confidence in our strategies to reach them. In fact, the adversity has simply strengthened our determination to reach them. That determination is a defining characteristic of the Polaris culture.

#### Our three strategic goals are:

- Grow to \$3 billion in sales by 2009.
- Expand net margins to 9 percent by 2009.
- Build a dominant brand with industry-leading product quality and distribution.

A number of opportunities exist to achieve the sales objective, including the potential execution of phase two of the KTM strategic partnership, continuing to grow rapidly in Victory motorcycles, *RANGER* utility vehicles and our international business and sustaining or modestly expanding our market share in North American snowmobiles and ATVs.

Expanding net margins to 9 percent will require a continued focus on cost reduction and productivity similar to what we demonstrated from 1999–2004. We believe progress at that rate is possible. We do not anticipate that the rapid increases in commodity costs that we have seen over the last 18 months will continue.

We have made excellent progress with product quality over the last several years, and we expect that progress to continue. For two of our four vehicle lines, we believe we now offer the highest-quality product available. Through relentless focus we expect to continue to improve our product quality with the end goal of being recognized as the quality leader across all our product lines.

We know that the environment in the years ahead will not get easier. Staying competitive will continue to call for lower costs, greater productivity and exciting new products brought rapidly to market. These are all Polaris strengths, so there's no need to change our game plan, but we will need to execute flawlessly. Success will also require finding new markets, which we've approached through innovative product development that reaches new segments — look at *RANGER* and Victory — and deliberate geographic expansion.

So innovation will remain at the core of our strategy. You can see this innovation come to life in the model year 2006 new product introductions.

The Hawkeye™ puts full-size features in a mid-size, mid-priced ATV. The Sportsman X2 easily transforms from a 1-passenger ATV to a 2-up in 10 seconds. The Outlaw high-performance ATV brings together an outrageous combination of power, handling and suspension. We took the Sportsman 500, the most successful product in the history of the company, and reintroduced it as one of our new, much cleaner EFI models, along with the Sportsman 800 EFI, which took *ATV Rider* magazine's "ATV of the Year" award. *RANGER* XP delivers the most speed, acceleration and fun of any utility vehicle, plus added comfort features like a Lock & Ride cab.

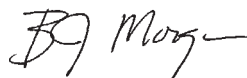
The Jackpot extends the Vegas® motorcycle line into the extreme custom segment with the fat-tire look of a custom bike — at a price tag more than \$10,000 below some competitive models. And the Fusion™ 600 HO, with the highest performance-to-weight engine in the industry, has brought us back in the performance segment of the snowmobile business.

At the heart of our company remains our people, who we believe are the best in the industry. Our management team is the strongest it has ever been, with a healthy dose of new talent joining some very experienced, homegrown leaders. In his new role as President and COO, Bennett Morgan brings 18 years of experience with Polaris, most recently running the ATV division, and is now running the day-to-day operations of the company. While the basic direction of Polaris won't change, undoubtedly Bennett will find some new approaches to our business. Our new association with KTM has allowed the entire management team to see some fresh perspectives while our engineering team is energized with the Wyoming investment. Each and every one of our 3,600 employee owners are committed to reaching our strategic goals.

Finally, we would like to thank each and every Polaris employee, dealer, distributor, supplier, customer and shareholder for another year of support during 2005. We look forward to more success in 2006 and beyond.



Thomas C. Tiller – Chief Executive Officer



Bennett J. Morgan – President and Chief Operating Officer



## A LETTER FROM THE CHAIRMAN



Gregory R. Palen – Chairman

During the past year, Polaris management implemented a number of major initiatives that will have lasting impact on the Company. The Board was fully supportive of these efforts geared toward achieving the vision to be a \$3 billion company and expand the net margins to 9 percent:

**Leadership development and succession.** As Polaris grows and becomes more global, it's essential to ensure the Company is developing a strong team of leaders. The Board and Compensation Committee periodically review management depth, the leadership development process and compensation with the Chief Executive Officer, and make recommendations for longer-term succession planning.

In 2005, we restored the office of President and Chief Operating Officer, appointing Bennett Morgan, an 18-year Polaris veteran who had been vice president and general manager of the ATV division. This move enabled Tom Tiller to focus on the KTM partnership implementation and other strategic initiatives, without losing sight of operational performance. Just as important, we backfilled the key openings this change created by promoting internal talent.

**Seizing growth opportunities.** Our five-year plan calls for carefully selecting big ideas that create or transform a market and expand our international presence. In 2005, we made great strides in both areas with the completion of the first phase of the KTM partnership. Although Company management recommends and carries out acquisitions and partnerships, the entire Board plays an active role in reviewing such strategic opportunities. We have the utmost respect for the brand equity KTM has built, in terms of performance, durability and racing prowess in the motorcycle industry. We feel the partnership is a very solid first step in helping Polaris become more global and seizing international opportunities for both companies.

**Reducing cost while improving quality and productivity.** This is an ongoing effort at Polaris that has resulted in several noteworthy achievements in 2005. ATV quality improved 23 percent over 2004 and Victory was named number one in quality among worldwide motorcycle manufacturers by an independent ranking organization. Management, along with the Board's support, will continue to focus aggressively on these areas in the coming years.

**Strategic investment.** Management and the Board recognized that product innovation and technology are the heart of the company. To ensure they remain competitive advantages, Polaris opened a dedicated Product Development Center in April 2005. This represents the largest single capital investment in company history and lays the groundwork for us to control our destiny by developing innovative power train and emission systems. Through its Technology Committee, the Board provides oversight of product and technology investment plans—including major product and facility changes—to ensure

that we bring our customers products they love and address regulatory and competitive challenges across all our product lines.

In addition, the Board provided oversight in two important areas:

**Board governance.** The Corporate Governance and Nominating Committee ensures that the Board and its committees effectively exercise our role in the governance of the Company. In 2005, we expanded our Board membership in size, powersports experience and global perspective with the appointment of Stefan Pierer, managing director of KTM Power Sports AG. Stefan brings extraordinary talent and is a passionate leader who has guided KTM for over 14 successful years. He will serve as a member on the Technology Committee and will stand for re-election to the Polaris Board of Directors at the 2006 Annual Meeting of Shareholders.

**Compliance and business integrity.** Business integrity is fundamental to preserving any company's value. Polaris has a strong tradition of ethical business conduct and financial transparency. The Board pays close attention to ensuring that we fulfill our fiduciary responsibilities to Polaris and its shareholders and, in doing so, provide the oversight necessary to be confident that Polaris continues to act as a responsible corporate citizen in compliance with applicable regulatory standards. We are particularly proud of the efforts of the entire Polaris team in creating the type of environment that permits me to report that, once again, we have satisfied the requirements of Section 404 of Sarbanes-Oxley Act as evidenced by the unqualified opinions of both management and the independent registered public accounting firm relating to the assessment of the effectiveness of internal controls over financial reporting. Polaris has in the past, and will continue in the future, to emphasize complete, accurate and transparent financial statements and disclosures so that investors can understand the Company's operations and have confidence in the direction of the Board and management.

Overall, the Board met eight times in 2005, with the Audit Committee and Compensation Committee each meeting eight times; the Corporate Governance and Nominating Committee, once; and the Technology Committee, three times. Each of our Directors attended over 75 percent of Board meetings and any committees on which they served in 2005.

On behalf of the entire Board, we thank all Polaris employees for their commitment to integrity and excellence, and all shareholders for their continued confidence.

Gregory R. Palen – Chairman



# DETERMINED



**WHAT MAKES A COMPANY SUCCESSFUL?** Most often, people look to its tangible strengths, like a clean balance sheet, innovative products, low-cost production or streamlined distribution. At Polaris, we have those advantages, but our core strength runs much deeper. It's embodied in the 3,600 men and women who work hard day in and day out to build the best products in pursuit of the best ride. It's a culture that doesn't quit, even when the road gets a little rocky. We simply adapt to market changes and continue to follow the tenets that have made us successful. Those tenets, outlined on the following pages, will help us achieve our goal of becoming dominant in powersports.





# OFFER SUPERIOR PRODUCTS AND



PHOTOS FROM LEFT TO RIGHT:

- Victory riders share stories at Sturgis.
- Fusion snowmobiles now feature more horsepower to attract performance-minded riders.
- Our youth ATVs and snowmobiles help us build loyalty from an early age.

Our success in delighting customers comes from our deep understanding as riders. Just like our customers, we revel in the journey, appreciate good craftsmanship and don't let obstacles get in the way of a great riding experience.

**Tapping experience to provide a great ride.** Most Polaris employees own at least one Polaris vehicle. Many ride them to work and over lunch. So it's not surprising that employees contribute significantly to product design. For example, a Polaris technician who was tired of shifting gears while doing farm work came up with the idea of an ATV automatic transmission. And, after one of many Victory team rides, employees realized that a 6-speed transmission would make our motorcycles even more comfortable and enjoyable by further reducing vibration and noise.

**Creating new ways to keep customers engaged.** As riders, we know what it's like to be obsessive about powersports. There is the anticipation that comes with researching the latest machines, the pride in wearing branded gear and the camaraderie of hanging out with other enthusiasts. We deliver

ways to keep riders engaged in all aspects of their favorite sport.

Our online tools make it easy for customers to window-shop from home. Victory, ATV and *RANGER* customers can even build the machine of their dreams, right before their eyes, with our Internet-based customization program. In 2005, we announced a Design-Your-Own Snowmobile contest. Response was overwhelming and the winner's design, nicknamed "Ripped Metal," will become an exclusive 2007 graphic look. Fans can even follow its progress on our Web site. To help connect riders with other enthusiasts, we offer Adventure Tours, online forums and our *Escape* magazine.

**Creating innovative PG&A to spark sales.**

In 2004 we introduced the patented Lock & Ride ATV attachment system and in 2005 we reaped the rewards. Sales

of the revolutionary, easy-to-use accessories increased dramatically: by 45 percent in cabs, 50 percent in cargo boxes and 64 percent in gun holders, for example. When an accessory can be attached in seconds without any tools, customers are more apt to buy.

Another accessory innovation resulted in a huge sales spike in 2005. Sales of the *RANGER* SpeedKey,<sup>™</sup> which allows owners to set the speed at which others drive their vehicle, increased more than 250 percent over 2004.

To meet the demand of Victory owners, who spend an average \$2,000 each on PG&A, we expanded the Pure Victory apparel line to over 100 items and introduced 150 new accessories in the past two years.

- Lock & Ride accessories, like this ATV Glacier Plow, can be attached in less than one minute, thanks to our exclusive mounting system.



# EXPERIENCES THAT IGNITE PASSION



**A CULTURE BORNE OF WINTER WARRIORS** The Polaris spirit can be traced back to co-founder Edgar Hetteen. In 1960, Edgar was determined to prove that his company's new snowmobiles weren't just frivolous toys. After all, employees had been using them for years to get to their remote hunting shacks. So Edgar and three friends embarked on a 1,200-mile journey across the Alaskan wilderness to demonstrate the vehicle's durability.

The team traveled on 10- and 7-horsepower Polaris Sno-Travelers, lugging 900 pounds of provisions on toboggans. They endured minus-40 degree temperatures, thin ice, 6-foot snowdrifts and 60-mph windstorms to complete the journey in 12 days. Their determination paid off. The machines became so popular that Polaris began manufacturing snowmobiles exclusively, which it did for many years before adding ATVs in 1985.





# CONTINUALLY BUILD ON OUR



PHOTOS FROM LEFT TO RIGHT:

- Rider Select lets snowmobile enthusiasts switch among seven steering positions for greater comfort and control.
- We introduced EFI on our best-selling *RANGER* 4x4 to make it more fuel efficient.
- Our new world-class research and development facility is helping us improve quality and reduce time to market.



We love the challenge—and the competitive advantage—of continually creating the next “best thing.” In 2005, we invested in our two major R&D centers to expand our lead in developing new technologies and products that will drive consumer demand and help us achieve our goals.

#### Introducing the largest fleet of new products in company history.

**Snowmobiles.** New technology is breathing new life into the sled business. Our IQ™ Chassis, which combines better balance with greater engine output, is now in 60 percent of our snowmobile models. We also introduced five new engines that deliver greater power with fewer emissions. In fact, our two new vehicles with FS 4-stroke engines were recently certified for use in Yellowstone National Park and already exceed EPA emissions standards set for the year 2012. And our new Fusion 600 HO is one of the quickest snowmobiles in the popular and competitive 600 class.

**ATVs.** We made the world's best-selling ATV, the Sportsman 500, even better by adding electronic fuel injection (EFI) for easy starting in any weather and better fuel economy. We introduced a new Outlaw with independent rear suspension (IRS), making it the industry's first sport quad with IRS. To capture market share in fast-growing segments, we introduced the Sportsman X2, which transforms from a 1-passenger to 2-up in 10 seconds. We also introduced two new mid-size ATVs to meet demand among teens and women: Sawtooth™, which features full-size power in a lightweight

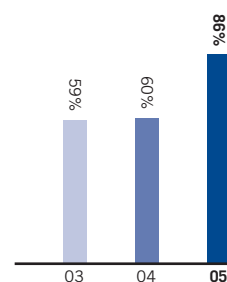
chassis, and Hawkeye, the first mid-size ATV with IRS. In the utility market, we introduced EFI on our popular *RANGER* 6x6 and 4x4, and IRS on the 4x4.

**Victory.** In 2005, we introduced the Hammer, a performance cruiser designed to attract younger, more affluent customers to Victory. In 2006, we're targeting the rapidly expanding extreme custom segment with our Vegas Jackpot. It combines extreme styling and performance not typically found in this segment. We also added our 100-cubic-inch Freedom™ engine and 6-speed transmission to more models for added performance and comfort.

**Taking innovation to new levels.** In 2005, we solidified our future with the completion of our \$35 million investment in a major R&D facility in Wyoming, Minnesota. It includes state-of-the-art testing capabilities to improve quality and reduce time to market. Examples include powertrain development cells, a structural lab that accelerates endurance tests and 620 acres of secluded terrain to test vehicles in their natural environments. Through advanced communication technologies like electronic whiteboards and videoconferencing, Polaris engineers in our Wyoming and recently upgraded Roseau development centers are

able to share knowledge and ideas with each other and vendors.

We're extremely proud of our new Wyoming center. It's a world-class technology facility that helps us expand our powertrain capability, attract the best and brightest in the industry, and reinforce our commitment to be a good corporate citizen. Our building was designed and built for LEED (Leadership in Energy and Environmental Design) Certification to limit its impact on the environment, and we worked closely with the Minnesota Department of Natural Resources to protect the 200 acres of wetlands on our site.



#### PERCENTAGE OF VEHICLE SALES FROM NEW PRODUCTS INTRODUCED IN PREVIOUS THREE YEARS

Renewed emphasis on innovation, including a disciplined product development process, drove higher new-product introductions in 2005.

## LEGACY OF INNOVATION



- The new Wyoming research and development facility includes a structural lab that allows us to run endurance tests in a fraction of the time it would take to run them on road.



#### CHALLENGING THE ATV STATUS QUO

Up until this year, every sport quad on the market had a straight axle rear suspension. “That kind of suspension doesn't deliver the level of control sport quad buyers are looking for,” said Jim Endrizzi, Product Manager of Sport/Youth ATVs, whose team was determined to make Outlaw the best-handling sport quad on the market. “We knew independent rear suspension (IRS) was the answer, so we developed PRO-IRS.” The innovative IRS system provides three key benefits, Jim said. “Riders can go faster with less fatigue over rough terrain.

They can straighten out off camber jumps and landings. And they have 11 inches of ground clearance for fewer hang-ups.” Apparently, the industry agrees. The 2006 Outlaw with PRO IRS won *ATV Sport's* “Trail Supremacy Shootout,” and was named “Sport ATV of the Year” by both *ATV Guide* and *ATV Rider*.



By anticipating future trends in powersports, we've strategically added new product lines and let go of less successful ones — while strengthening our existing strong businesses.

**Setting the foundation with snowmobiles.**

Today, our flagship snowmobile business makes up less than one-sixth of our total sales, yet we have remained a leader in the industry. We will continue to innovate and improve our sled business, even as we develop others.

**Taking a lead in an already-established**

**ATV market.** We entered the ATV business in 1985 as an underdog. The market was already well established and under scrutiny because of safety concerns with traditional three-wheelers. Our entry ATV was a more stable four-wheeler and the industry's first-ever automatic transmission. Through continuous product innovations, we quickly moved into a leadership role and in 2005 celebrated production of our 2 millionth ATV.

**Recognizing when to exit personal watercraft.**

In 2004, Polaris exited the personal watercraft business for several reasons: The market had been in decline for several years, it represented only 3 percent of total company sales and the marine division had few commonalities with other Polaris product lines, which made it more expensive to operate. By moving marine resources to opportunities with greater potential, we are building an even stronger company.

**Proving ourselves in motorcycles.** In the fourth quarter 2005, Victory Motorcycles had its first profitable quarter, following four years of strong revenue growth. Today, we have the fastest-growing motorcycle brand in the United States, with a resale value better than Japanese brands and closing in on Harley-Davidson. The victory is especially sweet, given that several start-up American motorcycle companies have come and gone in the past few years. In addition to packaging new American styling in top-performing bikes, we also:

*Chose the most lucrative motorcycle segments.* Cruisers and touring bikes represent two of the top growing U.S. on-highway segments. The growth is being fueled largely by baby boomers looking for a more comfortable and relaxing way out.

*Assembled a strong team and instituted a disciplined development process.* The Victory management team has more than 100 years of combined experience fueled by personal

passion. The development process the team put in place was so advantageous — from a cost, time and quality standpoint — that we instituted it across all our vehicle lines several years ago.

*Improved the sales process with two industry firsts.* One is a test drive program. More than 70,000 people have test driven a Victory since the program launched in 2002. The other innovation is a custom order program that allows buyers to choose custom options up front via the Internet versus doing it themselves after purchase. They save money and are assured of factory-direct quality.

Today, motorcycles represent about 5 percent of Polaris sales. Within four to five years, they could represent close to 25 percent of sales, due largely to our new partnership with KTM, which is featured on the following pages.



# PLAN TODAY FOR

PHOTOS FROM LEFT TO RIGHT:

- The FST SwitchBack is one of several models with a new, lower-emission 4-stroke engine.
- The new Sportsman X2's fold-up rear passenger seat makes it a more versatile ATV.



**TRUE GRIT: TAKING ON AN AMERICAN MOTORCYCLE ICON** Victory's success is due, in large part, to Polaris employees' can-do attitude, said Matt Parks, who led the original Victory development team.

"People who didn't know our company or our culture looked at all the obstacles we had to overcome and said we'd never make it," he recounted.

"After all, we had to hire a team from scratch, the company had never built a 4-stroke engine or done an all-metric vehicle before, and we had to deal with a lot more regulatory issues because this was our first on-road vehicle," he said. "But we know we can take on any challenge as long as we rely on our strengths: understand where the market opportunities are, know the customer and build products our way. That's exactly what we did with Victory."





# TOMORROW'S DOMINANT PRODUCTS

## The Making of a New American Motorcycle Company: Victory



**1998**

Introduced the V92 Victory Cruiser, which was named *Cycle World's* "Cruiser of the Year"



**1999**

Began partnership with renowned customizers Arlen and Cory Ness



**1999**

Began sponsoring NASCAR superstar Kyle Petty's annual Charity Ride Across America to benefit children's hospitals



**2002**

Introduced revolutionary Vegas custom cruiser, named "Cruiser of the Year" by *Cycle World*



**2002**

Debuted the industry's first custom order program



**2002**

Debuted the industry's first motorcycle test drive program



**2004**

Introduced top-of-the-line cruiser, The Hammer



**2005**

Victory was first profitable in the fourth quarter of 2005

Our goal of becoming dominant in powersports might seem ambitious if Polaris was just a North American company. But we have been steadily growing our international business since the late 1960s, and a new partnership with Austria-based KTM could eventually transform us into the largest non-Japanese manufacturer of powersports products.

**An international evolution.** Polaris began selling snowmobiles in Scandinavia in the late 1960s and gradually added new markets as opportunities arose. But for the first three decades, we treated international as more of a sideline business. In the late 1990s, we began to take a more holistic approach. We increased international profitability by switching from third-party distributors to Polaris-owned subsidiaries in key markets.

We also began taking a more global approach to product design. In 2002, we introduced the Quadricycle specifically to meet Europe's stricter regulations for on-road ATVs. Today, we take into account the regulations and customer preferences in all our markets, so we can design vehicles that are compliant and appealing in a majority of countries. Following are business highlights by region:

*Europe.* Most of our international efforts have been focused here, where there's demand and money. We were the first American manufacturer to sell ATVs in Europe, where ATVs are on a double-digit growth trajectory.

*Asia/Pacific.* Early efforts focused on sourcing versus exports, but we became one of the first ATV manufacturers to enter Australia and New Zealand in the late 1980s, targeting the thousands of sheep and cattle stations.

*Middle East/Africa/Russia.* Sales in Africa are growing, thanks to the tourist-driven ATV rental business and agriculture. Much of our Middle East business comes from contracts with the U.S. and U.S.-allied governments that are helping search for terrorists in the mountains of Afghanistan on Polaris ATVs.

*Latin America.* Political unrest and currency fluctuations make this one of the world's most volatile regions. However, we are the dominant ATV provider in Argentina and Costa Rica, and see immense potential in Brazil, which is on course to become the world's next agricultural superpower.

**An international revolution.** In 2005, we took a bold step toward achieving greater global expansion through a partnership with Austrian motorcycle manufacturer KTM Power Sports AG. On paper, it looks like a perfect fit. We both have 50 years of experience in powersports, but with very little competitive product overlap. They can help us with engine technology and European distribution. We can help them with ATVs and U.S. distribution. They're known for performance powertrains; we're the chassis experts.

We initially bought a 25 percent ownership stake in KTM. Through seven key project initiatives designed as "test drives," we'll know if we have a cultural fit and if the relationship can deliver specific financial benefits across all major operational areas. If we are successful, we expect Polaris and KTM to become one company in late 2007. The joint projects include:

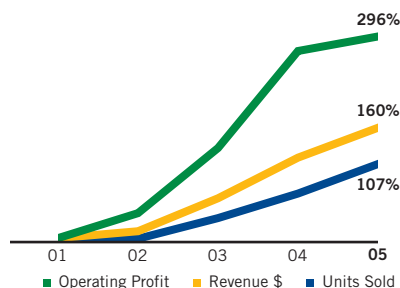
*Distribution.* Polaris will help KTM selectively grow its North American distribution and KTM will become our German distributor to help drive market share growth in that country.

*Purchasing.* By purchasing together, we can reduce supply costs significantly.

*Design.* We're co-developing ATVs in 2006.

*Manufacturing.* KTM is exploring the feasibility of manufacturing ATVs for us in Europe. Today, each company ships more than 25,000 units a year across the pond. We could save dramatically on freight and duty costs through geographically targeted manufacturing.

# THINK BEYOND



## GROWING INTERNATIONAL PROFITS

A turning point in international profitability came in 2002, when we began to reap the benefits of our strategic shift from independent distributors to direct subsidiaries. In 2005, more than half our international revenue came through our five subsidiaries — in Britain, France, Sweden, Norway and Australia.

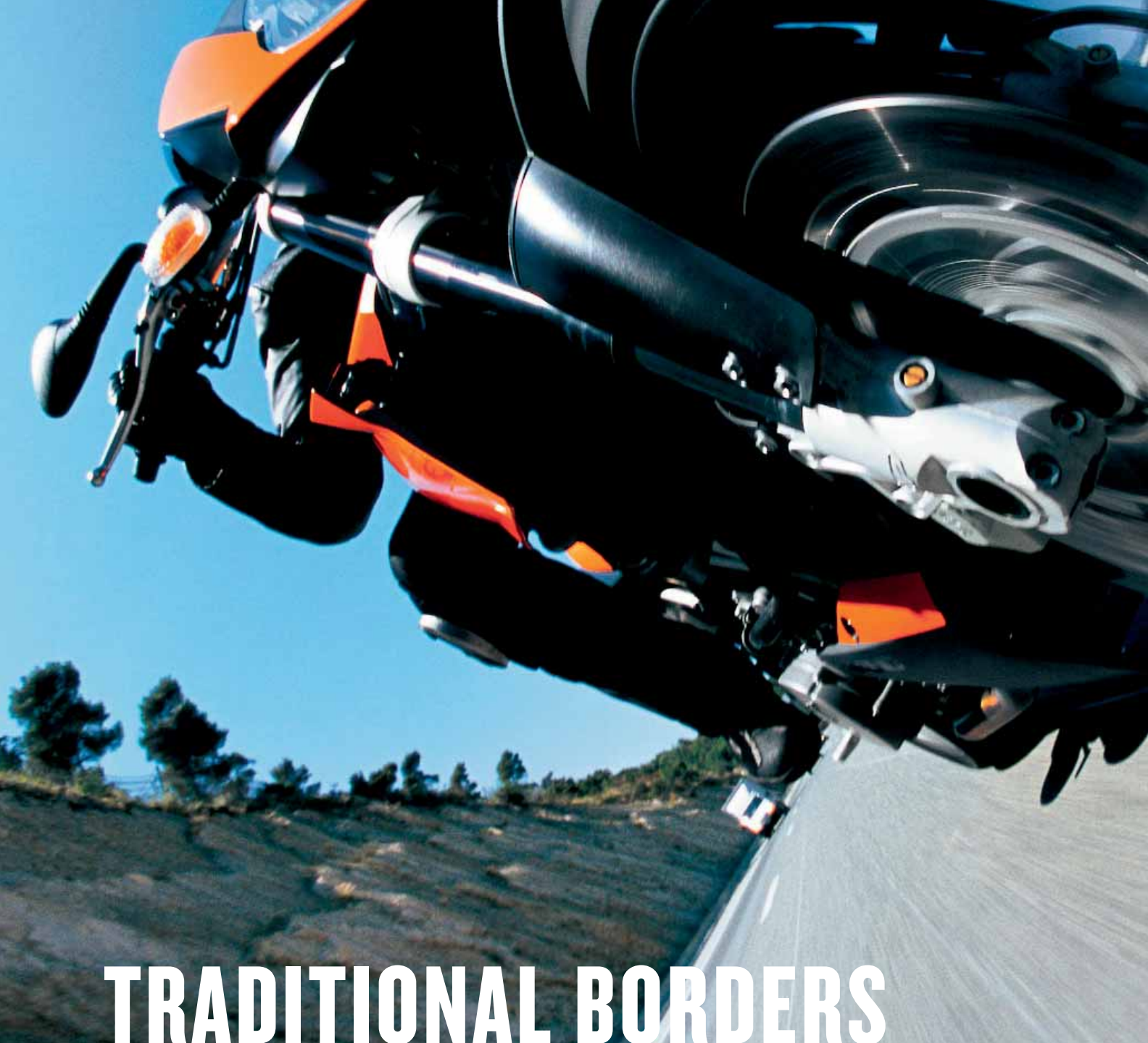


• The street-legal Quadricycle was built specifically for the European market.



• Our largest revenue-producing subsidiary is Scandinavia, which includes this Sweden facility and one in Norway.





# TRADITIONAL BORDERS



## KTM AT A GLANCE

**Founded:** In 1934, Hans Trunkenpolz opened a motorcycle and car repair shop in Mattighofen, Austria. The first motorcycle series was built in 1953 with partner Ernst Kronreif. The company became known as Kronreif, Trunkenpolz, Mattighofen. KTM motorcycles took first, second and third in their debut race that year.

**Products:** 23 models of off- and on-road motorcycles in six key segments — motocross, enduro, rally, youth racing, naked/standard, super moto — plus related PG&A.

**Strength:** *Racing Bikes:* KTM has won 106 World Championship titles, including the prestigious Dakar Rally the past five years. *Europe:* KTM is the continent's second largest sportmotorcycle manufacturer behind BMW.

**Top 5 Markets:** United States, Germany, France, Australia, Italy

**Stock Exchange:** Shares of KTM Power Sports AG (formerly CROSS Holding AG) trade on the Vienna Stock Exchange under the symbol KTM

**Fiscal Year 2005 Sales:** €451 million

**Number of Employees:** 1,500





# STAY COMMITTED TO DEALERS



PHOTOS FROM LEFT TO RIGHT:

- Dealers who use our merchandising displays gain up to a 15 percent increase in PG&A sales.
- Displays like this are increasing awareness of the 150 new Victory accessories we introduced in the past two years.
- We increased our investment in cooperative event advertising because it's one of the most cost-effective ways to drive dealer traffic.



As the face of Polaris to consumers, our dealers play an important role in our success. By nurturing the right kind of dealers and giving them the tools they need to increase sales and profitability, we all win.

**Building a stronger network.** Over the past few years, we narrowed our dealerships down to those with the capacity and merchandising skills to perform in an increasing sophisticated retail environment. Now, we're turning our attention to growth in underdeveloped U.S. regions, specifically the East Coast and South. The growth will come from a combination of expanded existing dealerships and new relationships. We're leveraging the Polaris Capital Assistance Program (CAP) to help these dealers make needed store improvements and we're investing significantly in cooperative advertising to drive traffic.

**Targeting tools to drive traffic and close sales.** In the past, we introduced many new dealer programs and improvements. While we did

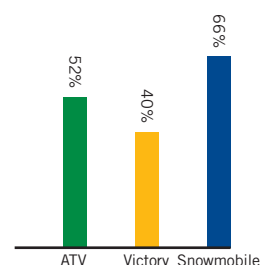
so with the best intentions, implementing so many changes was costly to Polaris and time-consuming for dealers. In 2005, we began helping dealers quickly implement fewer, more-targeted tools.

To drive traffic, we have a flexible exterior signage system. Signage is especially important for newer product lines like Victory, where visibility is key to increasing awareness. We also continue to develop new cooperative advertising events, like Factory Authorized Clearance, Test Ride and our upcoming Dare to Compare events. We produce the ads and handle placements so dealers can focus on selling.

Maximizing dealer sales time was a key impetus for changing our ATV safety training program. Historically, our dealers trained Polaris

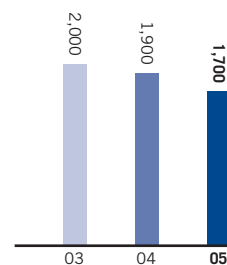
customers on ATV safety. In 2005, we joined the Specialty Vehicle Institute of America (SVIA), which is now handling training.

To help dealers close sales, we provide comprehensive merchandising, demonstrations and financing programs, as well as sales training. Our Way Out online training tool allows dealer representatives to improve their product knowledge quickly and conveniently via 15-minute online modules.



#### PERCENTAGE OF POLARIS-EXCLUSIVE DEALERS BY PRODUCT LINE

The high percentage of Polaris dealers that sell Polaris products exclusively has translated into a profitable relationship for Polaris and our dealers for many years.



#### TOTAL POLARIS DEALERS

We strategically refocused our dealer network in 2005 to ensure our partners can compete in an increasingly sophisticated retail environment.



#### MARKET SHARE BY U.S. REGION

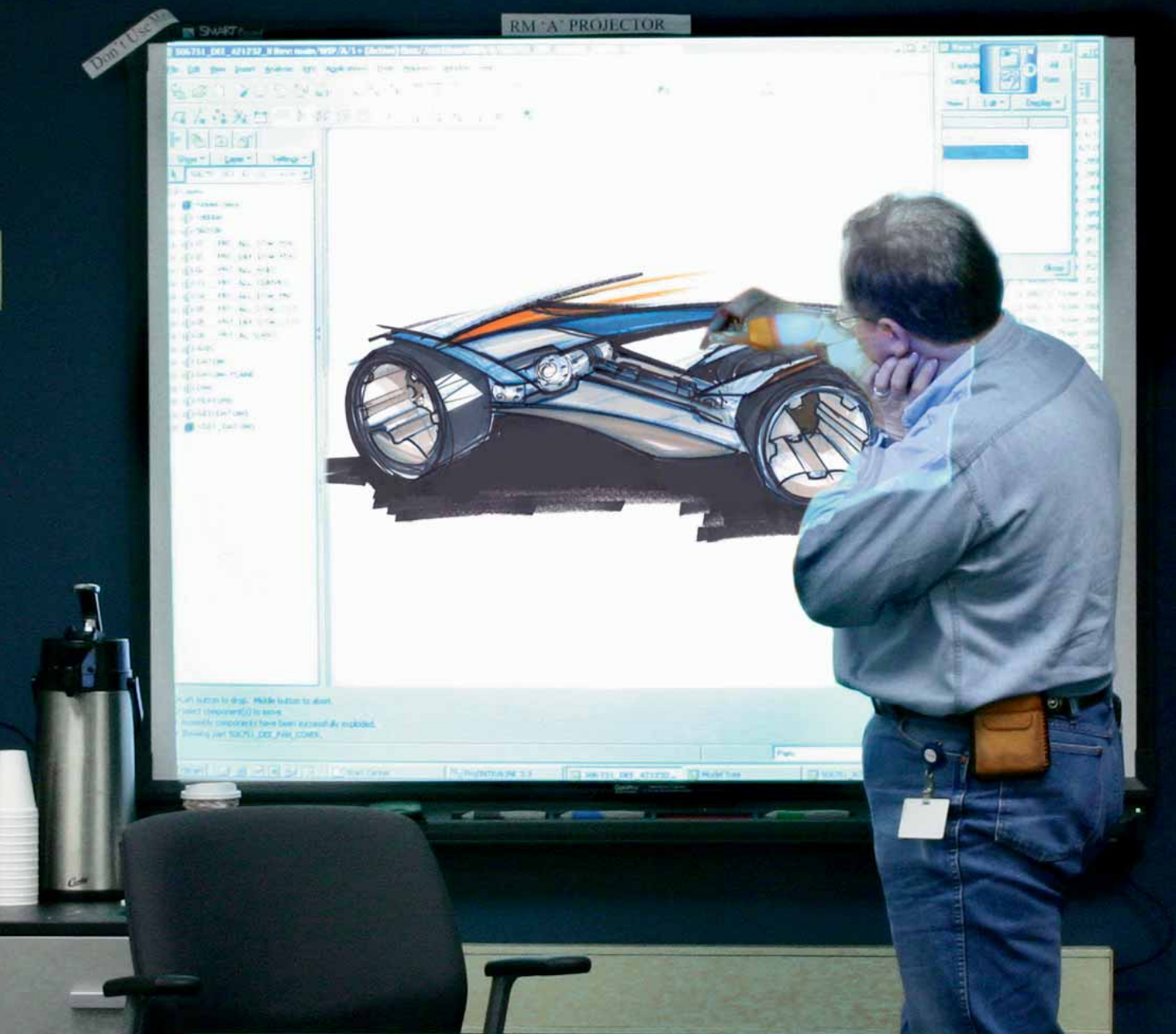
- Historically strong market share and dealer presence.
- Building dealer network to grow market share.
- Selectively adding dealers where increased market share opportunities exist.



**DEALER HELPS POLARIS SEE *RANGER'S* WILD SIDE** Polaris introduced the *RANGER* in 1998 as a utility vehicle, but Bill Nash and other leaders at RideNow Powersports in Arizona immediately saw its potential as a sports vehicle. "We're next door to the Imperial Sand Dunes, the largest dunes open to off-road use in the country, so there's a lot of sport ATV use here," Bill explained. "The 4x4 *RANGER* offers the performance and suspension capability of a sport ATV, but it can seat three and is safer, so it's attractive to women and families."

RideNow wasted no time customizing *RANGER* with wild paint jobs, chrome roll bars and stereos. "We couldn't keep them on the floor," said Bill, who owns two himself. "Polaris listened when we told them there's another market out there for *RANGER*. That's why you're seeing the new Limited Edition XP 4x4 in Midnight Red, with faster acceleration."





# SUCCESS STARTS ON THE INSIDE



PHOTOS FROM LEFT TO RIGHT:

- Larger-than-life murals at the Wyoming research and development facility help keep employees inspired.
- Our reconfigured Spirit Lake production facility has the flexibility to produce almost every type of Polaris vehicle.
- Our brand motto is prominent in every Polaris building.

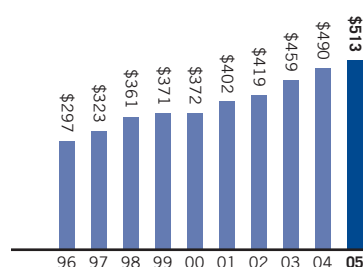


Polaris has one of the highest productivity rates in the powersports industry. Some people think it's because our 3,600 employee owners know that financial success rests with them. We think it's because they love what they do.

**Nurturing our core strength.** The Polaris spirit has remained strong through more than 50 years of changes — evolving from a farm machinery business to a snowmobile manufacturer to a global powersports leader. Even as we've grown and evolved, our employees continue to work hard and remain fiercely loyal. Our sales per employee ratio has increased steadily every year and our turnover rate is less than 10 percent annually.

Certainly, it helps that employees are non-union, share in profits each year and own Polaris stock, so they have a vested interest in our company's prosperity. But, more importantly, Polaris people have a true passion for our products. We nurture that passion by giving employees vehicle discounts and making sure they have time to play — which triggers ideas for improving our products.

We also recognize employees, retirees, dealers and suppliers who embody the culture. In 2004, we introduced the Polaris



#### SALES PER EMPLOYEE

Polaris' sales-per-employee rate has increased steadily every year.

Hall of Fame to formally acknowledge people who are passionate about delivering the best products and the best riding experience.

#### Continually improving cost-efficient operations.

Our five-year growth strategy includes a relentless focus on higher productivity. At each of our plants, we strive for and have achieved a 5 percent annual productivity improvement. The achievement is the result of three key drivers:

**Flexible production to match demand.** Our most flexible plant is Spirit Lake, where we recently converted old personal watercraft facilities to accommodate almost every type of Polaris vehicle. The upgrade included an automated broadcast system that provides each assembly station with a list of parts needed for each vehicle coming down the line. This allows us to mix models and features — both to accommodate custom orders and improve inventory management.

**Workflow improvements.** The most recent example is improving product flow in our welding and subassembly areas, which cut cycle times and improved quality by reducing the amount of handling.

**Automation.** Technology tools have allowed us to automate and reduce cost on jobs that are high risk or undesirable. For example, employees used to manually shrink-wrap vehicles for delivery, using blow torches. By automating that task, we reduced the potential for injury, as well as processing time.

#### POLARIS HALL OF FAME INDUCTEES

##### 2005

###### **Bob Eastman** *retired employee*

Racer and race team manager who pushed performance

###### **Ken Larson** *retired president and COO*

Took bold steps and tripled the company in 10 years

###### **Tom Tiller** *CEO*

Doubled the company's market capitalization since taking the helm and led a recommitment to innovation

###### **Bair's Polaris-Victory dealership**

Ohio family does whatever it takes to ensure a great ride for customers

###### **Tri-City Polaris dealership**

A mecca for performance-minded riders in Utah

###### **Hilliard Corporation** *supplier*

Helped develop a unique ATV wheel clutch so we could offer on-demand 4-wheel-drive

##### 2004

###### **Edgar and Alan Hetteen and David Johnson** *founders*

Transformed the company from a tiny farm machinery business into a global snowmobile leader

###### **W. Hall Wendel, Jr.** *retired Chairman and CEO*

Led the buyout of Polaris from Textron in the late 1970s and lead the company into new product lines

###### **Orlen Johnson** *retired employee*

This early employee was instrumental in creating the first Polaris snowmobile

###### **Raynold Monsrud** *employee*

This 36-year employee led development of our dealer sales training program

###### **Mies Outland** *dealership*

One of our largest dealers is in a tiny Minnesota town

###### **Headingley Sport Shop** *dealership*

Manitoba partner has been with Polaris since the 1960s, and is a local riding and racing scene leader

###### **Fuji Heavy Industries** *supplier*

Began supplying snowmobile engines in the 1960s and continues to be a strong engine partner

###### **TEAM Industries** *supplier*

Consistently provides high-quality clutches and transmissions



**EMPLOYEE EARNS POLARIS A REPUTATION FOR PERFORMANCE** When retired employee Bob Eastman started racing Polaris snowmobiles in the mid-1960s, the company wasn't well known. "Our sleds were too big for racing, so Ski-doo and others were winning," Bob recalled. Determined to make Polaris synonymous with performance, he helped improve the sleds and expand the company's visibility.

"We started to travel further for races on the weekends, but we'd always be back at work Monday morning with new ideas," he said. That became a challenge when Minnesota-based racers started going as far as New England, so the company formalized the racing program in 1969 and put Bob in charge. He instituted military-style physical training for drivers and gained publicity in new areas of the country through drag races on grass. Not only did Bob make a name for Polaris, he also was named to the International Snowmobile Hall of Fame.

## 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,	2005	2004	2003	2002
<b>Statement of Operations Data</b>				
Sales data:				
Total sales from continuing operations	\$ 1,869,819	\$ 1,773,206	\$ 1,552,351	\$ 1,468,170
Percent change from prior year	5%	14%	6%	3%
Sales mix by product:				
All-terrain vehicles	66%	66%	67%	64%
Snowmobiles	14%	16%	15%	20%
Motorcycles	5%	4%	4%	2%
PG&A	15%	14%	14%	14%
Gross profit data:				
Total gross profit from continuing operations	\$ 417,892	\$ 424,263	\$ 362,876	\$ 332,432
Percent of sales	22%	24%	23%	23%
Operating expense data from continuing operations:				
Amortization of intangibles and noncash compensation	\$ 12,492	\$ 16,643	\$ 14,472	\$ 16,437
Other operating expenses	229,254	228,018	192,093	166,188
Percent of sales	12%	13%	12%	11%
Total operating expenses	241,746	244,661	206,565	182,625
Net income data:				
Net income from continuing operations	\$ 144,285	\$ 136,813	\$ 119,823	\$ 111,330
Diluted net income per share from continuing operations	\$ 3.29	\$ 3.04	\$ 2.66	\$ 2.36
Net income	\$ 143,278	\$ 104,504	\$ 110,929	\$ 103,592
Diluted net income per share	\$ 3.27	\$ 2.32	\$ 2.46	\$ 2.19
<b>Cash Flow Data</b>				
Cash flow from continuing operating activities	\$ 177,629	\$ 245,356	\$ 167,793	\$ 200,601
Purchase of property and equipment for continuing operations	89,770	88,836	59,209	52,313
Repurchase and retirement of common stock	132,280	66,830	73,125	76,389
Cash dividends to shareholders	46,956	38,856	26,657	25,273
Cash dividends per share	\$ 1.12	\$ 0.92	\$ 0.62	\$ 0.56
<b>Balance Sheet Data</b> (at end of year)				
Cash and cash equivalents	\$ 19,675	\$ 138,469	\$ 82,761	\$ 81,193
Current assets	373,988	465,655	387,716	343,659
Total assets	768,956	792,925	671,352	608,646
Current liabilities	375,614	405,193	330,478	313,513
Borrowings under credit agreement	18,000	18,000	18,008	18,027
Shareholders' equity / partners' capital	369,657	361,732	319,378	277,106

(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 \$0.77 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 from continuing operations for 1998 would have been \$101.2 million, \$78.4 million and \$1.52 per share, respectively.



2001	2000	1999	1998	1997	1996	1995
\$ 1,427,400	\$ 1,327,030	\$ 1,244,782	\$ 1,105,685	\$ 947,775	\$ 985,472	\$ 908,988
8%	7%	13%	17%	(4%)	8%	31%
58%	62%	59%	58%	48%	44%	39%
26%	23%	25%	28%	37%	42%	47%
1%	1%	3%	1%	—	—	—
15%	14%	13%	13%	15%	14%	14%
\$ 306,307	\$ 287,969	\$ 256,611	\$ 213,381	\$ 195,027	\$ 192,131	\$ 180,913
21%	22%	21%	19%	21%	19%	20%
\$ 16,482	\$ 12,702	\$ 10,472	\$ 8,703	\$ 5,887	\$ 5,325	\$ 5,616
150,386	143,152	119,600	153,903	79,505	76,240	67,163
11%	11%	10%	14% <sup>(1)</sup>	8%	8%	7%
166,868	155,854	130,072	162,606	85,392	81,565	72,779
\$ 97,716	\$ 89,466	\$ 84,642	\$ 38,761 <sup>(1)</sup>	\$ 75,964	\$ 70,708	\$ 64,759
\$ 2.07	\$ 1.89	\$ 1.70	\$ 0.75 <sup>(1)</sup>	\$ 1.42	\$ 1.27	\$ 1.17
\$ 91,414	\$ 82,809	\$ 76,326	\$ 31,015 <sup>(1)</sup>	\$ 65,383	\$ 62,293	\$ 60,776
\$ 1.94	\$ 1.75	\$ 1.53	\$ 0.60 <sup>(1)</sup>	\$ 1.22	\$ 1.12	\$ 1.09
\$ 192,034	\$ 105,055	\$ 134,469	\$ 124,701	\$ 97,655	\$ 88,872	\$ 81,215
52,856	61,590	60,659	56,796	32,389	37,128	38,964
49,207	39,622	52,375	37,728	39,903	13,587	—
22,846	20,648	19,732	18,582	16,958	16,390	116,639
\$ 0.50	\$ 0.44	\$ 0.40	\$ 0.36	\$ 0.32	\$ 0.30	\$ 2.13
\$ 40,530	\$ 2,369	\$ 6,184	\$ 1,466	\$ 1,233	\$ 5,812	\$ 3,501
305,317	240,912	214,714	183,840	217,458	193,405	175,271
565,163	490,186	442,027	378,697	384,746	351,717	314,436
308,337	238,384	233,800	204,964	191,111	161,387	155,722
18,043	47,068	40,000	20,500	24,400	35,000	40,200
238,783	204,734	168,227	153,233	169,235	155,330	118,514

**Cash Flow Provided to Net Cash Provided by Operating Activities from Continuing Operations** (dollars in millions)

Year	Cash Flow Provided	Deferred Income Taxes	Changes in Current Operating Items	One-time Provision for Litigation Loss, Net <sup>(1)</sup>	Net Cash Provided by Operating Activities
1996	\$ 96.4	\$ —	\$ (7.5)	—	\$ 88.9
1997	100.0	—	(2.3)	—	97.7
1998	108.9	5.0	50.4	\$ (39.6)	124.7
1999	119.6	3.0	11.9	—	134.5
2000	129.3	1.6	(25.9)	—	105.1
2001	150.0	(9.7)	51.8	—	192.0
2002	174.1	7.2	19.3	—	200.6
2003	177.5	(8.1)	(1.6)	—	167.8
2004	201.1	(1.5)	45.7	—	245.4
2005	208.1	2.7	(33.2)	—	177.6

## BOARD OF DIRECTORS



### BOARD OF DIRECTORS

(left to right) William E. Fruhan, Jr.; John R. Menard, Jr.; Annette K. Clayton; Gregory R. Palen; Thomas C. Tiller; Stefan Pierer; Richard A. Zona; Robert L. Caulk; R.M. (Mark) Schreck; Andris A. Baltins

### BOARD OF DIRECTORS

#### Thomas C. Tiller

Chief Executive Officer  
of Polaris Industries Inc.

*Committee: Technology*

#### Gregory R. Palen

Chairman of the Board  
of Polaris Industries Inc.  
and Chairman  
of Spectro Alloys and  
Palen/Kimball Company

*Committee: Technology*

#### Andris A. Baltins

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

*Committees: Compensation, Corporate  
Governance and Nominating\**

#### Robert L. Caulk

Former President and  
Chief Executive Officer  
of Spectrum Brands, North America

*Committee: Compensation*

#### Annette K. Clayton

Vice President  
of Manufacturing for the Americas,  
Dell Corporation

*Committees: Audit, Technology*

#### William E. Fruhan, Jr.

Professor of Business  
Administration –  
Harvard Business School

*Committees: Audit, Compensation\*,  
Corporate Governance and Nominating*

#### John R. Menard, Jr.

President of Menard, Inc.

*Committee: Technology*

#### Stefan Pierer

Managing Director  
of KTM Power Sports AG

*Committee: Technology*

#### R.M. (Mark) Schreck

President of RMS Engineering  
and retired Vice President  
of Technology, GE

*Committees: Corporate Governance  
and Nominating, Technology\**

#### Richard A. Zona

Chief Executive Officer  
of Zona Financial  
and retired Vice Chairman  
of U.S. Bancorp.

*Committees: Audit\*, Compensation*

*\*Committee Chair*

### CORPORATE OFFICERS

#### Thomas C. Tiller

Chief Executive Officer

#### Bennett J. Morgan

President and  
Chief Operating Officer

#### Jeffrey A. Bjorkman

Vice President – Operations

#### Mark E. Blackwell

Vice President –  
Victory Motorcycles and  
International Operations

#### John B. Corness

Vice President –  
Human Resources

#### Michael W. Malone

Vice President –  
Finance, Chief Financial  
Officer and Secretary

#### Mary P. McConnell

Vice President –  
General Counsel

### GENERAL MANAGERS

#### Michael D. Dougherty

General Manager – ATV Division

#### William C. Fisher

Chief Information Officer

#### Matt J. Homan

General Manager – Utility Vehicles

#### Allan C. Hurd

General Manager –  
Victory Motorcycles

#### Michael P. Jonikas

General Manager –  
Sales and Marketing

#### Eric R. Lindquist

General Manager – Snowmobiles

#### Scott A. Swenson

General Manager –  
Parts, Garments and Accessories



## 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. CST, Thursday, April 20, 2006, at the Polaris Industries Inc. corporate headquarters, 2100 Highway 55, Medina, Minnesota. A proxy statement will be mailed on or about March 1, 2006, to each shareholder of record on February 21, 2006.

### SUMMARY OF TRADING

Quarter	For the Years Ended December 31,			
	2005	2004	High	Low
First	\$74.18	\$62.22	\$45.73	\$39.30
Second	71.19	51.60	48.15	41.10
Third	60.23	46.53	56.44	44.25
Fourth	53.95	43.75	69.41	51.83

### CASH DIVIDENDS DECLARED

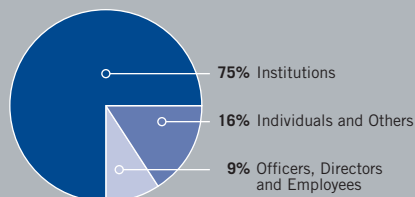
Cash dividends are declared quarterly and have been paid since 1995. As of January 19, 2006, the quarterly dividend was increased to \$0.31 per share.

Quarter	2005	2004
First	\$0.28	\$0.23
Second	0.28	0.23
Third	0.28	0.23
Fourth	0.28	0.23
Total	\$1.12	\$0.92

### SHAREHOLDERS OF RECORD

Shareholders of record of the Company's common stock on February 21, 2006 were 2,972.

### 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 contact Wells Fargo Shareowner Services at 1-800-468-9716 or visit the Wells Fargo Bank Web site at [www.wellsfargo.com](http://www.wellsfargo.com).

### 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 of 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 2006

A.G. Edwards  
Bank of America Securities  
BB&T Capital Markets  
Citigroup (Smith Barney)  
Craig-Hallum Partners  
JPMorgan  
Merrill Lynch  
FTN Midwest Securities  
Raymond James & Associates  
RBC Capital Markets  
Robert W. Baird & Co.  
SBK Brooks Investment Corp.

### STOCK-SPLIT HISTORY

August 1993	2 for 1
October 1995	3 for 2
March 2004	2 for 1

### CEO CERTIFICATION

The Company's Chief Executive Officer submitted the annual CEO certification to the New York Stock Exchange certifying that he is not aware of any violation by the Company of the New York Stock Exchange's corporate governance listing standards.



Polaris Industries Inc.  
2100 Highway 55  
Medina, MN 55340

763-542-0500  
763-542-0599 fax

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