It began as the Motor Company.
It became a family.

There are many stories about Harley-Davidson. Each one is testimony to the rare and privileged bond between our Company and our customers.

At Harley-Davidson, every member of our family has a stake in our success. That’s a guiding principle that has helped keep us on the right road for more than 100 years.

By caring deeply about the things we have in common, we have something valuable, powerful and enduring. Harley-Davidson has built more than a factory, a business or a motorcycle. We’ve been lucky enough to build a family.

*The Company’s Annual Report on Form 10-K for the year ended Dec. 31, 2006 is included as a separate enclosure.*
Letter to Shareholders

Around every corner, we see opportunity

Dear fellow shareholder: One of the great things about any ride on a Harley-Davidson® motorcycle is the chance encounter with riders you’ve never met before. Whether at a gas pump or back at the dealership after an MDA® ride, the connection is immediate. Harley-Davidson is truly a universal language. There’s always something to talk about.

For those of us who mix motorcycling pleasure and business, these encounters are a great opportunity to learn what’s on riders’ minds. They’re also a steady reminder of just how important Harley-Davidson is in the lives of so many people. They reveal all the ways that Harley riders “live by it” every day. Through riding, we also “live by it” ourselves. And with each roadside conversation, our sense of obligation grows to “live by it” through actions that strengthen the brand and grow value for all of today’s shareholders—and tomorrow’s.
While we are proud of our 2006 accomplishments, our sights are clearly set on the future, with many more exciting plans for outstanding new products and for how we go to market.

2006 RESULTS In 2006, Harley-Davidson again demonstrated that we are a strong and growing company, delivering excellent results. Harley-Davidson’s consolidated revenue in 2006 was $5.80 billion, an 8.6% increase over 2005. Net income grew 8.7% to $1.04 billion and diluted earnings per share rose 15.2% to $3.93.

Retail results were impressive as dealers sold 343,981 new Harley-Davidson motorcycles worldwide. Their efforts, and strong customer response to our products, were among the factors that led to this 8.5% increase in worldwide retail motorcycle sales for the year.

Parts & Accessories revenue grew 5.7% to $1.02 billion in 2006 and revenue for General Merchandise, which includes MotorClothes® apparel and collectibles, rose 12.0% to $277.5 million in 2006.

Revenue for Buell® motorcycles was $302.2 million, a 9.8% increase from 2005 on an 11.6% rise in shipments. Buell continued to have strong results in international markets, which accounted for more than half of the brand’s 2006 retail volume.

Harley-Davidson Financial Services (HDFS) reported operating income of $210.7 million in 2006, a 10.0% increase over 2005. HDFS increased its market share of consumer loans for new Harley-Davidson and Buell motorcycles to approximately 48.5%, compared to 45.0% in 2005. Contributing to this growth, HDFS significantly enhanced its online credit application process and the majority of credit decisions are now made in 15 minutes or less.

At year end, Harley-Davidson had $0.6 billion in cash and marketable securities on hand, even after increasing the Company’s total dividend payout 22.5% to $232 million and repurchasing 19.3 million shares of Harley-Davidson common stock at a cost of $1.06 billion.

We also marked two milestones as Harley-Davidson shipped its 5-millionth motorcycle since 1903 and Buell shipped its 100,000th motorcycle.

But 2006 is history. While we are proud of our accomplishments, our sights are clearly set on the future, with many more exciting plans for outstanding new products and for how we go to market.

CHANGE AND OPPORTUNITY IN INTERNATIONAL MARKETS Nothing better illustrates the opportunities and the evolution of our business than Harley-Davidson’s international results. For the second year running, international performance was simply stellar, with retail sales of Harley-Davidson motorcycles outside the U.S. growing 18.6% year over year in 2006, on the heels of a 15.0% increase in 2005.

In 2006, retail sales of Harley-Davidson motorcycles were up 14.6% in Europe, 16.3% in Japan and 19.0% in Canada. All other international markets combined rose 34.3%, including strong growth in long-standing markets for us like Australia, and in newer ones like South Korea. In Australia, we transitioned to direct distribution through a company-owned subsidiary, similar to what we have done in a number of international markets. Altogether, international markets comprised 22.0% of our global retail unit volume in 2006, up from 20.1% in 2005.

What’s behind our international growth? The approaches vary somewhat from market to market, but at their core they involve our incredibly strong brand, universal appeal, focused product offerings and our ability to get customers in the saddle and on the road more quickly than ever.

In Europe, we have developed a more robust dealer network, revamped product distribution capabilities and introduced a number of products suited to European tastes and riding styles. In 2006, our European dealers realized an average of about 100 new Harley-Davidson motorcycles each. That’s a vast improvement over an average of 60 bikes each just five years ago. But for some perspective, 100 motorcycle a year is what our U.S. dealers were doing more than a decade ago. Talk about potential!

In Japan, we outpaced the growth of the rest of the heavyweight market. Contributing to this growth was the repal of a ban on two-up highway riding. Harley-Davidson worked hard, along with others, to bring about this change. The ability of customers to ride two up in places that were once off limits obviously makes the experience of owning a Harley-Davidson motorcycle all the more rewarding.

Of course, our international strategy also includes entering new markets like China. The opening of our dealership in Beijing in April 2006 establishes our presence in what we believe will be a growing market for Harley-Davidson. It will take time to gain traction, but there’s already a small and extremely enthusiastic group of Harley riders in China. We believe it’s important to be on the ground now for the long-term potential that markets like China present.

STAYING CLOSE TO CUSTOMERS AND EXTENDING OUR REACH In the U.S., our growth continues to reflect sound product strategy, innovative marketing and our ability to stay close to current customers and reach out to new ones.

Our fiercely loyal customers are a source of pride that other companies can only dream of. But it invariably surprises people to learn that more than half of our new motorcycles every year are sold to riders who are new to the Harley-Davidson family, reflecting the powerful draw of our products and our brand for new customers.

What does this tell us? For starters, there are lots of people who are acting on their dream of owning a Harley-Davidson motorcycle. But we believe there’s a huge untapped pool of potential Harley-Davidson customers out there, including large underserved populations of younger enthusiasts, women, African Americans and Hispanics.

That’s why we continue to increase the resources we devote to new rider outreach and to introducing products like the Harley-Davidson Nightster™ motorcycle with its raw appeal to new, younger customer segments. It’s why we and our dealers are marketing to prospects in new and exciting places, from alternative rock concerts and skate board tours to women-only events, NERA® races, specialty publications and the limitless horizons of the internet.

And anyone who knows Harley-Davidson knows that our success also lies in bringing riders face-to-face with ongoing and unparalleled experiences. Through hundreds of rallies, thousands of local rides, HOG® events, MDA fundraisers, organized cross-country tours, anniversaries (our 105th is coming up in 2008) and more, the Motor Company and dealers worldwide are the experts at staying close to customers—and we turn it up a notch every year.

One of those ways we’re turning it up is the Harley-Davidson Museum,® on which we broke ground in June. When it opens in 2008 in Milwaukee, the Museum will bring a new dimension to the Harley-Davidson experience, telling the stories of the extraordinary people, culture and history of Harley-Davidson and creating more dreams and more dreamers.

POWERING RESULTS THROUGH LOOK, SOUND AND FEEL New products are our lifeline. They stir customers’ souls in countless ways.

During the third quarter, we launched the most extensive new product introduction in our history. It included four new motorcycle models and the all-new, more powerful Twin Cam 96™ engine and six-speed transmission on 21 of 38 models. A pull for new customers, these new motorcycles and the Twin Cam 96 engine also gave current customers powerful reasons to trade up.

When it comes to new products, we understand just how competitive the market is. That’s why we work hard to keep our motorcycles ten steps ahead of the competition and why it’s so important to deliver outstanding value for our customers’ hard-earned dollars.

We deliver that value through the look, sound and feel of our motorcycles as they roll down the road. We deliver value through unparalleled options when it comes to customizing. And we also deliver value throughout the product development process as we focus on design and manufacturing efficiencies that yield cost savings and help keep price increases to a minimum. For example, we brought the 2007 model motorcycles to market with an average worldwide increase in MSRP of just over one percent, in part through gains in efficiency on the design and operations side of the business. This focus on operations is also a key factor in our ability to return more value to shareholders through margin improvement.
As we look to the future, everyone in the Harley-Davidson family of employees remains passionate and dedicated to delivering great value and great experiences for our customers and investors.

NOTING AGGRESSIVELY ON CHALLENGES  Of course, holding the line on cost isn’t the only challenge we’re addressing. Thanks to our initiatives over many years to increase motorcycle production capacity, there is a great selection of motorcycles available in dealerships. As a result, waiting times for delivery of customers’ motorcycles have been dramatically reduced or eliminated and selling prices are largely in line with MSRP.

We continue to fine-tune our distribution system for motorcycles, to help make sure we build the right mix of products and get them to the right markets in the right quantities. There’s still a lot of hard work ahead on this front, but we are making progress. Our efforts involve working closely with our dealers—particularly those in northern climates—as they continue to return to a more normal business environment after years of saturated growth. For Harley-Davidson, retail motorcycle sales drive wholesale shipments—and those wholesale shipments in turn drive company growth.

Like companies everywhere, another challenge is our responsibility to provide for our employees’ health care needs while managing costs that could be detrimental to our business over the long term. In 2006, we reached an agreement with our unionized employees in the Milwaukee area that reduces the escalation in health care and other compensation and benefit costs while still providing outstanding total compensation and benefits. We also revamped our health care plan for salaried employees to achieve long-term savings for the Company, but again preserving Harley-Davidson’s practice of offering an outstanding level of benefits at a low cost to employees.

The strike at our final assembly operations in York in February 2007 was also related to this need to manage future costs. The strike was disruptive to employees, suppliers, our business and our ability to meet customers’ needs. But here, too, managing future costs is crucial to Harley-Davidson’s long-term success for all stakeholders. We appreciate the support of our employees for undertaking shared solutions to these challenges.

THE ROAD AHEAD  Harley-Davidson is a strong, steady and growing company and we are focusing on keeping it that way through our strategic direction, our ongoing investment in products and operations, and through the outstanding abilities of our entire workforce.

At the senior management level, we were fortunate to bring Tom Bergmann on board in 2006 as Chief Financial Officer. Tom has learned the business with incredible speed. He has been equally adept at taking up motorcycling, logging thousands of miles last summer, including his first pilgrimage to Sturgis. Also moving into a senior leadership role in 2006 was Bob Hutchinson, who was promoted to General Manager, Parts & Accessories. In early 2007, we announced that Sy Napi has joined Harley-Davidson Financial Services in the key post of HDFS President. Sy has a track record of leadership in growth and innovation in the financial services industry and his talents are an excellent complement to HDFS. Also in early 2007, Joanne Böhmstedt took on a new role as Vice President, Licensing and Special Events. Ron Hutchinson assumed a new role as Vice President, New Business; and Patrick Smith was promoted to General Manager, General Merchandising.

Of course, Harley-Davidson is nothing without the efforts of all of our approximately 10,000 employees worldwide. The abilities and talents of all our employees—great numbers of whom are riders—continue to be our greatest competitive advantage.

As we look to the future, everyone in the Harley-Davidson family of employees remains passionate and dedicated to delivering great value and great experiences for our customers and our investors.

In short, we “live by it” every day so that others can too.

JAMES ZIMMER, President and Chief Executive Officer, Harley-Davidson, Inc.
Rules of Our Road


On Harley Davidson’s stretch of highway, a few enduring principles guide our business, our story and our every day.
“My Harley-Davidson is an extension of who I am—original, strong and full of life.”

— Tony Kovacs, Harley owner since 2005

“I have the Bar & Shield tattooed on my neck and wrist. That’s how proud I am to own and ride a Harley-Davidson motorcycle.”

— Nick Astin, sponsored rider at age 11

**Dream in orange and black.**

Harley-Davidson awaken a spirit within riders and non-riders alike, fulfilling deep-seated dreams. In fact, more than 90 percent of our new motorcycle buyers tell us they are likely to buy again. Equally powerful is the fact that last year more than half of our new motorcycle purchases were made to enthusiastic new riders.

The allure is real. The experience we have in common intensifies that attraction. At the end of the day, we know we’re on the right track when we see the name Harley-Davidson etched on a rider’s skin.
"There are three reasons I ride a Harley-Davidson: the cool styling, the throaty V-Twin sound and the powerful feel."

—Rasbe Norcon, professional motorcycle rider, Harley owner since 1994

Since the very beginning, Harley-Davidson's passion for two wheels has made the Company a market leader. Motorcycles are our life. They're our reason for being. And 104 years later, we continue to set the standard industry wide, propelled by the same fervor.

Stoked for 2007, Harley-Davidson launched a more powerful engine and four new models—motorcycles that fired up customers and helped spur an 8.5 percent increase in retail sales.

The Twin Cam 96™ V-Twin engine and 6-speed Cruise Drive™ transmission debuted on 21 models, satisfying our customers' never-ending hunger for more power. The four new bikes and the menacing VRSCS® Night Rod® Special raised heart rates among those looking for a new adventure.

No doubt, the performance and sheer presence of a Harley-Davidson motorcycle stirs the soul. Add to that more than 10,000 Genuine Parts & Accessories and an extensive line of MotorClothes® apparel and it's easy to see how our enthusiasts show the world exactly where they stand.

The V-Twin engine is the legendary heart and soul of Harley-Davidson motorcycles. New for 2007, the Twin Cam 96 powers all motorcycles in the Harley-Davidson Street, Softail® and Touring model families, each of which also features the new 6-speed Cruise Drive transmission.

Lead. Never follow.
Belong in ways you never thought possible.

“Before I got my license, I saw bikers go by and felt independence radiating from them. I wanted to be a part of that feeling firsthand.”

CAKEN JONASS, currently rides a 2006 FLSTF Fat Boy®

The call of adventure reaches far and wide. For some, the freedom of the open road has been on their mind for years. It’s also possible that one day they woke up and decided to start doing things on their own terms. While everyone’s journey to ownership is unique, we help customers achieve that dream.

For those who know they want to become riders, the Rider’s Edge® New Rider Course, Harley-Davidson Authorized Bureaus and Harley-Davidson Financial Services make it easy to take the next step. People who are still thinking about joining the ranks of riders often need more help to figure out what’s next. So, we’ve embarked on a full range of marketing outreach activities, new events and new strategies to connect with emerging customer segments. Through these efforts, we welcome more and more African American, Hispanic, women and younger riders into the family every year.

One of the ways new customers are joining our ranks is through Harley-Davidson® Garage Party™ events. Women across the nation have attended these events only to learn about the Harley-Davidson experience in a friendly, after-hours dealership setting.
Roam new highways all over the world.

“It’s a big world but Harley-Davidson brings us all together.”

EVA AND DANIELL HJERNSTRÖM, LIFE MEMBERS OF HOG®

Each time a Harley-Davidson motorcycle rolls into a new market, it’s a milestone worth celebrating. It’s happening more frequently all over the world. With more riders from more countries joining our ranks every year, there’s no doubt that Harley-Davidson translates easily into many languages.

By getting the right motorcycles into the right markets with the right dealer experiences, we continue to build our business internationally. Throughout Europe, an updated distribution system is doing just that. In addition, dealership development programs in cities like Barcelona and Milan help enrich the customer experience, contributing to double-digit sales growth in Europe in each of the last two years. In Asia, a landmark dealership opened in Beijing, complete with a HOG® chapter and a ride to the Great Wall of China.

The translation? Harley-Davidson’s international influence continues to grow. In 2006, retail sales in Europe increased 16.6 percent. Japan was up 16.3 percent; Canada was up 15.9 percent and all other international markets combined were up 34.5 percent.

International Retail Sales of Harley-Davidson Motorcycles

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<th>Year</th>
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<td>2006</td>
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In our international markets, retail sales of Harley-Davidson motorcycles for the full year grew 16.6 percent in 2006.
RETAIL EXPERIENCE

“We don’t just deliver bikes, we deliver experiences.”

Jay DeMuro (left), Alpharder Harley-Davidson principal, with customer Landoll Ramsey. Landoll rids a 2006 VRSCD Screamin’ Eagle V-Rod.

A Harley-Davidson dealership is an oasis where every kind of Harley rider can find every kind of genuine custom part, a solid bit of advice or the latest stories from the road. And they always find a welcome atmosphere.

“Each customer has individual needs,” says dealer Jay DeMuro of Skip Fordyce Harley-Davidson in Riverside, Calif. “Whether they’re a long-time customer or newcomer, our staff personally welcomes everyone as they walk through the door.”

“Harley-Davidson dealers have the tools they need to ensure an extraordinary retail experience. This year, my sales staff attended a Harley-Davidson University course to learn about and ride competitors’ products. Because of thorough training like that, we are prepared to answer any customer question,” DeMuro says.

Enthusiastic staff and excellent training are just the beginning. Jay and his crew do whatever they can to give customers the adventure of a lifetime. “Customers spend their hard-earned money on their dreams. We help them live the experience to the fullest.”

United States: Retail Sales of Harley-Davidson Motorcycles

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<tr>
<th>Year</th>
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<td>2001</td>
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<td>2002</td>
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<td>2003</td>
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In the United States, retail sales of Harley-Davidson motorcycles increased 5.4 percent in 2004, while the U.S. heavyweight motorcycle market as a whole was up 4.8 percent for the same period.

Arrive unannounced. Stay as long as you like.
Dear Harley-Davidson,

One weekend last winter, my wife Theresa and I headed out on one of our favorite rides in North Texas. As we headed south, en route to Jacksboro, she leaned forward and said, “I think it’s time I get my own ride.”

Now, when my wife makes up her mind, nothing is going to stop her. She took the Riders’ Edge New Rider Course and, by January 2006, she had her own 2006 Sportster 1200 low. She outfitted it with rear pegs, saddle bags, custom seat, and, of course, chrome on her handlebars to match mine. She was ready for the long haul.

We recently went on a 2,100 mile ride through seven states in seven days, through the Great Smoky Mountains National Park. It was a fantastic trip mainly because Theresa fulfilled a dream. But I couldn’t be more proud to have my bride riding side by side with me—it doesn’t get any better than that.

Sincerely,
Robert “Cowboy” Anderson
Jasper, TX
Live life as others can only imagine.

EXPERIENCES

“My best riding experiences have been taking my son for rides on sunny Sundays.”

DONNAN YAMK, started riding at age 10

You can’t put a price tag on the feelings our riders have about their motorcycles and motorcycling experiences. Those feelings go a long way to explain the significant customer loyalty we enjoy.

Harley-Davidson grows value by finding new ways to create memorable experiences for our riders. Now more than one million members strong, the Harley Owners Group® offered 350 national, international and statewide events and rallies to its members last year, including touring rides throughout the world. Beyond H.O.G.® gatherings, Harley-Davidson and Buell participated in more than 100 other events to showcase our products and services and give riders a chance to demo the latest motorcycles. At almost all of these events, riders talked with one of our senior leaders who attended specifically to hear what’s on customers’ minds. And that just barely skims the surface.

Whether at a rally with other bikers or solo on a curvy road, riding experiences become life-long memories and that’s something money can’t buy.

Buell Motorcycle Company brings a new riding experience to twisty roads. Building on Buell’s industry leading engineering is the exciting UB12S™, an adventure sport motorcycle designed to carry its rider over any road surface. Supported by long-travel suspension, riding on tires optimized for street and off-pavement traction, and powered by the muscular torque of a Buell® Thunderheart® V-Twin engine, the UB12S can carry its rider places mere sportbikes fear to tread.
Commitment to the world beyond motorcycling has always set our riders apart. They value courage and freedom and have a generous spirit, opening us all to the importance of giving back.

For those men and women who have sacrificed so much to protect our freedom, the Harley-Davidson Foundation made a $1 million pledge in 2006 to the Disabled American Veterans (DAV). The grant supports the DAV Mobile Service Office Program, bringing much-needed information and counseling directly to veterans about the services and benefits available to them.

Overall, the Harley-Davidson Foundation made $3.7 million in grants to build strong communities in locations where Harley-Davidson has facilities and employees.

And for 26 years, our riders, dealers, suppliers and employees have raised funds to find a cure for muscular dystrophy. Together we raised $8 million last year, bringing our 26-year total to $60 million in support of the Muscular Dystrophy Association.

In word and in deed, Harley-Davidson riders believe in making dreams come true for those in need.

Harley-Davidson has a proud history with those who serve in the military. About 30 percent of our riders in the United States are veterans or are currently enlisted. The new XR1200 Military Edition motorcycles can be customized with a special gas tank emblem to show a rider’s military service.

“Tribute to Freedom” is a U.S. military memorial created by artists, sculptors, and historians. The project is supported by the Harley-Davidson Foundation and is dedicated to the memory of the brave men and women in our service who have given the ultimate sacrifice.

Share your heart, bare your soul.
FINANCIAL PERFORMANCE  In 2006, the Company’s net revenue and net income grew 8.6 percent and 8.7 percent, respectively, making 2006 the 21st consecutive year of net revenue and net income growth. Net revenue of $5.4 billion was $48 million higher than in 2005, while 2006 net income of $1.04 billion was $84 million higher than 2005.

Revenue from sales of Harley-Davidson motorcycles grew to $4.6 billion in 2006, an increase of 8.8 percent over 2005. Buell motorcycle revenue of $402 million was up 9.8 percent. Revenue from Genuine Parts & Accessories in 2006 totaled $862 million, a 5.7 percent increase over the previous year and General Merchandise revenue was $277 million, an increase of 12.0 percent compared to 2005.

Harley-Davidson continues to effectively manage its balance sheet and realized a return on average equity (ROE) during 2006 of 33.7 percent. The Company has maintained an ROE over 25 percent every year for more than 5 years and over 20 percent every year for more than a decade.

The Company’s share price increased in 9 percent during 2006. For the ten-year period ending on December 31, 2006, compound annual total return on Harley-Davidson stock was 20.3 percent per year. The Company increased its dividend for the 48th consecutive year in 2006, increasing dividends paid by over 29.6 percent compared to 2005. Since the end of 1986, the year Harley-Davidson, Inc. became a public company, shareholders have enjoyed a compound annual total return growth rate of 31.3 percent, including five 2-for-1 stock splits.

HARLEY-DAVIDSON MOTORCYCLES  Worldwide retail sales of Harley-Davidson motorcycles grew 8.5 percent in 2006 and exceeded the worldwide market growth rate for heavyweight motorcycles for the eighth year in a row.

In the United States, 2006 retail sales of Harley-Davidson motorcycles increased 5.9 percent over 2005. Total worldwide retail sales of new Harley-Davidson motorcycles grew 8.5 percent during the same period, once again increasing Harley-Davidson’s worldwide market share of new heavyweight motorcycle sales.

In 2006, Harley-Davidson motorcycle shipments were a record 341,916 units, up 6.1 percent over 2005. This shipment increase and growing worldwide demand allowed Harley-Davidson motorcycles to achieve a greater than 30 percent share of the worldwide heavyweight market. In the United States, retail sales of Harley-Davidson motorcycles increased 5.9 percent while the U.S. heavyweight motorcycle market as a whole was up 4.9 percent for the same period.

HARLEY-DAVIDSON FINANCIAL SERVICES  Harley-Davidson Financial Services (HDFS) continued a 13-year run of strong earnings growth. Operating income increased from $192 million in 2005 to $211 million in 2006 as HDFS benefited from its increased wholesale and retail lending and strong market share.

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