

*Nu Skin Enterprises Annual Report*



IT'S IN THE BAG

[ 2003 ]

IT'S IN THE BAG

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This saying is thought to have originated from a hunter's gamebag—victory was certain once the prize was bagged. At Nu Skin Enterprises, we have certain strengths in our bag that create a solid foundation for growth. Knowledge and innovation in product development. Expertise and capability in creating sales tools that maximize product value. Potential and momentum in our most important geographic markets. These characteristics are the cornerstones of our success and the competitive advantages that will enhance your investment in 2004 and beyond.

*Knowledge. Innovation. Expertise. Capability.  
Potential. Momentum. These fundamental  
strengths are the cornerstones of our success.*

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VOL. I



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# KNOWLEDGE

*Understanding gained through experience  
and study for the purpose of developing  
ingenious, exceptional products.*



— Products

*Leadership in utilizing expansive knowledge  
to create better, differentiated products.*

# INNOVATION

## *Our Products* **DRIVE REVENUE**

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Compelling products are vital to our company. They foster consumer interest. They empower our direct sales force. They drive revenue. That's why we are committed to consistently refreshing our product portfolio with innovative, differentiated products.

### **AN IMPRESSIVE INNOVATION NETWORK**

Our innovation network enables us to create life enhancing products for millions of people in 35 markets. This network includes in-house product development capabilities, more than 150 scientists, and scientific collaborations with Stanford University, the Pharmanex Center for Sports Medicine with Rippe Lifestyle Institute, and the Nu Skin and Pharmanex Scientific Advisory Boards—leaders in the fields of dermatology, chemistry, pharmacology, ethnobotany, immunology, and cosmetic and nutritional sciences. This

solid infrastructure for innovation allows us to develop products that incorporate the most advanced technologies available.

### **A PROGRESSIVE PRODUCT PORTFOLIO**

We are constantly expanding and refreshing our product portfolio. Utilizing new technologies. Leveraging in-house and third-party research. And formulating products to deliver greater benefits to our customers. In fact, new and significantly reformulated products introduced in the last three years—including LifePak® Anti-Aging Formula, Tru Face™ Essence Firming Serum, and ReishiMax GLP® Immune Defense—accounted for more than 50 percent of 2003 revenue. Because of our dedication to innovation, we will continue to see a significant amount of annual revenue stemming from new or improved products, including these scientifically advanced 2004 product introductions:

*NU SKIN® GALVANIC SPA™ SYSTEM II*—featuring patented self-adjusting galvanic currents and three interchangeable heads for the face, scalp, and body, this system makes it possible for consumers to enjoy professional spa results at home.

*MARINE OMEGA™*—this improved version of Pharmanex® Optimum Omega features krill oil,





an ultra-pure form of omega-3 fatty acids, and provides added flavonoid, phospholipid, and carotenoid antioxidant benefits to promote overall wellness and lifelong vitality.

*TRA™ THE RIGHT APPROACH™*—an approach to weight management that promotes a healthy lifestyle through safe supplementation (our formulas contain no stimulants and can be used with any diet regimen) and exercise.

*POLISHING PEEL™*—a convenient alternative to professional microdermabrasion treatments that resurfaces, softens, and polishes the skin, delivering a fresh, healthy looking complexion.

#### **A QUALITY APPROACH TO PRODUCT DEVELOPMENT**

Founded in 1984 with a commitment to provide products using only premium, wholesome ingredients, Nu Skin Enterprises remains true to this heritage. For example, the Pharmanex® 6S Quality Process guarantees every supplement capsule delivers safe, precise, standardized, clinically beneficial nutritional ingredients. This focus on quality fosters demand for our products and is a measurable difference that sets us apart from our competitors.

#### **A PHILANTHROPIC CONNECTION**

In 1996, we became the first company to base a skin care line entirely on ethnobotany. Utilizing ancient traditions of indigenous cultures on several continents, our Epoch® product line offers ethnobotanical solutions to personal care concerns in a natural, comforting, and therapeutic way. In addition, Epoch® fosters long-lasting improvements in the world—\$0.25 of every Epoch® product sale goes toward creating a better world for children by improving human life, continuing indigenous cultures, and protecting fragile environments. For example, sales of Epoch® Glacial Marine Mud™ alone have raised more than \$600,000 to help scientists at the Stanford University School of Medicine find a treatment for Epidermolysis Bullosa—a deadly, genetic skin disease that primarily affects children. By giving back to communities, we hope to make the world a better place for the children of today—and tomorrow.

\$100M



With **KNOWLEDGE** and **INNOVATION** in the bag, we expect to generate \$100 million of revenue in 2004 from products launched this year.

*In 2003, new and reformulated products introduced in the past three years accounted for more than 50 percent of revenue.*

Tools

*A fusion of skill and knowledge that produces advanced programs and tools to increase the impact and value of innovation.*

# EXPERTISE

based  
Distributor Plaza  
enabled Japanese distributors to  
sales volume within their global  
organizations and place product orders  
online. In May 2001, we upgraded this  
platform to Distributor Plaza II. Besides



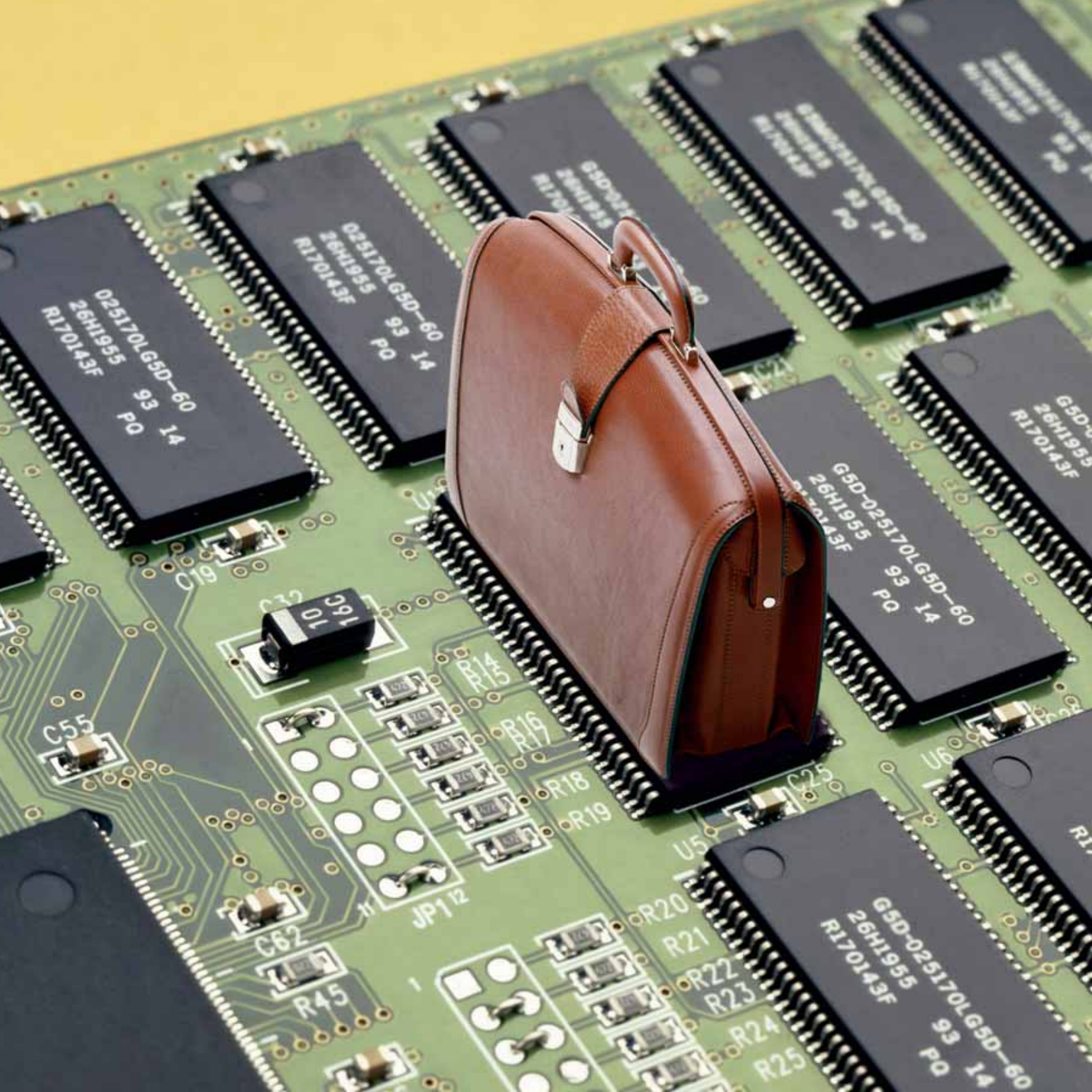
**Fig. 1.**

Side view of bag containing specimen of  
expertise (*Nuskin enterprises know-how*).

place 2001. The  
key markets. The  
distributor success because  
distributor leaders to offer customers  
our executive purchasing experience. This  
a unique purchasing experience. This  
includes the VISIA Complexion Analysis  
System. This highly advanced machine  
provides a quantitative evaluation of the  
skin's wrinkles, texture, pores, and pigmen  
tation. With this precise information, o  
distributors can help customers plan  
most effective treatment regimen  
demonstrate how Nu Skin® pro  
get specific needs while suppo  
health and longevity. Another  
business tool is the Nu  
Optimizer powered by  
intelligent software  
decades of skin care  
to use, mobile p

# CAPABILITY

*The ability and judgment to apply expertise  
to maximize distributor success.*



## *Our Tools* PROVIDE A COMPETITIVE EDGE

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Nu Skin. Pharmanex. Big Planet. With three distinctive brands, the Nu Skin Enterprises portfolio provides a powerful opportunity. To ensure this opportunity is effectively cultivated, we arm our distributors with unique, proprietary tools that utilize cutting-edge technologies.

### A TECHNOLOGICAL ADVANTAGE

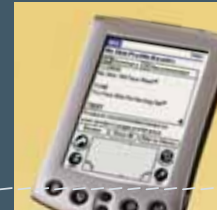
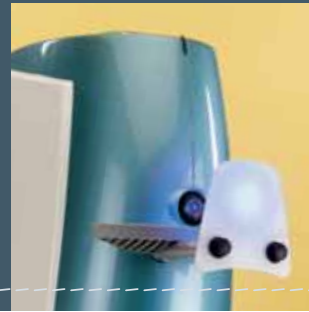
Speed. Convenience. Access. The Internet has changed the way we do business—for the better. With significant investments in IT initiatives, the Internet is an integral part of our business. It is also a powerful distributor tool. Through Big Planet, we offer distributors a technological edge that increases their productivity. Our Internet tools help distributors build their businesses more quickly and effectively—registering new distributors and customers immediately, placing product orders online, monitoring global sales volumes

in real time, and communicating with sizeable sales organizations. For example, today in Japan, our distributors utilize their Internet-enabled cell phones to check sales volumes within their global business organizations and place product orders online. In 2003, Japanese distributors registered approximately 600,000 cell phone logins to our system.

### AN AUTOMATIC PROGRAM FOR SUCCESS

Productivity. Retention. Revenue. The results of our monthly product subscription initiatives are dramatic. In 2002, subscription orders accounted for 19 percent of our annual revenue. In 2003, this number increased to 24 percent of revenue. This is largely due to offering compelling incentives and educating executive distributor leaders on the significant advantages provided by monthly product subscriptions. On average, our customer retention rate is three times better with those who are enrolled in monthly subscription programs than with nonsubscribers. And the higher the customer retention rate, the higher the distributor retention rate. Automatic purchase programs foster a consistent commission stream for our distributors and dramatically impact productivity and retention.





#### A MEASURABLE DIFFERENCE

February 2003 marked the official launch of one of the most advanced tools ever introduced in the direct selling industry—the Pharmanex® BioPhotonic Scanner. This revolutionary scanner offers a noninvasive measurement of the impact of regular dietary supplementation. By simply placing the palm of the hand in front of a safe, low-energy blue light laser, customers can quickly measure the level of carotenoids—important antioxidants—in their skin. For the first time, consumers can now determine how to improve their carotenoid levels through diet and by taking our multivitamin/mineral supplement LifePak®. The ability to measure carotenoid antioxidants differentiates us from our competitors—thus the Pharmanex slogan, “The Measurable Difference.”

The scanner provides our distributors with tremendous competitive advantages: a product guarantee and quantifiable proof that LifePak® works to increase carotenoid antioxidant levels—something no other nutrition company can demonstrate. This is proving to be a powerful catalyst for growth as evidenced by U.S. LifePak® sales, which were up 70 percent in the fourth quarter of 2003. With only 600 scanners deployed throughout the

United States in 2003, we see significant potential ahead as we further penetrate the U.S. market and abroad. We are currently building a scanner manufacturing plant that will enable us to have approximately 3,000 scanners in use by the end of 2004.

#### A BRILLIANT ASSORTMENT OF TOOLS

We seek to offer consumers an experience with our products that they cannot duplicate elsewhere. Tools like the Pharmanex® BioPhotonic Scanner provide a compelling customer experience. Similarly, the VISIA Complexion Analysis System, which we plan to use in our walk-in centers, offers a unique customer experience. This highly advanced machine provides a quantitative evaluation of the skin’s wrinkles, texture, pores, and pigmentation. With this precise information, our distributors can help customers plan the most effective treatment regimens and demonstrate how Nu Skin® products target specific needs and improve skin health and appearance. Another innovative business tool is the Nu Skin® Regimen Optimizer. This PDA-based software program integrates decades of skin care expertise into an easy-to-use distributor tool that customizes an effective product regimen based on a customer’s needs.

\$450M



With **EXPERTISE** and **CAPABILITY** in the bag, we will provide our distributors the tools to earn \$450 million in commissions in 2004.

*In 2003, our distributors earned \$407 million in commissions.*



# POTENTIAL

*The opportunity to generate revenue in untapped markets.*



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Largo 40-60  
Larghetto 60-66  
Adagio 66-76  
Andante 76-108  
Moderato 108-120  
Allegro 120-168  
Presto 168-208



— Markets

*The generation of increasing energy that propels strong, profitable growth.*

# MOMENTUM

## *Our Markets Are* POSITIONED FOR GROWTH

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We have plenty of room to grow. And now, more than at any other time in the company's history, we are positioned to do so. With a global distributor force motivated by a compensation structure that enables them to generate commissions in new markets, we have the ability to penetrate new markets rapidly.

### **A STRONG PRESENCE IN MAINLAND CHINA**

In 2003, after years of preparation and investment, we launched a business in China that contributed \$38 million of revenue to our 2003 results. Unique regulations require that we operate through retail stores and with an employed sales force, so we have opened 113 retail stores in 26 cities in 8 provinces. And at the end of the year, we had 3,100 sales representatives in our employ, making us one of China's largest foreign-owned employers. In 2004,

we look to at least double China revenue through organic growth in current locations and by opening at least one additional city each quarter. We will also expand the range of Nu Skin's product offering, and prepare to launch Pharmanex products in 2005.

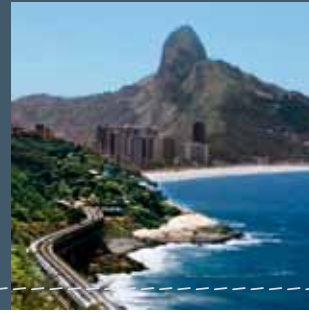
### **A TREMENDOUS GROWTH PROSPECT**

By the end of 2004, it is anticipated that the Chinese government will present new direct selling regulations. A ease on restrictions will positively impact the direct selling industry in general, and our company specifically. We believe that in 2004, the direct selling industry in China will grow to be \$3 billion strong. This is encouraging to us because of the great success we have achieved in Chinese markets around the world. For example, in Hong Kong, we currently command 19 percent of the direct selling market, and in Taiwan 6 percent. This gives us confidence that China will become one of our strongest markets in the future.

### **A FLEXIBLE BUSINESS MODEL**

To generate success in emerging economies that historically have not performed at the level we desire, we are customizing our business model to

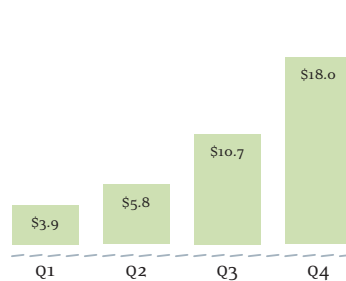




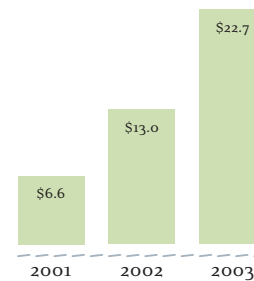
address the specific needs of particular markets. As a result, we are seeing progress in meaningful markets. Over the past three years, Thailand revenue has more than tripled to \$23 million and we now command approximately 5 percent of Thailand's direct selling market. We are also experiencing notable success in Brazil, where we launched a revised business model in September 2003. This endeavor positively impacted fourth quarter revenue. Our initial success in Brazil gives us confidence that we can gain market share in important developing countries.

#### AN AGENDA FOR TOMORROW'S MARKETS

Since we currently have business operations in just 35 of the world's many markets, we have a rich field of opportunity to cultivate. We are researching new market opportunities in Russia, Indonesia, India, Israel, Vietnam, and several Eastern European markets. With the notable potential of these markets—Russia and India are among the world's fastest growing direct selling markets—we are confident our development efforts will significantly increase revenue over the coming years.



*CHINA 2003 REVENUE*  
U.S. DOLLARS IN MILLIONS



*THAILAND REVENUE*  
U.S. DOLLARS IN MILLIONS

\$300M



With **POTENTIAL** and **MOMENTUM** in the bag, we will generate \$300 million in annual revenue over the next three years from markets opened since 2003.

*In 2003, new markets opened in the past three years contributed \$75 million to our annual global revenue.*

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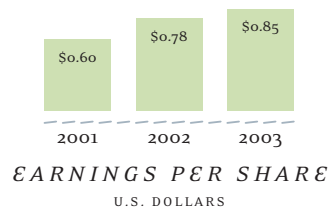
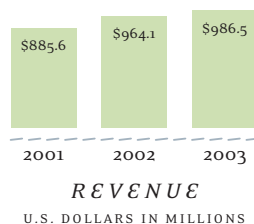


*To Our* **SHAREHOLDERS**

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Simply stated, **OUR GOAL** is to become the world's leading direct selling company. We made good progress toward achieving this objective in 2003. Trends in nearly all of our markets are moving in the right direction, with results in our key geographic markets—Japan, the United States, and China—particularly encouraging.

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We generated revenue for the year of \$986 million, which was up 2 percent over 2002 results. Positive trends in the second half of the year in China, the United States, and Japan were offset by declines in Singapore and Malaysia, as well as by a third quarter restructuring of Big Planet services to improve profitability and refocus Big Planet's direction.

Outpacing revenue growth, earnings per share increased 9 percent to \$0.85. Excluding a \$5.6 million restructuring charge in the third quarter, earnings per share would have been \$0.90.<sup>1</sup> Cash flow from operations in 2003 continued to be healthy at \$109 million. And we used our strong balance sheet to benefit our shareholders by repurchasing 11 million shares of common stock and paying more than \$20 million in dividends.

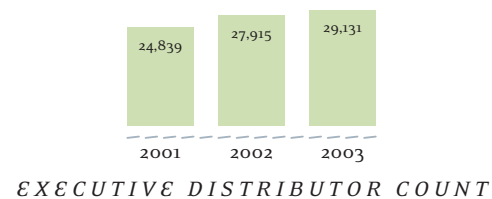
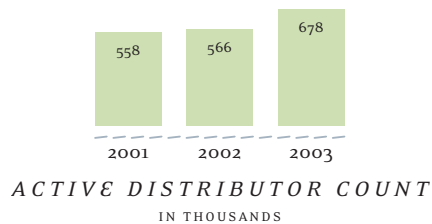
In 2004, we will build upon the momentum created in 2003. We will continue to attract and retain quality distributors. We will increase shareholder value by reinvesting in the company's growth. And we will strive to leverage our unique strengths to ensure long-term success.

#### WE ARE ATTRACTING LARGE NUMBERS OF DISTRIBUTORS

In 2003, our active distributor count increased 20 percent and our executive distributor count grew by 4 percent. Nearly 680,000 people around the world purchased products from the company in the fourth quarter. China is playing a significant role, with 117,000 people in 2003 becoming preferred customers by meeting a minimum purchase requirement. The Pharmanex® BioPhotonic Scanner and several new, innovative products from each of our divisions are also driving growth in our distributor numbers. By the end of 2004, we look to increase our active distributor count to 800,000.

#### WE ARE IMPROVING RETENTION

Improving distributor and customer retention is one of our key initiatives. We are seeing significant retention improvement in markets emphasizing



monthly product subscription programs and providing periodic purchase incentives. In 2003, our global product subscription orders increased more than 32 percent to 230,000 orders processed in December. By focusing on this issue, our retention rates are doubling. Overtime, improved retention will significantly impact revenue. As we further execute these programs globally in 2004, we anticipate increasing our monthly product subscriber base to 300,000 by year end.

#### **WE ARE INCREASING SHAREHOLDER VALUE**

We take our responsibility to increase shareholder value seriously. In 2003, we took several steps to augment shareholder value, including reducing our labor expenses and eliminating or restructuring nonstrategic, low margin products and services. We also increased our annual dividend payout by \$0.04 per share for the third consecutive year.

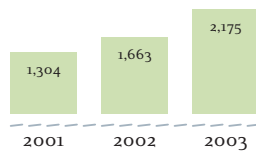
In October 2003, we completed a transaction that enabled our shareholders to benefit from the success of our business initiatives. We repurchased 11 million shares of common stock held by original shareholders. These shareholders also sold an additional 6 million shares to institutional investors. As a result of this transaction, 55 percent

of our outstanding shares are publicly held, generating a much higher level of daily trading volume and improving liquidity for our shareholders. As part of this transaction, we also negotiated the conversion of all of the supervoting Class B shares of common stock to our publicly-traded Class A shares of common stock. This accretive transaction was well received by the market—at year end, our share price had increased 94 percent from its low point in 2003, and has continued to increase since.

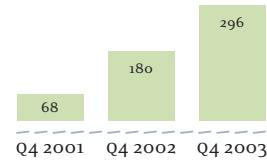
#### **WE ARE LEVERAGING OUR STRENGTHS TO ENSURE CONTINUED GROWTH**

Nu Skin Enterprises is perfectly positioned to capitalize on emerging and global demographic and socio-economic trends. The facts are indisputable—modern medicine is keeping people alive much longer. But there is a big difference between living extra years and living those extra years to the fullest. Most people do not have the financial resources to retire, and no one wants to live an extra 25 years in poor health.

Experts agree that living better, longer requires a well-rounded, balanced approach—a healthy lifestyle, responsible choices, and a positive, passionate attitude. Nu Skin Enterprises is uniquely



*PRODUCT SUBSCRIPTION ORDERS*  
IN THOUSANDS



*AVERAGE DAILY TRADING VOLUME*  
IN THOUSANDS

positioned to become a leading resource for helping people live better, longer by bringing together three key elements:

*1. A GENEROUS, PROVEN BUSINESS OPPORTUNITY*

Over its 20 year history, Nu Skin Enterprises has helped thousands of people reach their financial and lifestyle goals. In fact, in 20 years, we have paid out more than \$4 billion in distributor commissions. In 2003, we paid \$407 million to our distributor force. Our goal is to pay our distributors more commissions than any other direct selling company. To accomplish this, we need to be 2.5 times our current size.

*2. THREE PRODUCT DIVISIONS OFFER TOTAL WELLNESS*

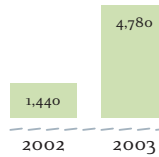
Increasing numbers of scientists are recognizing that the road to long lasting health and longevity incorporates knowledge from the fields of health, nutrition, dermatology, and even psychology and lifestyle management. Nu Skin Enterprises brings these worlds together with three distinct product divisions: Nu Skin offers premium personal care products; Pharmanex is a leader in science-based nutritional supplements; and Big Planet enables broad audiences to enjoy the benefits of tech-

nology based products and services. Our product teams work in harmony to develop a high quality portfolio that helps people achieve overall health, wellness, and longevity. And we are confident that the resources deployed in each of our product categories will continue to yield innovative, differentiated products and services that enable people to live better, longer.

*3. AN ENRICHING AND UPLIFTING CULTURE*

Nu Skin Enterprises is guided by its mission to be a force for good in the world. Living better requires that people be part of environmental and humanitarian causes that are making a global difference. People want to leave a legacy that goes beyond the size of their bank accounts. The Nu Skin Force for Good Foundation™ and our recently launched Nourish the Children™ Initiative—both fueled by our hundreds of thousands of distributors around the world—are making a difference. Our objective is to make the world a better place for children. And we're doing that by supporting research to find cures for insidious diseases, preserving invaluable ecosystems, and providing nutritious meals to save the lives of starving and malnourished children.





NOURISH THE CHILDREN™ MEALS DONATED  
IN THOUSANDS

**WE ARE OPTIMISTIC ABOUT OUR FUTURE**

As we pursue our goal to become the world's leading direct selling company, we will focus on the following priorities in 2004:

- Build Japan momentum
- Achieve 20 percent U.S. Nu Skin and Pharmanex growth
- Double China revenue

- Continue positive trends in other markets
- Advance our emerging markets business model
- Focus on retention

We have a bright future. All of the resources we need to meet our objectives are “in the bag”—a bag brimming with strong corporate qualities and a dedicated distributor force and employee base that will enable us to successfully meet our goals.

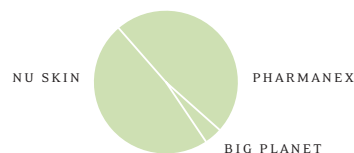
*Blake M. Roney, Chairman*

*M. Truman Hunt, President and CEO*

1. This earnings per share measure adjusts GAAP earnings per share to remove the impact of certain one-time third quarter restructuring charges that are unusual in nature and unlikely to impact results of operations going forward. See Reconciliation to GAAP Earnings Per Share table on p. 72.



REVENUE BY REGION



REVENUE BY DIVISION

## KEY MARKET OUTLOOK



“Our Japan business is strong and vibrant. We have launched programs promoting healthy business growth and increased rewards to new executives. We are also focused on using technology and sales tools to expand our

already large consumer base, making our products accessible to many more people.”

*Robert S. Conlee, President, North Asia*



“In the United States, we are enthusiastically driving automatic delivery subscribers through all three divisions, setting our 2004 target at 100,000 subscribers—double our subscriber base at the beginning of 2004.

By the end of 2004, automatic delivery orders should represent 50 percent of U.S. revenue.”

*Scott E. Schwerdt, General Manager, United States*



“Our robust growth in 2003 gives us confidence that China has the potential to become the company’s largest market. Adapting our growing business to the changing dynamics of the Chinese market will be our top priority in 2004.”

*Corey B. Lindley, President, Greater China*

## DIVISION OUTLOOK



“In 2004, Nu Skin will enable more people to benefit from advancements in skin care science. Key treatment products promise to strengthen our share of the lucrative anti-aging skin care market, while the mobile technology of the

Nu Skin® Regimen Optimizer will allow distributors to customize our product portfolio to every consumer.”

*Lori H. Bush, President, Nu Skin*



“We plan to deploy more than 3,000 Pharmanex® BioPhotonic Scanners throughout our U.S. and global markets by December 2004. In addition, we will roll out our recently announced products, including TRA™, which will enable

Pharmanex to gain greater share of the \$7 billion weight management category.”

*Joseph Y. Chang, President, Pharmanex*



“We are investing in high profit margin software and services in high growth consumer market segments, including digital imaging and Internet security. Big Planet’s mission is to enable mass markets to benefit from

high technology products and services.”

*Larry V. Macfarlane, President, Big Planet*

## CORPORATE INFORMATION

### ANNUAL MEETING

Nu Skin Enterprises' annual stockholders' meeting will be held at 4 p.m. on Monday, May 17, 2004 at:

One Nu Skin Plaza  
75 West Center Street  
Provo, Utah 84601

### INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP  
36 South State Street, Suite 1700  
Salt Lake City, Utah 84111

Telephone: 801-531-9666

### STOCK LISTING

Nu Skin Enterprises' stock is listed on the New York Stock Exchange under the ticker symbol: NUS

### TRANSFER AGENT

Inquiries regarding lost stock certificates, consolidation of accounts, and changes in address, name, or ownership should be addressed to:

American Stock Transfer & Trust  
59 Maiden Lane  
New York, New York 10038

Domestic telephone: 877-777-0800  
International telephone: 718-921-8200

### CORPORATE HEADQUARTERS

Nu Skin Enterprises  
75 West Center Street  
Provo, Utah 84601

Telephone: 801-345-6100

### COMPANY WEB SITES

Nu Skin Enterprises: [www.nuskinenterprises.com](http://www.nuskinenterprises.com)  
Nu Skin: [www.nuskin.com](http://www.nuskin.com)  
Pharmanex: [www.pharmanex.com](http://www.pharmanex.com)  
Big Planet: [www.bigplanet.com](http://www.bigplanet.com)

### ADDITIONAL STOCKHOLDER INFORMATION

Additional information and news about Nu Skin Enterprises is available at [www.nuskinenterprises.com](http://www.nuskinenterprises.com). For investor information, inquiries, annual reports, and SEC filings, call 801-345-6100, e-mail [callen@nuskin.com](mailto:callen@nuskin.com), or write Investor Relations at the corporate headquarters.

### FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements, which represent the Company's expectations and beliefs about future events and operating results as of the date of this report, including the outlook for future growth and performance, strategic initiatives, new products and anticipated 2004 results. Words or phrases such as "believes," "expects," "anticipates," "plans," and similar words or phrases are intended to help identify forward-looking statements. These forward-looking statements are subject to risks and uncertainties, including those risks and uncertainties identified under the caption Note Regarding Forward-Looking Statements in this annual report and those identified in the Company's most recent 10-K. The forward-looking statements represent the Company's views as of the date of this report and it assumes no duty to update these forward-looking statements.

### RECONCILIATION TO GAAP EARNINGS PER SHARE

Management believes the non-GAAP earnings per share measure provided herein assists management and investors in evaluating, and comparing from period to period, results from ongoing operations in a more meaningful and consistent manner while also highlighting more meaningful trends in the results of operations.

<i>(U.S. dollars in 000s, except per share amounts)</i>	<i>2002</i>	<i>2003</i>
GAAP net income as reported	\$ 64,843	\$ 67,876
One-time charges:		
Charges related to headcount reductions and early retirement program	—	5,067
Divestiture of PEO	—	525
Tax effects on adjustments	—	(2,069)
Total charges, net of tax effects	—	3,523
Net income excluding one-time charges	\$ 64,843	\$ 71,399
Diluted income per share excluding one-time charges	\$ 0.78	\$ 0.90



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