



DISCOVER · EXCEED · EXPAND

NU SKIN ENTERPRISES 2002 ANNUAL REPORT



WE ARE LEAPING AHEAD



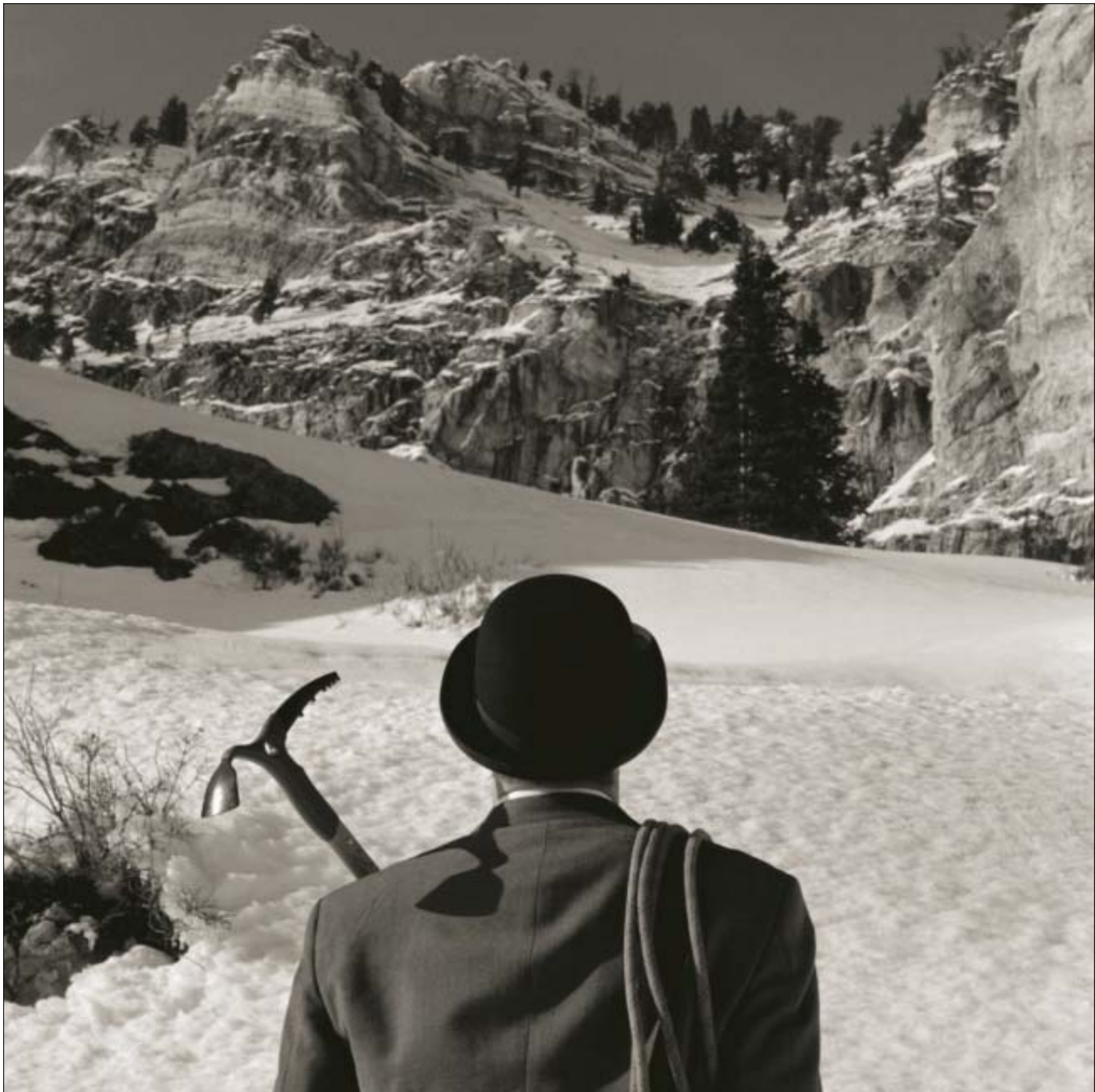




UNCOVERING WISDOM
THROUGH
INNOVATION



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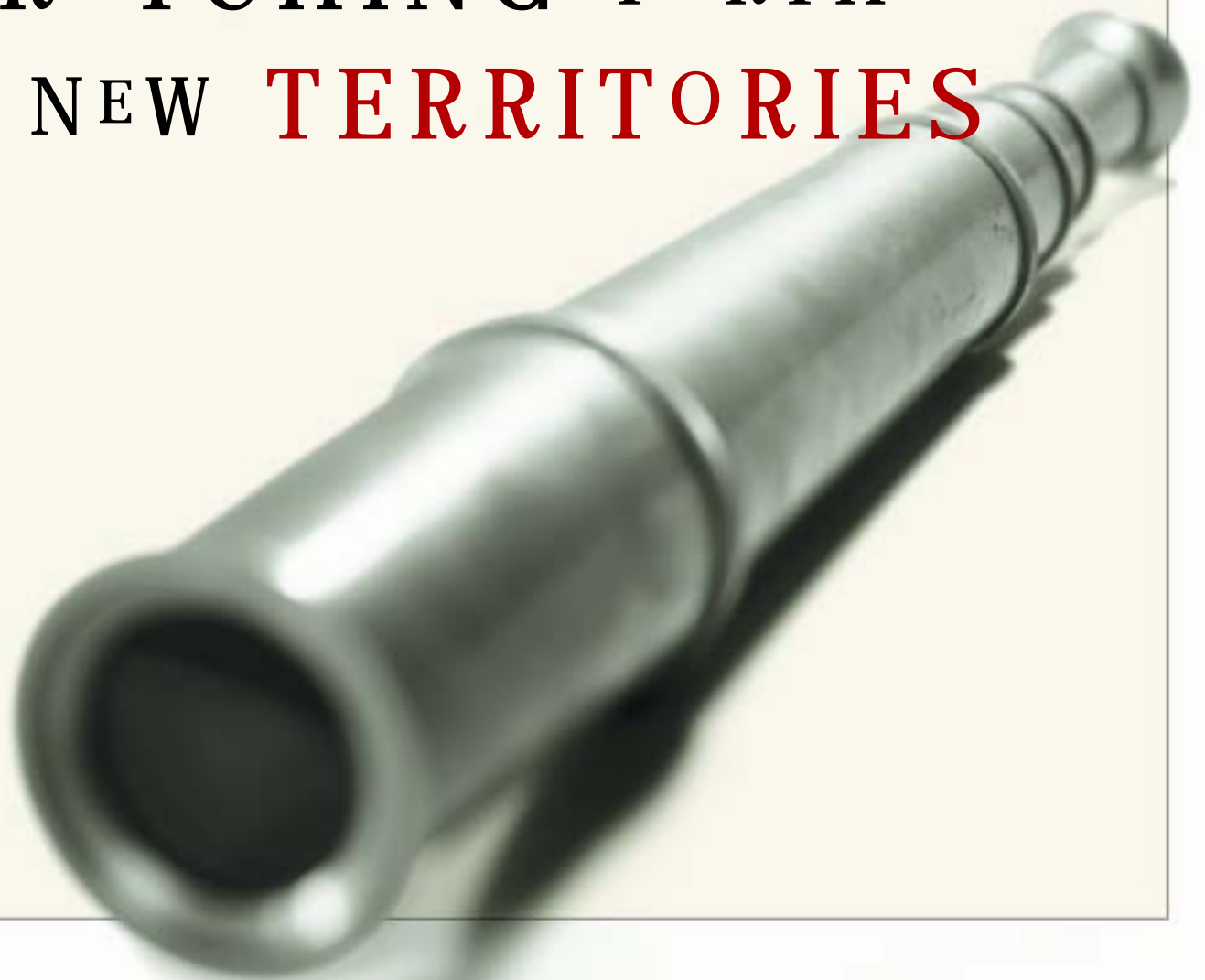
RAISING THE CAPACITY
TO **SUCCEED**



No. 5



STRETCHING FORTH
INTO NEW TERRITORIES





2002

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Nu Skin Enterprises

TO OUR SHAREHOLDERS



Discover · Exceed · Expand

Nu Skin Enterprises had an exceptional year in 2002. We posted \$964 million in revenue, up 9 percent over 2001; significantly increased profitability by improving our operating income 290 basis points to 11 percent of revenue; and generated earnings per share of \$0.78 for the year—up 30 percent over the prior year. We also increased our executive distributor count 12 percent to a record 27,915 distributor leaders, and took meaningful steps to improve shareholder value by increasing our public float and daily trading volume. Additionally, we increased our cash position by \$44 million to \$120 million in 2002 after paying \$20 million in dividends and repurchasing \$14 million of our stock, remaining in the enviable position of generating healthy cash flow from operations.

Our efforts in 2002 were designed to lay a foundation for growth over the next several years. This foundation includes three key elements—new products, new tools, and new markets. By effectively harnessing and channeling the energy behind these three growth catalysts, we can spring from this foundation to new levels of success.

In 2002, we met or exceeded nearly all of our annual operational targets. We achieved our revenue goal by generating 10 percent revenue growth, excluding the impact of changes in exchange rates. With an 11 percent operating margin, we exceeded our 2002 profitability goal by 100 basis points. We also surpassed our product innovation goal with 60 percent of Nu Skin's revenue and 86 percent of Pharmanex's revenue stemming from products launched or reformu-

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new products, new tools, and new markets.



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To Our Shareholders

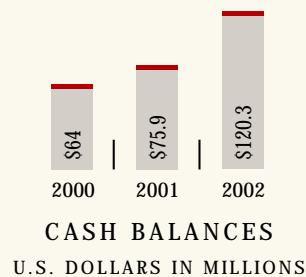
lated since the beginning of 2000. The 12 percent executive distributor growth we posted was only slightly below our 13 percent growth target. The one goal we fell short on was growth in our active distributor count, but initiatives launched in 2002 and early 2003 are expected to get us back on track by increasing this number.

In addition to growing our business, increasing profitability, and developing our distributor leadership in 2002, we made important strides in building value for our shareholders. In July, the company completed a secondary offering of common stock that significantly increased the liquidity of our stock. As a result of the offering, we nearly doubled the number of shares in the

public float and increased the average daily trading volume by 81 percent. During 2002, we also returned more than 30 percent of cash flow from operations to our shareholders in the form of dividend payments and stock repurchases.

We anticipate continued strength in our business as we move into 2003. Furthermore, our focus on gaining efficiency will allow us to grow operating income at a faster pace than revenue. We expect to make regular dividend payments and to continue to repurchase stock as we have in the past.

To achieve our 2003 revenue and profitability targets, we must leverage our growth catalysts—new products, new tools, and new markets—to



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To Our Shareholders

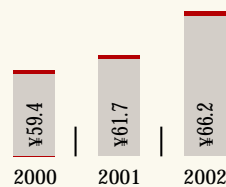
effectively address challenges and opportunities in our business. Recent product introductions now being globalized include the Nu Skin Clear Action™ Acne Medication System, Perennial™ Intense Body Moisturizer, and Epoch Baby™. Additionally, Pharmanex's innovative and proprietary Cortitrol™ Stress Control Formula and ReishiMax GLp™ Immune Defense show great promise for 2003.

Revitalizing the U.S. market is a high priority. We saw solid improvement in this market during the second half of 2002, particularly in our Nu Skin and Pharmanex businesses. We expect the Pharmanex® BioPhotonic Scanner to be a catalyst to drive revenue growth in our home market in 2003. This new sales tool uniquely positions us to measure carotenoid antioxidant levels, providing demonstrable proof that certain Pharmanex® supplements increase antioxidant levels. This effectively

addresses a common consumer concern—not being able to easily verify whether nutritional supplements positively impact body chemistry. We see a lot of potential with this exciting tool.

Another priority is to continue growing our business in Japan, our largest market. Since 1993, our first year of operation in Japan, our business in this market has grown at a compound annual growth rate of 22 percent even though the economy declined at an annual rate of 6 percent during the same period. Our growth in Japan and each of our markets is primarily dependent upon our ability to effectively execute our strategy.

It seems that the eyes of the world are focused on the developing economy in China, where we have just begun to expand operations. Inasmuch as regulations prohibit implementation of direct selling



JAPAN REVENUE GROWTH
JAPANESE YEN IN BILLIONS

Continuing to grow our business in Japan,
our largest market, is a top priority.

2002

To Our Shareholders

business models, our strategy is to operate a retail business, educate an employed sales force and consumers about our world-class Nu Skin products, and establish a base for a long-term business in China—a market with significant upside potential.

In last year's annual report, we not only discussed our 2002 goals, but also outlined our five-year operational targets. Our principal five-year goal is to double revenue by 2006. While aggressive, we remain committed to achieving this goal. To double revenue, we must sustain strong growth in our existing markets, particularly in Japan, grow our U.S. business to \$250–300 million annually, and add \$300–350 million in revenue from China. We have the ability to accomplish these objectives through focused execution.

As previously announced, CEO Steven Lund has been asked to fill a full-time, volunteer leadership position for his church for three years. Consequently, his tenure as CEO and board member will

end as of the date of our annual shareholder meeting in May. Truman Hunt will take on the title of CEO at this time. Truman has been involved at the highest management level of the company for several years. He is well attuned to the company's status, direction, and challenges, and has been intimately involved in all of our strategic planning. Most importantly, he enjoys the confidence and trust of both our corporate and distributor leaders, which is essential to any direct selling enterprise.

We are optimistic about the future of our business. We enjoy stable operations around the world with increasing levels of profitability that generate healthy cash flow. Working from this base, we are executing our three strategies—new products, new markets, and new tools—expecting them to be catalysts for continued growth. We believe we have the necessary resources and elements to achieve our goals and that we are well positioned to create strong returns for our shareholders.



Steven J. Lund
CEO



Blake M. Roney
Chairman



Truman Hunt
President





2002

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Nu Skin Enterprises

INVENTOR

GEORGE CAYLEY

DISCOVERING OUR POTENTIAL

Known as the Father of Aviation, Sir George Cayley developed the fundamental structure of the modern airplane. He based his discoveries in aeronautics on his early observations of birds in flight. Determining that a fixed wing was the key for mechanized flight, Cayley constructed a full scale glider using a fixed wing design. In 1849, a young boy became the first person to fly when he traveled a short distance in Cayley's glider.

Like Cayley, Nu Skin Enterprises discovers new and innovative products through observation. In 1996, we partnered with world-renowned ethnobotanist, Dr. Paul Cox, to develop Epoch®—a line of products utilizing the ancient traditions of indigenous cultures. Through years of observation and research, Dr. Cox found that personal care remedies used by ancient cultures not only worked, but also had worldwide application. The botanical applications of Epoch® products are true to their empirical uses while being enhanced with the safety and consistency benefits of Nu Skin's quality formulation standards. In 2002, Epoch® product sales grew 12 percent, accounting for 7 percent of our personal care revenue.



No. 13

2002

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Nu Skin Enterprises

ENHANCING A ROBUST OFFERING



New Products. Innovation.



In this fast-paced world in which we live, innovation is mandatory. Our direct sales force must offer the most advanced products available to experience the greatest success. Since distributor success directly correlates to the growth of our company, we are deeply committed to developing innovative, differentiated solutions on a consistent basis. Our ongoing goal to have 50 percent of revenue stem from new and reformulated products demonstrates this. In 2002, new and reformulated products introduced in the past three years accounted for more than 70 percent of our revenue.

In addition to providing a constant supply of new products, we also invest in the latest technologies to ensure our existing formulations remain at the top of their categories. Our product introduction processes typically work on an 18-month cycle—the period of time between our global distributor conventions. Although we do launch products between conventions, our “platform for growth” products are generally first

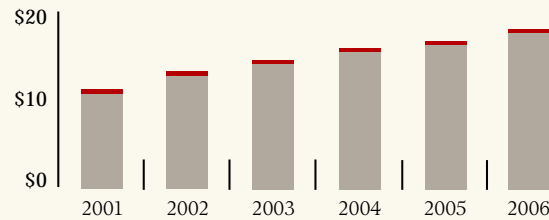
launched in the United States at our global conventions to enable us to better train and prepare our sales force. During the September 2002 convention, both Nu Skin and Pharmanex introduced several products that promise to be top sellers.

Nu Skin’s most anticipated introduction was the Nu Skin Clear Action™ Acne Medication System. Launched in our top markets during the fourth quarter of 2002, this treatment system has become one of Nu Skin’s best-selling products and is expected to generate \$20 million in revenue annually. Nu Skin also received rave reviews for Perennial™ Intense Body Moisturizer featuring IBR-Dormin™—a natural compound derived from Narcissus bulbs that has been scientifically shown to increase cellular durability—and Epoch Baby™, a line of ethnobotanical personal care products for infants. During the fourth quarter, new products introduced during our September convention accounted for approximately 6 percent of Nu Skin’s global revenue.



2002

Enhancing a Robust Offering



NUTRITIONAL SUPPLEMENT SALES IN
DEVELOPING ASIAN COUNTRIES

U.S. DOLLARS IN BILLIONS

“In developing Asian economies such as China, Malaysia, and Thailand, sales of vitamins and dietary supplements are expected to grow nearly 60 percent by 2006. Our efforts to simplify the way we sell our nutritional products are designed, at least in part, to help us capture part of this growth within our global Pharmanex sales.”

—Dr. Joe Chang, President, Pharmanex Division

The leading Pharmanex® product introduced at convention was ReishiMax GLp™ a powerful supplement that supports the body’s natural immune system. Through a proprietary three-step extraction process and “cracked spore” technology, we are able to provide one of the highest levels of active, immune-supporting ingredients currently available in a Reishi mushroom product. The initial launch of this product in Taiwan was unprecedented because it was the first Pharmanex® product to be rolled out in a foreign market prior to launching in the United States. This approach was very successful as ReishiMax GLp™ is now Taiwan’s number two selling product.

Although this proprietary immune solution has not yet been launched in Japan—our largest market—it has already become one of Pharmanex’s top five products. Based upon current demand, we believe ReishiMax GLp™ can become a \$20–40 million product annually. This would make it our number two nutritional product behind LifePak®, which has sales of \$180 million worldwide. During convention, Pharmanex also introduced Cortitol™ Stress Control Formula. This proprietary formula helps the body respond to stress more calmly, sleep more soundly, and perform at its peak. We have experienced a strong market response to this product.

2002

Enhancing a Robust Offering

In March 2003, Nu Skin introduced Tru Face™ Essence, an advanced treatment product designed specifically for Japan. Featuring Ethocyn, an ingredient that increases the production of elastin, this product helps firm and tone the skin. In May, an advanced skin care line for men will be launched. This line of products is the result of leveraging our technology to address a key consumer insight: men want to behave like men. Unlike other men's skin care lines that apply a female dynamic to males, Nu Skin® for Men incorporates a male dynamic, offering users added benefits from their normal routines.

Our pipeline for future product launches is robust. Nu Skin is developing a safe alternative to microdermabrasion and is catering to consumers who have sensitive skin with a poly-hydroxy acid based product that provides the same benefits as multihydroxy acids but is gentler to the skin.

Currently, Pharmanex is working in select areas of health that impact all people. Exciting, new

research in several categories, including inflammation, immune dysregulation, and cortisol and glucose levels, is leading to the development of proprietary ingredients and products with wide appeal. Additionally, to make it easier for consumers to achieve maximum health benefits, Pharmanex plans to distill and simplify its product offering over the next 12 months through novel mixing of current and new ingredients. These efforts will lead to several new products, utilizing proprietary technologies and know-how unique to Pharmanex, that will be launched at our 2004 global convention.

Our 2002 product introductions and formulas currently in the development pipeline are critical to our ongoing success. By finding and developing new personal care and nutritional technologies, we are fulfilling our commitment to distributors and their customers to offer only the most advanced solutions available.



In 1996, we created the Nu Skin Force for Good Foundation™ to fulfill our commitment to make the world a better place. This nonprofit organization enables employees, distributors, and customers to contribute money and services to environmental and humanitarian causes. Among our many efforts is the funding of research at Stanford University to find a cure for Epidermolysis Bullosa (EB)—a disabling and life-threatening disease that primarily affects children.





2002

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Nu Skin Enterprises

CLIMBER

JUNKO Tabei

EXCEEDING OUR AIM

A world-class high altitude climber, Junko Tabei is only 4 feet 9 inches tall. Though she had weak lungs and was often sick as a child, Tabei enjoyed her first climbing experience at age 10. This positive childhood experience led her to take up climbing after graduating from college. When she was 35, Tabei joined 14 women on an Everest expedition. Though they encountered great obstacles, including a massive avalanche, Tabei had the tools and training she needed to succeed. Determined to reach her goal, Tabei pressed on bruised and battered. On May 16, 1975, she became the first woman to reach the summit of Mount Everest. In 1992, Tabei also became the first woman to successfully climb the Seven Summits.

Like Tabei, Nu Skin Enterprises is determined to provide distributors with the tools they need to exceed their goals. In September 1999, we launched Distributor Plaza, an Internet service that enables Japanese distributors to order and check sales levels online. We upgraded this platform in May 2001 with the launch of Plaza II. Besides featuring increased capacity and speed, this platform provides additional tools to distributors such as online messaging and monthly purchase program registration. In 2002, Plaza II generated \$130 million—approximately 25 percent of our total Japan revenue—a 16 percent increase over 2001.



Nu Skin

2002

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Nu Skin Enterprises

MAXIMIZING DISTRIBUTOR SUCCESS



New Tools. Distributor Productivity.



Arming our direct sales force with effective tools is an important part of our business. In the first half of 2003, we launched one of the most advanced tools we've ever introduced to our distributors—the Pharmanex® BioPhotonic Scanner. This cutting-edge, testing device allows consumers to safely and noninvasively measure a carotenoid antioxidant biomarker by simply placing the palm of the hand in front of a low-energy blue light laser.

The scanner can help consumers determine whether they are consuming adequate amounts of antioxidant containing nutrients such as those found in LifePak®. The ability to measure carotenoid antioxidant levels provides our distributors a tremendous competitive advantage—demonstrable proof of the ability of LifePak® to improve overall health by increasing antioxidant

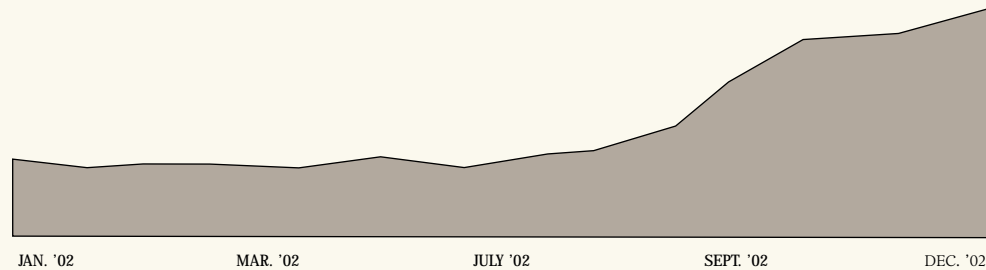
levels. This comprehensive antioxidant micronutrient supplement contains the most important carotenoids—lycopene, alpha-carotene, beta-carotene, and lutein. Carotenoids are powerful antioxidants that help fight the cell damage that can be caused by free radicals. The scanner allows a consumer to establish a baseline measurement of carotenoid antioxidants, then track the impact of LifePak® and other dietary changes by periodic remeasurement. As customers track their skin carotenoid content, we believe they will be motivated to consistently consume LifePak® for longer periods of time.

Utilizing just a few prototype scanners has already had a positive impact on LifePak® sales. In the United States during the second half of 2002, LifePak® orders placed through our monthly Automatic Delivery Program were up 17 percent



2002

Maximizing Distributor Success



U.S. LIFEPAK® REVENUE GROWTH

“While we are very early in the launch of the Pharmanex® BioPhotonic Scanner, the scanning and training we’ve conducted corporately since September have positively impacted LifePak® sales. From January 2002 through August 2002 average sequential monthly revenue growth of LifePak® was flat. However, we averaged 7 percent sequential monthly revenue growth in LifePak® from September through December 2002.”

—Scott Schwerdt, General Manager, Nu Skin United States

from the first half of the year. We delivered 30 additional prototype models of the Pharmanex® BioPhotonic Scanner to certain distributor leaders in the United States in February 2003. We are confident the scanner will be a powerful catalyst for product sales growth and an effective tool that will increase our active distributor count.

The scanner is only one of many tools we have put in place to help our distributors succeed. Through Big Planet, we are able to offer distributors a technological edge that increases their productivity. This is accomplished with technology accelerators—tools that help distributors build

their businesses more quickly and effectively—such as Internet-based business services. With the introduction of Distributor Plaza several years ago, we enabled Japanese distributors to monitor sales volumes within their global business organizations and place product orders online. Last fall in Japan, we made this same service available on Internet-enabled cell phones. In the fourth quarter of 2002, we processed 3,500 orders from cell phones.

With more than \$100 million invested in our IT infrastructure, the Internet is an essential part of our business. By leveraging this technology, we

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Maximizing Distributor Success



“The scanner technology is ideally suited for Pharmanex to drive our business. LifePak® is a highly beneficial and sophisticated product and the scanner is able to demonstrate its antioxidant benefits quickly and easily.”

Carsten Smidt, Ph.D., FACN

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have enabled our distributors to integrate the Internet into their businesses. Just 24 months ago, approximately 20 percent of our revenue was automated through monthly purchase programs and Internet ordering. Today, these automated orders account for 38 percent of revenue. By 2006, we plan to grow this number to 50 percent of revenue.

While Internet and automatic purchase programs have played a significant role in reducing selling, general, and administrative expenses, they have also helped increase distributor productivity.

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Japanese distributors who are enrolled in our automatic purchase programs recruit three times as many distributors and are 66 percent more likely to become executive distributors than those who do not participate in these programs.

As we move forward, we will continue to provide incentives for distributors to participate in our automatic purchase programs and utilize the Internet to enhance distributor productivity. We are committed to accessing technology improvements to enable our distributors to grow their businesses more effectively.





2002

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Nu Skin Enterprises

EXPLORER

ZHENG HE

EXPANDING OUR REACH

Zheng He, a great Chinese mariner, explored the regions of the Pacific and Indian Oceans more than 70 years before Christopher Columbus sailed the Atlantic. Through his many adventures—he visited 37 countries and traveled around the tip of Africa—Admiral Zheng extended China's world, forming many important liaisons with other nations.

Like Admiral Zheng, Nu Skin Enterprises expands its reach by opening new lands of opportunity. A notable example of this is our expansion into Southeast Asia. In 2000, we generated \$120 million in revenue throughout this region. Our strategic initiatives in this market, along with opening business operations in Singapore in 2000 and Malaysia in 2001, enabled us to increase revenue in this region to \$196 million in 2002.



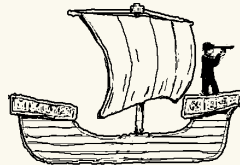
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Nu Skin Enterprises

OPENING NEW LANDS OF OPPORTUNITY



New Markets. China.



Leveraging favorable industry trends and opening new markets is key to achieving our revenue goals. While we anticipate new markets representing 15 percent of revenue over the next four years, the majority of new market revenue will flow from China.

In 2002, we created a solid foundation for long-term success in China. We completed our state-of-the-art personal care manufacturing facility in Shanghai, secured government licenses for and completed the build-out of 100 retail stores in five regions within China, and devel-

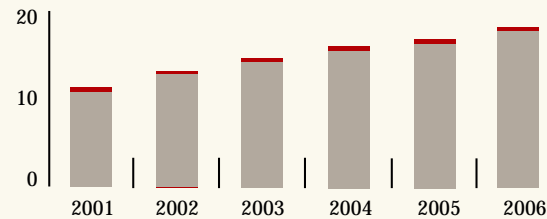
oped a unique retail business model utilizing an employed sales force that is compensated on its selling efforts.

During 2003, our primary focus will be on fostering positive government relations and refining the operation of our retail business model in China. Direct selling is not allowed in China so as a global direct selling company it will take time to establish positive relations with the government and the media regarding our retail business model. While our revenue projections are only a modest 2 to 3 percent of global com-



2002

Opening New Lands of Opportunity



CHINA PERSONAL CARE SALES
IN BILLIONS OF RMB

pany revenue, the foundation that we lay will establish a vehicle for healthy growth rates within China in the years to come.

Future expansion plans in China include opening new stores in current regions and reaching out to new provinces and cities throughout the country. We currently sell 18 percent of Nu Skin® products and no Pharmanex® products. We plan to significantly expand our product offering in the years to come.

The growth prospects within China are tremendous. Other consumer product companies are

experiencing rapid growth in the market and the economy is growing 8 to 10 percent annually. We believe China will become one of our largest markets over the next four years as we develop and refine our retail model and expand our product offering. In addition, the government has indicated that by late 2004 new regulations will be in place to allow sales away from retail stores. These changes may enhance our growth prospects and the productivity of our sales force even further in this significant market.

Reinforcing this optimism is our proven track record of success in new markets in Asia.

“The personal care market in China is expected to grow 35 percent by 2005, reaching \$9 billion. Our goal is to capture 2 to 3 percent of this market over the next several years.”

—Lori Bush, President, Nu Skin Division

2002

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Opening New Lands of Opportunity



“The opening of the Nu Skin store in Guangzhou has offered me and my coworker new opportunities. There has been great demand for the products. I am excited to build a career with such an outstanding company.”

Xian Tin Lu, Sales Representative (pictured on right)

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During 2000, we entered the market of Singapore. A year later, we began business in Malaysia. In 2002, these two markets generated more than \$60 million of combined revenue. While the per capita income where we operate in China is about a quarter of the per capita income in Malaysia and Singapore, China’s population in our areas of business is nearly 10 times as large.

In addition to China, we are researching market expansion opportunities in Eastern Europe, Southeast Asia, India, and Latin America. We are committed to creating a profitable business model that caters to these developing regions, particularly Latin America, a \$9 billion market. We are confident that our new market development efforts will significantly increase revenue over the coming years.

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