

TO OUR SHAREHOLDERS



Dear Shareholders,

The year 2006 was a pivotal one for Nelnet, and we are excited to celebrate our accomplishments and evolution into a world-class education planning and financing company. Last year also brought many challenges to Nelnet and others in the student loan and education services industry. We're pleased to have faced these challenges and emerged with strong business performance and a clear path to future growth and continued differentiation from the competition.

While most shareholder reports begin with performance numbers, we would like to begin our letter by celebrating the individuals who are truly responsible for Nelnet's success, our 4,000 associates. Their steady effort and focus led us through the challenges we faced in 2006 and allowed us to deliver strong, consistent growth in four key metrics: student loan originations, student loan receivables, fee income and net income. Their deep industry knowledge, customer relationships and commitment to excellence will continue to propel us into the future.

A WORLD-CLASS EDUCATION PLANNING AND FINANCING COMPANY

Over the last decade, Nelnet has transformed from a small regional student loan player into a national diversified education services company. There has been a great deal of change as we have acquired companies, reacted to dynamics of the industry and competitive environment and worked to fulfill our mission. We are proud of all that we have accomplished.

The year 2007 represents an important opportunity for Nelnet. We have assembled a compelling array of products and services, both organically and through acquisition—and in the coming year we will focus on building out the additional pieces and fulfilling our strategic vision. Key components of our vision include diversified education services (diversified revenue streams, product offerings and customers) and meeting “world-class” criteria (strong and consistent growth, differentiated products and customer experiences and strong brand equity).

Diversified Revenue Streams and Increased Fee-based Income:

We have been very successful in diversifying our revenue streams over the past two years. Since 2004, income from fee-based businesses has grown from 23 percent to 50 percent of Nelnet’s total revenue—a remarkable accomplishment. Fee-based income topped \$308 million for the year, an increase of nearly 57 percent. Our goal is to increase fee-based revenue from businesses that are not dependent on government programs to reduce our political risk.

Diversified Product Offerings: Although Nelnet’s roots are in student lending, we have expanded our services to include tuition payment plans, college planning and preparation, college savings plans and more. With the acquisition of Peterson’s in 2006, we are now more active in the pre-college stages of the education life cycle, reaching high school students as they plan for college, as well as in the post-college career planning stage. We now offer comprehensive college and scholarship searches, test preparation tools, resume assistance and a variety of career planning content.

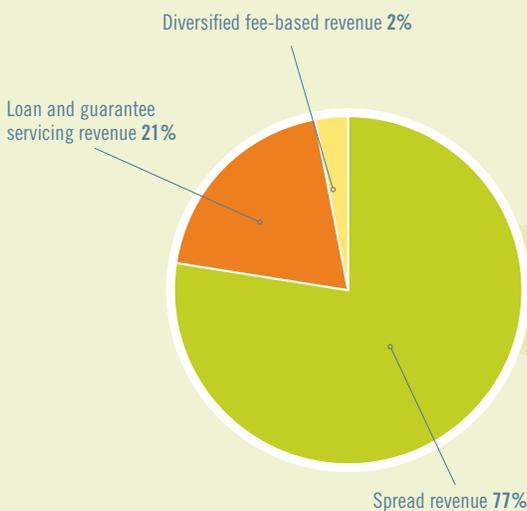
Diversified Customers: We make most of our sales through institutional contacts, yet we also offer products and services directly to students and families. We will continue to focus our sales efforts primarily through our relationships with educational institutions. However, we will differentiate ourselves from our competition by developing the products, services and experiences that meet the needs of our shared customers—the education-seeking family. Traditionally, our primary

entry to the school has been through the financial aid office; today, we have expanded our reach and focus to include the business office, enrollment/admissions office, guarantors and high school counselors.

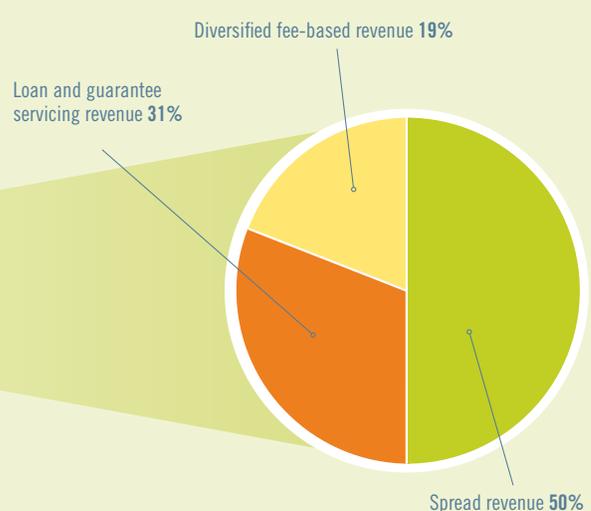
Differentiated Products and Customer Experiences: It is important for Nelnet to build and maintain a differentiated position in the market for our school customers and the education-seeking family. We believe the way to differentiate ourselves is by delivering exceptional, “platinum-level” customer service. Nelnet delivers industry-leading performance when it comes to loan servicing. We have a goal of answering 90 percent of our calls within 10 seconds. We have delivered several key projects this year in our loan servicing business—including changes to online borrower repayment options, Web self-service additions and private loan system enhancements. Customer service is one of the pillars our business was built on, and we will continue to invest significantly to improve our ability to serve families and educational institutions.

Our Brand Evolution: During 2006 we redefined Nelnet from a “student loan company” to an “education planning and financing company.” Consumer research has shown that families are looking for a partner to work with them through all stages of education—from planning to financing and preparing for a career. Today, this need is unmet because competitive companies are offering only individual pieces of the total picture. Nelnet’s strategy is to serve as an education planning and financing partner that can help students and

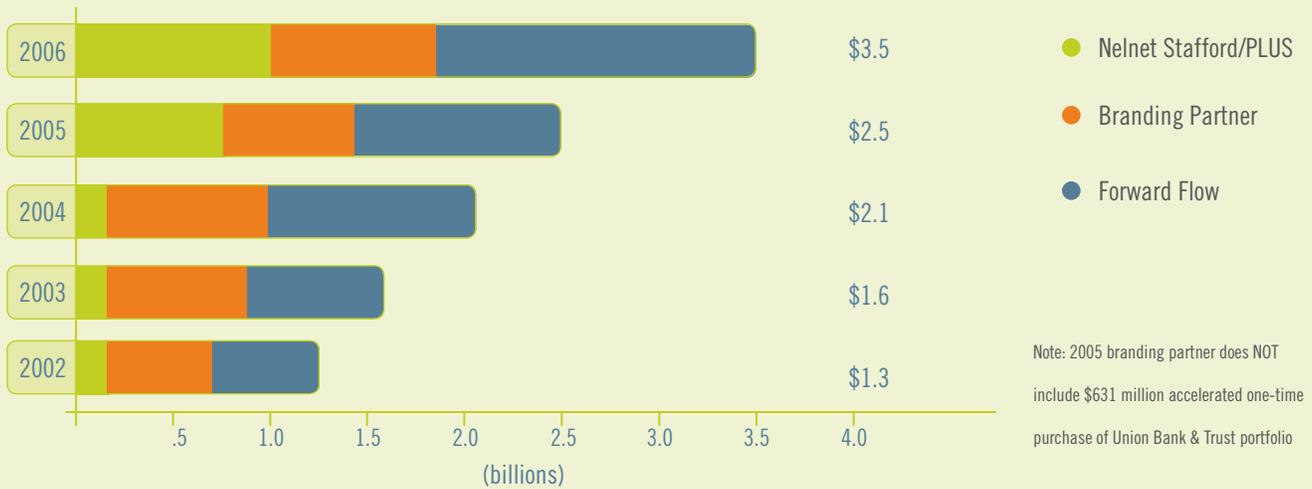
2004 NET REVENUES



2006 NET REVENUES



IN-SCHOOL ORINATION CHANNELS (\$ billions)



families plan and pay for their education and plan their career. We've redefined our positioning to support this new strategy. It (and the accompanying new look) will come to life during 2007 in our consumer-focused Web site.

INDUSTRY STRENGTH

Today, Nelnet is well-positioned in a growing, dynamic industry. College enrollment has increased substantially over the last decade and is projected to increase in the foreseeable future, while the value of a college education in our competitive, global economy has never been greater. As enrollment, costs and the value of a college education continue to rise, students and parents have a greater need for education planning and financing services, including student loan products. Federally-guaranteed student loan volume is expected to top \$70 billion in 2007 and continue to increase. Private loans are growing at an even quicker pace.

The guaranteed student loan program, known as the Federal Family Education Loan, or FFEL, Program, has helped millions of students access and afford an education since it was signed into law by President Lyndon Johnson as a part of the Higher Education Act of 1965. This public-private partnership represents the largest source of financial aid for American students seeking a college education. Unfortunately the political rhetoric has not focused on the value provided to students, as well as colleges and universities, through the FFEL Program. Instead, the education finance industry has been forced

to protect itself against blitzes from its critics. A recent book by author Michael Lewis called *The Blind Side: Evolution of a Game* offers some good lessons about the blitz the FFEL Program is experiencing today.

In his book, Lewis chronicles the changes in pro football since Lawrence Taylor joined the New York Giants in 1981. He quickly became the most feared outside linebacker in football for his ability to rush the passer. The unique combination of speed and size that Taylor brought to his position revolutionized offensive line blocking schemes and changed the role and importance of the left tackle in protecting the quarterback. Because of Taylor, left tackles today typically weigh more than 350 pounds, demonstrate extreme levels of body control and are often one of the team's most important and highest paid players.

As the industry faces blitzes, we will need to adapt and increase the rate of change to protect our quarterback—students and schools. Fortunately, with change comes opportunity, and we are positioned to be instrumental in helping education-seeking families and the institutions that serve them as we move into the future.

STRONG ASSET GROWTH

Nelnet delivered another year of strong growth in 2006, increasing its net student loan assets by \$3.5 billion, or 17 percent. This came on the heels of a record year in 2005 that included portfolio acquisitions of more than \$3.1 billion as well as in-school and net new consolidation originations of more than \$4.6 billion. Consolidation loan

originations grew to \$5.3 billion, generating new consolidation loans of \$2.7 billion to our books. Our net new consolidation originations also increased for the fourth consecutive year to \$1.5 billion. Again, the company's diversified loan origination platform has delivered strong and consistent student loan asset growth with a compounded annual growth rate of 32 percent since we went public in 2003. A closer look at our asset growth in 2006 reveals strong growth in each of our in-school origination channels: Nelnet brands, branding partners and forward flow. Total in-school originations were \$3.5 billion, up from \$2.5 billion the prior year.

Loan consolidation was important to the year's net student loan asset growth. For the second year in a row, student loan borrowers rushed to consolidate their student loans and lock in a lower interest rate before the rate increased on July 1. As a result of the market bubble, we were able to process and fund a record number of consolidation applications. After two years of strong growth, we expect the consolidation market to contract in 2007 by as much as 35 to 40 percent. Less demand for consolidation loans will require us to increase our market share to produce more net new consolidation originations once again, something we are planning to achieve.

Net interest income continued to grow in 2006 but at a slower rate than our portfolio growth due to tighter margins. Our core student loan spread contracted to 1.42 percent in 2006, compared with 1.51 percent in 2005. This tightening was attributable to movements in short-term interest rates and an increase in the percentage of consolidation loans in our portfolio. We anticipate margin contraction to continue, but at a slower pace, into 2007.

As a company, there are three strategies we consider to mitigate the effects of margin contraction. First, we can increase our originations of higher risk/higher margin assets such as private loans. Second, we can increase the rate of asset growth to offset the lower return. Third, we can diversify our revenue streams into fee income-producing businesses. We are primarily focused on the second and third strategies.

Diversified revenue streams, diversified product offerings throughout the education life cycle and diversified categories of customers are making Nelnet stronger. We will continue to focus our sales efforts at the school's financial aid office, business office and enrollment/

admissions office. At the same time, we will differentiate Nelnet from our competitors by developing products, services and experiences that meet the needs of the customers we share with educational institutions—education-seeking families. Delivering platinum-level customer service is an important part of the customer experience that builds brand recognition and loyalty and separates Nelnet from our competition.

“Diversified revenue streams, diversified product offerings throughout the education life cycle and diversified categories of customers are making Nelnet stronger.”

CAPITAL DEPLOYMENT

A key element to delivering sustainable long-term value to our shareholders is deploying capital efficiently through our capital management strategy. Our goal is to maintain a capital position sufficient to invest in organic growth and new business opportunities over the long term and to have an equity to total assets ratio between 0.8 percent and 2.0 percent. At the end of 2006, we easily exceeded this range, and we plan to use the capital we generate in 2007 to invest in organic growth and strategic acquisitions, pay a quarterly cash dividend and repurchase our stock when we believe it is undervalued and provides the best long-term return on our investment.

ENGAGED ASSOCIATES AND OUR COMMUNITIES

We also see maintaining and improving upon a culture of engaged associates who have the chance to succeed every day as critical to our long-term success. To emphasize our commitment to associates, we rolled out an initiative during 2006 that addresses total associate well-being. We introduced these changes—emphasizing the physical, professional, financial and personal well-being of all our associates and their family members—to underscore our goal of building an environment where talented people are motivated to work hard every day and enjoy what they do. We actively promote a culture of learning, growth and development, while further strengthening one of our key competitive advantages—our associates.

Community wellness ties into our civic involvement and philanthropy. We encourage and applaud the involvement of our associates in their communities. They serve in a variety of ways to make their communities better places to live and work. We are proud of the development of the Nelnet Foundation, which supports educational dreams through charitable contributions and scholarships. The foundation provides millions of dollars in scholarships to help education-seeking families access an education; it also provides a terrific matching program for associates. Contributions from associates to higher educational institutions are matched three to one, and contributions to charitable organizations are matched dollar for dollar.

We also continue to grow our annual United Way campaigns. This year Nelnet and our associates contributed more than \$400,000 to the United Way—testimony to the character and generosity of our team.

CHALLENGES BEHIND US

Along the way during 2006, we faced two significant challenges, both of which are now behind us. Late in 2006, EDULINX, a Nelnet subsidiary, learned that the Government of Canada had awarded another service provider with a contract to provide financial and administrative services in support of the Canada and Integrated Student Loans Program (CSLP). As a result of this decision, EDULINX will be required to transition its existing CSLP portfolio to the selected service provider on March 31, 2008. EDULINX administers more than \$9.0 billion in student loan assets, of which approximately \$7.7 billion are attributable to the current CSLP contract, contributing approximately 80 percent of the company's revenue in 2006.

In January 2007, we announced an agreement with the Department of Education (Department) to bring resolution to an audit by the Department's Office of Inspector General of a portfolio of student loans receiving 9.5 percent special allowance payments. The resolution allowed Nelnet to keep payments already received from the Department, which supported our historical position that these loans qualified for the special allowance payments based on the Department's previous guidance. The agreement also effectively eliminated all future 9.5 percent special allowance payments for the company. As expected, the Department issued guidance that applied this new interpretation to all lenders on a prospective basis. We are pleased to have reached an agreement with the Department and put

the issue behind us. The process at times overshadowed the very real benefits that the FFEL Program and Nelnet provide to students, parents and educational institutions. We regret the distraction this issue has caused and apologize for the difficulty this has caused our customers and our industry.

LEADING THE WAY

The year 2007 promises to be an exciting one for Nelnet. We are leading the way in innovation and diversification and adding value for our customers—educational institutions and the education-seeking family.

The foundation of our growth story is our vision and core values, including our personal commitment to customers, business partners and Nelnet associates. Making educational dreams possible adds significance and inspiration to our work. It is exciting to come to the office each morning with the opportunity to help education-seeking families plan and pay for their education as well as prepare for their careers.

That enthusiasm continues to propel us through the realization of our vision of Nelnet as a world-class education planning and financing company.

Sincerely,



Mike Dunlap
Co-Chief Executive Officer



Steve Butterfield
Co-Chief Executive Officer