

## To our shareholders

Dear Shareholders:

As we look back on 2005, it was another challenging, engaging year in the education business. We feel honored to serve and have the opportunity to work with hundreds of lenders, thousands of schools, and millions of students as we fulfill our vision for the delivery of educational dreams. At the same time, we are humbled by the hard work and dedication of more than 3,000 Nelnet associates, the driving force behind our success.

On the cover of this report you will see the phrase "unshakable commitment unwavering values." We chose this phrase as the theme of our 2005 report because we feel it best describes the way we approach our business. Our core values remain the same: the customer is number one, create an environment where associates have the opportunity to do what they are great at every day, and building a diversified revenue stream. We support these values with open and transparent communication.

This was our commitment to you at the beginning of the year, and it continues to be our commitment at the conclusion. It was a dynamic year that will be remembered for our strong asset growth and revenue diversification. This was accomplished through strategic acquisitions and organic growth derived from our core business.

We focus our growth on what we can control and therefore one important financial measure used by management to evaluate the company's performance is adjusted base net income. Nelnet's adjusted base net income excludes items that management does not directly influence, such as derivative market value adjustments, amortization of intangible assets, variable-rate floor income, and certain special allowance yield adjustments and related hedging activity. In 2005, adjusted base net income increased to \$78.7 million from \$54.9 million in 2004.

### Student loan asset growth

Owning the student loan asset remains the main economic engine of Nelnet, even as we continue to experience compression in the net interest margin on our student loan portfolio. The company's core student loan spread contracted to 1.51 percent in 2005, compared with 1.66 percent for 2004. This contraction is primarily attributable to higher short-term interest rates, the amortization of higher yielding assets, and an increase in lower margin consolidation loans in our portfolio.

When we own the student loan asset, we are able to use our vertically integrated platform to direct where the asset is guaranteed, serviced,

consolidated, and collected. Each of these functions generates revenue for Nelnet. Additionally, we can assure the quality of the service students, families, and schools receive and use each of these customer touch points to deepen relationships and expand cross-selling opportunities.

In 2005, due to record growth in our student loan portfolio, we surpassed the \$20 billion mark in total net student loan assets. At December 31, 2005, net student loan assets had increased \$6.8 billion, or 51 percent, to \$20.3 billion. Of this growth, \$3.2 billion can be attributed to the acquisition of LoanSTAR Funding Group and the purchase of a loan portfolio from Chela Education Finance, both of which occurred in the fourth quarter of 2005.

However, the value of these transactions reaches beyond their immediate asset contribution. Ralph Rushing, Larry Holt, Bill Jeffery, and the LoanSTAR team, as well as our new Chela representatives, provide Nelnet with a greater brand presence in the Sunbelt and along the West Coast, two of the fastest growing regions for higher education enrollment.

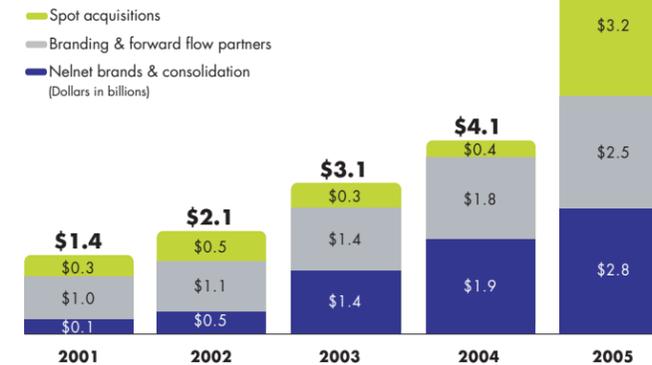
Excluding the business and portfolio acquisitions, net student loan assets increased \$3.6 billion or 27 percent from December 31, 2004. We are excited by this organic growth because it shows the success of our diversified loan origination platform, including our campus-based and direct-to-consumer origination channels. We anticipate our asset growth rate will slow during 2006 to the double digits to high teens due to our large acquisitions at the end of 2005 and the industry-wide consolidation market decline.

Within our campus-based channel, we approach the market with a three-fold strategy using Nelnet house brands, branding partners, and forward flow partners. This allows us to strengthen our regional presence by using Nelnet associates to originate loans under local brand names, while organically growing the Nelnet brands in key markets.

The school channel also provides significant barriers to entry for new competitors. We have developed relationships in this market over time that have been strengthened further with our customer-focused approach of providing total solutions. Not only are we offering competitive student loan products, we tailor solutions to meet the needs of colleges and universities with our superior technology, services, and products that streamline business and administrative functions, as well as improve student services, create efficiencies, and enhance the financial stability and affordability of schools.

We are providing students, families, and schools with a comprehensive set of education services, and tremendous customer service, which sets us apart from our competitors and those just entering the market.

### Growing diversified loan origination platform



Note: Direct channel excludes consolidation of existing assets. Information presented for 2002 and prior has been adjusted for estimated consolidations of our existing portfolio.

Loan consolidation was a key driver in the year's asset growth. A significant market bubble was created by borrowers completing consolidation loan applications to lock in the lower interest rate before the rate increase on July 1. We received, and subsequently funded, a record number of applications in June because of our ability to effectively respond to this demand.

Nelnet closed the year having originated more than \$4 billion in gross new consolidation loans, with \$2.1 billion gained as new loans, meaning those loans acquired from other holders. At the same time, we experienced a loss of \$855 million which was consolidated out of our portfolio by other parties.

After a few years of historically low interest rates driving consolidation loan volume and due to some changes in the recently passed budget reconciliation bill, we expect the overall market demand for consolidation loans to

decrease 25 – 50 percent in 2006. However, as students continue to graduate with higher loan balances, we anticipate consolidation loans will remain an important financial tool for borrowers to extend their repayment terms and move multiple loans to a single payment, thereby increasing loan volume in future years.

In addition to Stafford and Consolidation loans, Nelnet originates PLUS loans that are also federally guaranteed under the Federal Family Education Loan Program (FFELP). With the passage of the Higher Education Reconciliation Act of 2005, which reauthorized the Title IV programs of the Higher Education Act, graduate and professional students may now access PLUS loans to cover the full cost of education, less other aid. We see this as a tremendous opportunity for students as well as for Nelnet to extend this asset-generating product.

We anticipate the PLUS loan expansion will have some impact on the size of the private loan market; however we will continue to originate private loans to assist students in bridging the gap between scholarships, FFELP loans, family contributions, and tuition costs. Consistent with our past private loan strategy, we do not expect these loans to grow to represent more than three to five percent of our portfolio over the next three to five years.

### Diversification of fee based revenues

We often describe our growth strategy using a metaphor of a table supported by multiple legs. Just like a sturdy table, a strong company has many legs of revenue that make it stronger and able to withstand pressure and provide value far into the future. We believe it is imperative to approach our market using a number of asset generation channels in addition to growing and diversifying our fee-based revenue streams.

As net interest margins continue to compress industry-wide, we continue to develop our fee-based revenues. These revenues grew to represent approximately 37 percent of our total revenues in 2005 compared to 22 percent in 2004.

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The largest portion of our fee income is generated by loan and guarantee servicing, which experienced an increase of \$52.4 million in 2005, compared with 2004 (see chart below). We attribute a significant portion of this increase to an expanded relationship we have with College Access Network and the acquisition of EDULINX in the fourth quarter of 2004.

Adding to this growth were the acquisition of Student Marketing Group, National Honor Roll, FACTS Management, and Foresite Solutions.

We started the year off with the announcement that we had acquired Student Marketing Group and National Honor Roll. Jan Stumacher and his team run outstanding companies focused on the high school market, which provides Nelnet a greater entrée to our pre-college audience.

National Honor Roll recognizes the achievements of outstanding students across the country by honoring them in an annual publication available for purchase to create a lifetime memory.

As students move through K-12 and college, tuition payment plans can provide an additional resource to families seeking to meet the financial demands of education. In June, Nelnet acquired an 80-percent ownership in FACTS Management. As the largest tuition payment program in the U.S., FACTS Management actively manages some 650,000 payment plans for families with students in K-12 and college. David Byrnes, Tim Tewes, and their fantastic team help provide a pay-as-you-go solution for education funding while providing Nelnet another touch point with our student customers.

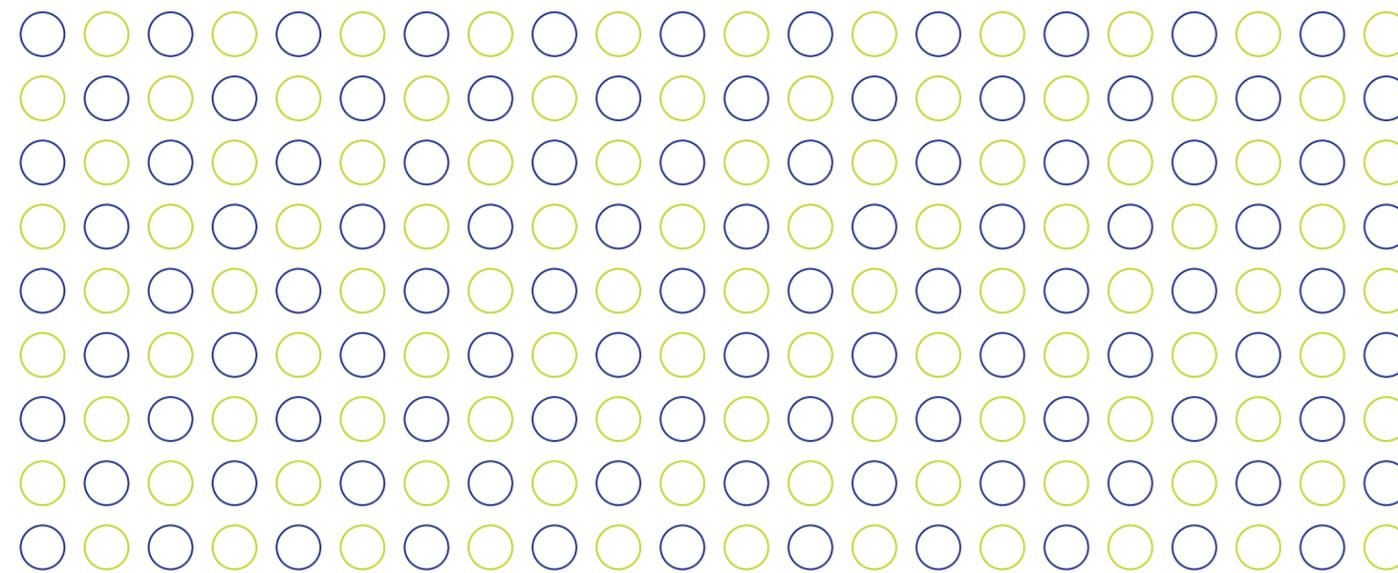
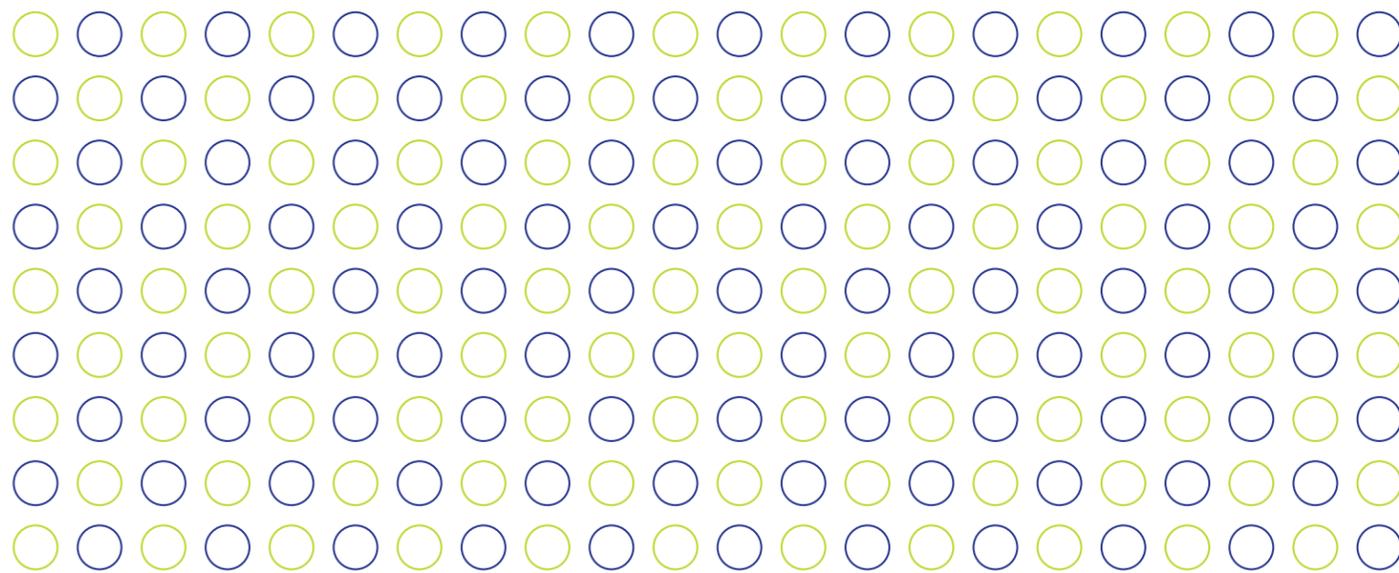
Staying true to our philosophy of maintaining intellectual capital, we were pleased to welcome Chad Billmyer and Ray Prisament, who founded Foresite, into the Nelnet family.

As one of only two truly vertically integrated education finance participants, Nelnet's services extend from college planning and student loan origination to guarantor services. In November, we broadened our relationship with the College Access Network, the Colorado state-designated guarantor of student loans. Under the agreement, Nelnet provides the student loan servicing and guarantee operations of College Access Network, which expands our guarantee servicing line of business within our vertically integrated model.

Finally, near the close of the year, we purchased the remaining 50-percent ownership of 5280 Solutions and FirstMark Services.

5280 Solutions is a premier provider of technology products and services, with three core areas of business: student loan software solutions, technical consulting services, and content management/records management and imaging. Mark Voegele and his incredible group specialize in designing, developing, and licensing complex, mission-critical software solutions for the student loan, higher education, and financial services industries.

As we continue to see an increase in the private education credit market, Joe Popevis and his team at FirstMark provide loan servicing for approximately \$1 billion in private loans for a number of third-party clients across the U.S.



Student Marketing Group is a list management company that helps schools and families connect with one another to enhance the post-secondary education fit. Student Marketing Group provides its list generation services to Nelnet, in addition to a number of other companies, to help in reaching out to students and their families.

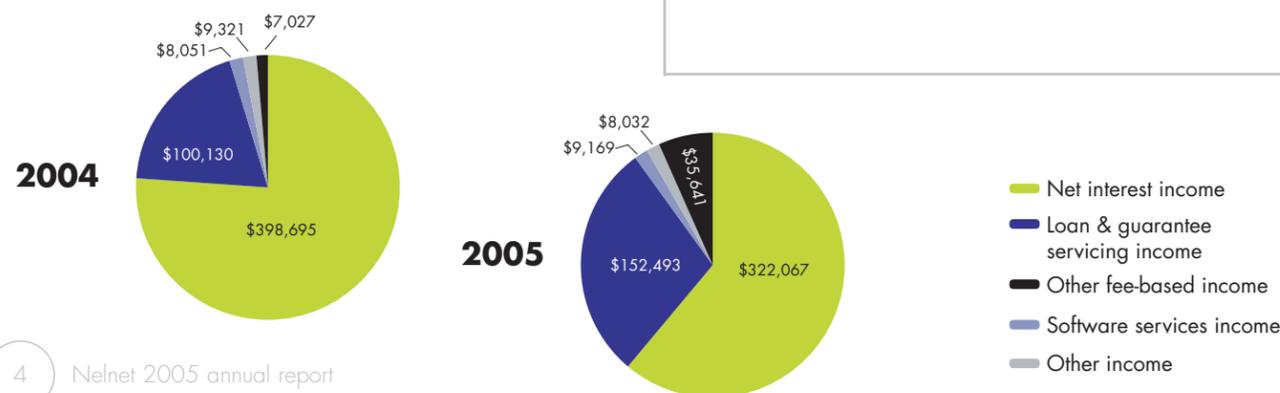
In addition to students and families, Nelnet also focuses on providing economic solutions to colleges and universities, specifically in the bursar's, admissions, and financial aid offices.

In June, we acquired Foresite Solutions with the goal of extending its technology services, specifically as they relate to work-study program management, to help our school customers develop more efficient and effective programs.

Our College Access Network relationship is run by Caron Peterson, who has been with that organization for 25 years. We are pleased that Caron joined our newly appointed guarantee services leadership team of Becky Stilling and Wendie Doyle as we continue to make inroads into this critical phase of the loan process.

In all of these acquisitions, we worked diligently to retain and enhance the intellectual capital and local footprint of each organization. The addition of this talent to our existing team makes Nelnet a much better company in 2006 than it was in 2005. As you can guess, we feel very fortunate to have surrounded ourselves with some of the smartest, most dedicated, hard working associates in the world.

**Fee-based revenues 2004/2005**



Nelnet is one of the leading education services and finance companies in the United States and is focused on providing quality products and services to students and schools nationwide.

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## Maintaining the competitive advantage

Vertical integration and diversification into other education-related businesses, along with transparent and conservative accounting policies, continues to strengthen Nelnet's financial position. We ended 2005 with \$649.5 million in equity and a 2.85-percent equity to assets ratio, providing us a ready pool of funds from which to draw for future market opportunities.

As you will hear us say repeatedly, Nelnet has a long-term approach to business. Our focus is not on quarterly returns, but rather on creating long-term value for our customers, which we believe positions our company for sustained growth over five, 10, and 15 years.

Market competition in 2005 was tremendous and continues to intensify to the point that some competitors, in our opinion, are underwriting their business at what appears to be a loss. We choose to do business at a profit. Therefore, we will not add loan volume to our portfolio for volume's sake, unless it is going to be profitable volume. As you can see from the preceding paragraphs, we continue to diversify our revenue stream to increase our financial strength at a time of thinning margins, but with a continued focus on the education sector.

As we enter 2006, we have recommitted our organization to persistently seeking ways to continuously improve, leverage our strengths, and build our efficiencies with a focus on adding value to our customers. There is a quote by Ralph Waldo Emerson that speaks well to this thought: "The quality of imagination is to flow and not freeze."

This was the driving force behind our two early announcements this year related to the formation of Nelnet's Education Services division and the appointment of Jeff Noordhoek as President of Nelnet, Inc.

Through the leadership of David Bottegal as our Education Services division Chief Executive Officer and Matt Hall as the division's Chief Operating Officer, Nelnet Education Services helps us flow decision-making closer to the customer to assure we remain nimbly positioned to respond to market opportunities and needs. Our speed and flexibility have been a key differentiator for Nelnet and we want that same differentiation to be true well into the future.

Our Education Services division will continue to provide education solutions that impact schools, students, and families, allowing us to act more strategically in the market and expand our fee-based income streams into more customer touch points.

This includes the products and services provided by our Business Solutions unit, formed with the 2006 acquisitions of the outstanding ownership of both FACTS Management and *infiNET* Integrated Solutions. These organizations and their associates will focus on providing comprehensive campus commerce, payment processing, and information management solutions for

K-12 and post-secondary institutions that improve student services, create efficiencies, and enhance the financial stability and affordability of schools.

Nelnet Business Solutions will be led by David Byrnes as Chief Executive Officer of the new unit, Harvey Gannon as President of Campus Commerce, and Tim Tewes as President of K-12 and College Sales.

In addition to providing growth, scale, and diversification opportunities, our Education Services division and Business Solutions unit will allow the two of us greater time to focus on how we can bring future value to our schools, students, families, and associates. As Nelnet continues to grow, so do our daily obligations and we understand we must balance present concerns with time for future planning.

That is why early in 2006, we asked Jeff Noordhoek to serve as President of Nelnet, Inc. Jeff was one of our original associates when we started this business and he has an extensive understanding of our company and industry. As President, Jeff will expand his decision-making role in the future growth and strategic objectives of the company as well as provide the day-to-day leadership for Nelnet, Inc. In addition, he will oversee Mergers and Acquisitions, Capital Markets, Investor Relations, Government and Industry Relations, and Corporate Communications.

While we believe these structural changes better position us for future market growth and opportunity, our message and long-term focus remain the same:

- Customer-focused quality service and products
- Associates doing what they do best every day
- Diversification of revenue streams and fee income focused on the education market place

Through the remainder of the year, we will continue to focus on the integration of our new acquisitions, expense management, and continued asset and adjusted base net income growth.

As we close, we want to reiterate how pleased we are with our 2005 results, both financially and with regard to our outstanding team of associates. We anticipate another dynamic year in 2006, with continued opportunity to live our passion of making educational dreams possible.

Thank you.

Mike Dunlap  
Co-Chief Executive Officer

Steve Butterfield  
Co-Chief Executive Officer



## Nelnet at a glance

Nelnet offers a broad range of financial services and technology-based products, including actively managed tuition payment plans, student loan origination, lending, holding, loan and guarantee servicing, and education-related software solutions.

## unshakable commitment

