



nelnet

2005 annual report

unshakable commitment

unwavering values

At our core

The values described on this page are core to the two of us personally and to Nelnet as a company. You will find these values expressed in numerous places: upon the desks of Nelnet associates, within our operational discussions, in annual reports, and most importantly, in the conduct of our leadership team. We are proud to point to these values as drivers of our past business success and future direction of Nelnet.

Mike Dunlop Steve Butterfield

Values at our core

Customers are number one. At Nelnet, our number one priority and core value is our commitment to customers. Viewing our relationship with schools, students, lenders, guarantors, and all of our other customers as a partnership is a long-standing principle exhibited in every facet of our organization.

We will work to create an environment where associates can succeed and are treated with dignity and respect. Our goal is to create an environment where hard-working associates have opportunities to do what they are great at every day. Nelnet's associates are key to customer engagement. This talented group of individuals brings a tremendous set of skills to our business, from a personal dedication to serving others, to extensive experience in the education industry, to a passion for impacting the education system, to a keen sense for business development opportunities. It is from the heart that we recognize what a privilege it is to work side by side with these friends.

Our goal is to create a diversified educational services company that preserves intellectual capital. Because we understand the value of each associate's knowledge, we strive not only to retain our own associates, but also to retain the intellectual capital of organizations we acquire. We have experienced the value of this approach in acquisitions to date, and we continue to hold fast to this belief as a driver of future growth.

Truth, honesty, integrity, and clear, open communication are fundamental to our success. These values best describe the accounting standards Nelnet fiercely upholds. Through these standards, we will clearly present the information key to determining the fundamental value of the company.

We believe in conservative and transparent accounting policies. We do not use gain on sale accounting. Rather, we record all assets and liabilities on our balance sheet. This is both transparent and conservative because it does not result in the frontloading of revenues. We recognize income as it is generated and thus, there is no "residual risk" associated with the figures reported on our income statement or residuals included in our equity on our balance sheet. Furthermore, we expense all compensation.

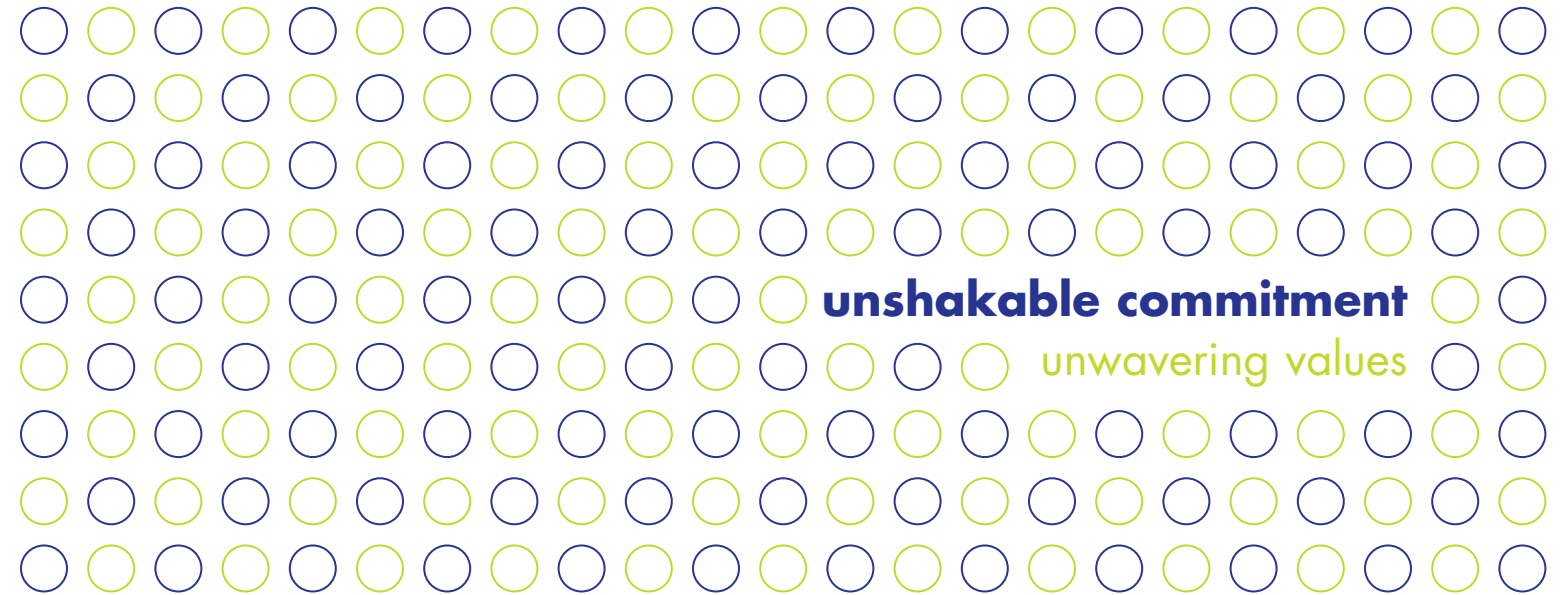
It is our goal for each Nelnet shareholder to record a gain or loss in market value proportional to the gain or loss in per-share fundamental value recorded by the company. To achieve this goal, we will strive to maintain a one-to-one relationship between the company's fundamental value and the market price. As that implies, we would rather see Nelnet's stock price at a fair level than at an inflated level. Our "fair value" approach may not be preferred by all investors, but we believe it aligns consistently with our long-term approach to both our business model and market value.

We will communicate our value measurements in several ways, including through the annual report, quarterly earnings calls and reports, and our annual shareholders' meeting. We will also issue press releases or other forms of communication regarding business developments as appropriate throughout the year.

We will not lose sight of our fundamental value. We used this term earlier in our values statement and you may encounter it in some form in future annual reports. "Fundamental value" is the concept by which we encourage our shareholders to evaluate their investment in Nelnet over the long term. It is the estimated value of cash that can be taken out of a business during its remaining life. Due to the subjective nature of deriving fundamental value, we will not force our estimates on you through quarterly guidance, but will supply, as noted above, the information we believe is critical to our value calculation.

Table of contents

Letter to our shareholders	2	Executive leadership	11	Social responsibility	14
Nelnet at a glance	7	Corporate governance	13	Non-GAAP performance measures . . .	15
Board of directors	10	Products and services	13		



dream learn grow.

Information contained in this document, other than historical information, may be considered forward-looking in nature and is subject to various risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or expected. Among the key factors that may have a direct bearing on Nelnet's operating results, performance, or financial condition are changes in terms of student loans and the educational credit marketplace, changes in the demand for educational financing or in financing preferences of educational institutions, students and their families, or changes in the general interest rate environment and in the securitization markets for education loans.



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.

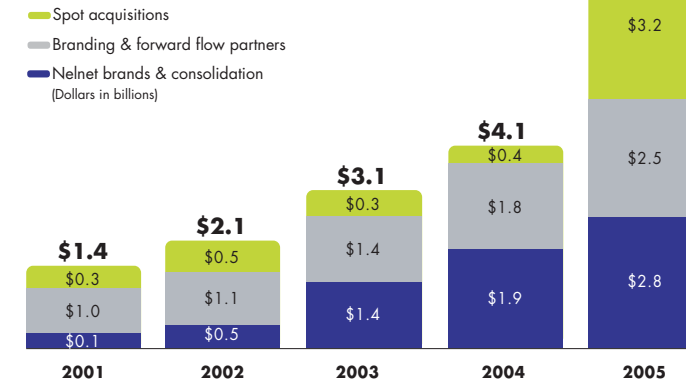
Excluding the business and portfolio acquisitions, net student loan assets increased \$3.6 billion or 27 percent from December 31, 2004. We are excited by this organic growth because it shows the success of our diversified loan origination platform, including our campus-based and direct-to-consumer origination 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.

(continued on next page)



As students continue to graduate with higher loan balances, we anticipate consolidation loans will remain an important financial tool for borrowers to extend their payment terms and move multiple loans to a single payment.

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.

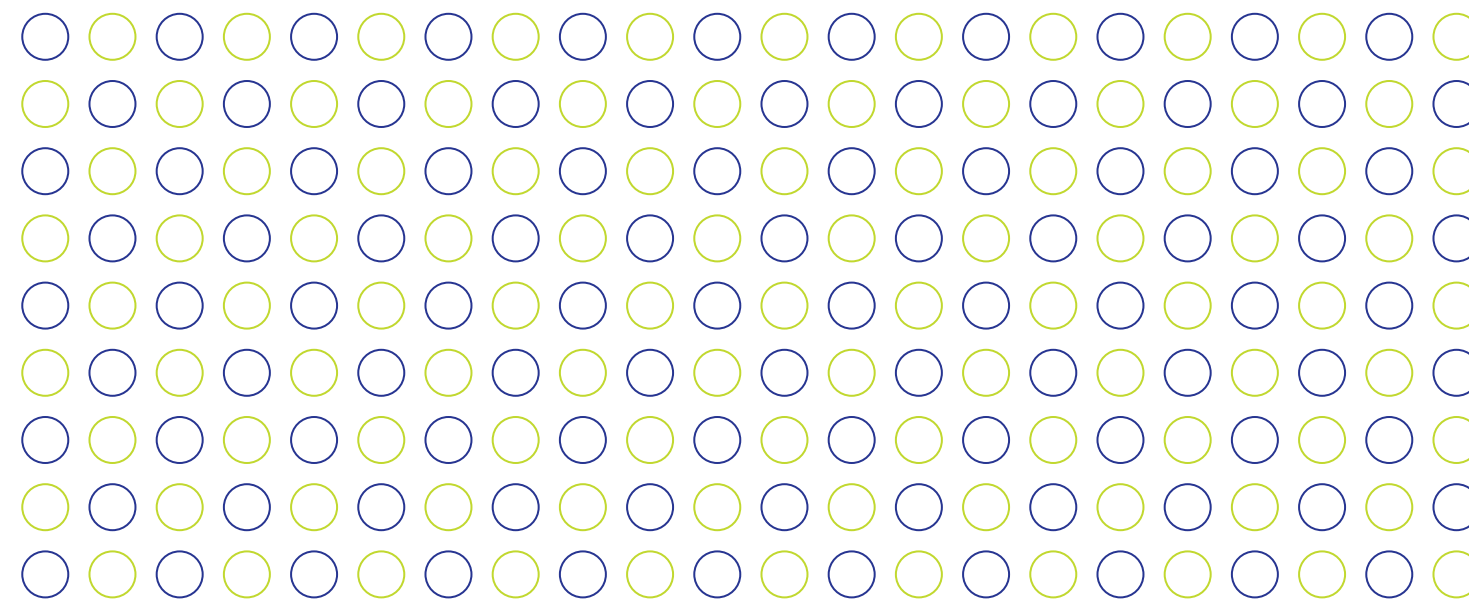
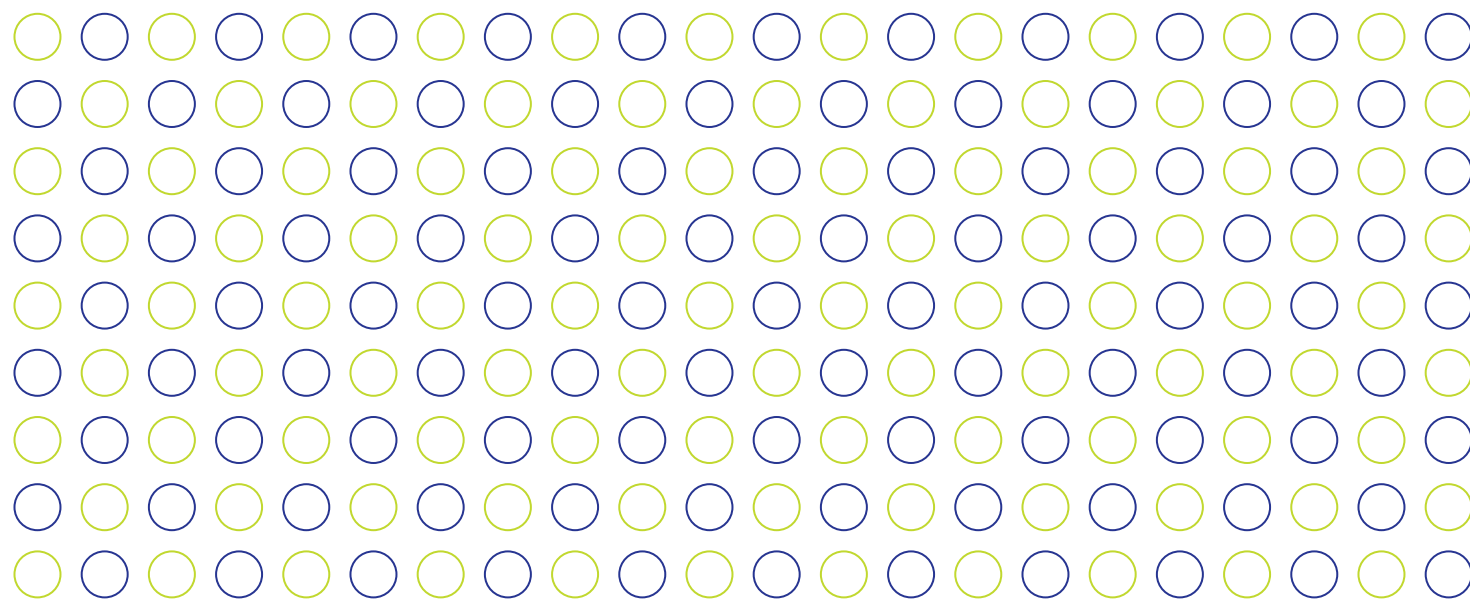
Staying true to our philosophy of maintaining intellectual capital, we were pleased to welcome Chad Billmyer and Ray Prisament, who founded Foresite, into the Nelnet family.

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.

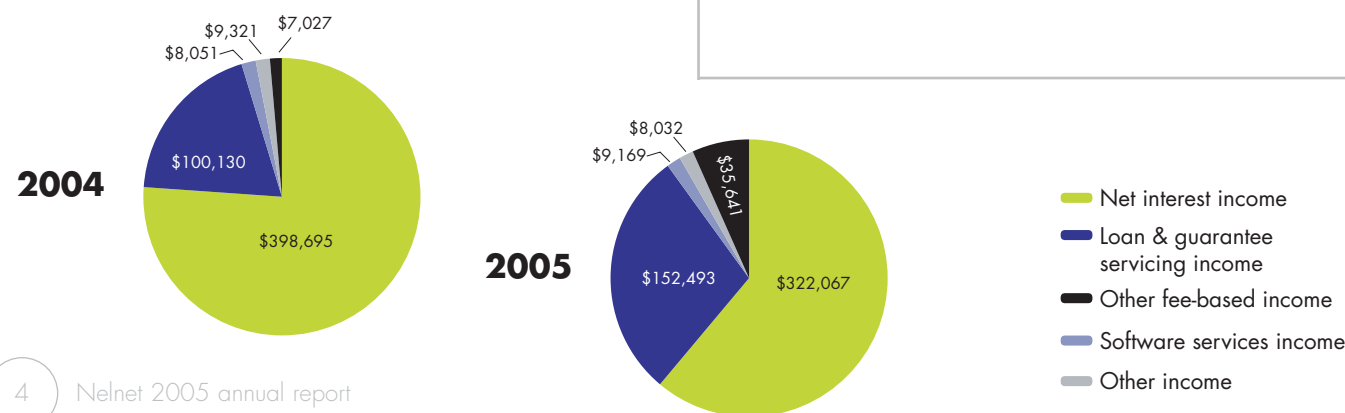
In addition to students and families, Nelnet also focuses on providing economic solutions to colleges and universities, specifically in the bursar's, admissions, and financial aid offices.

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.

(continued on next page)

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

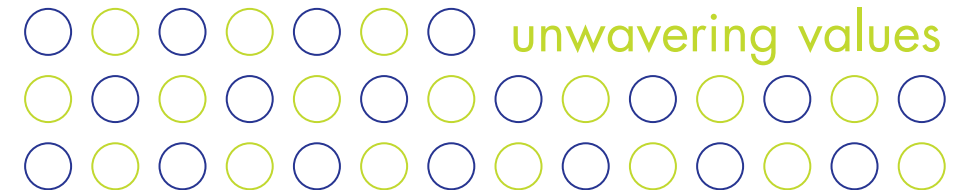


Nelnet at a glance

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

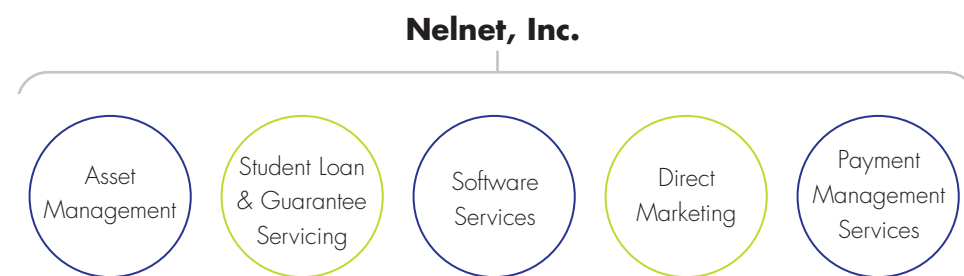
unwavering values



Nelnet at a glance

Nelnet ranks among the nation's leaders in terms of total student loan assets under management and was the fourth largest holder and second largest servicer of FFELP loans in 2004. With more than \$20 billion in total net student loan assets, Nelnet originates in excess of \$5 billion for itself and its service partners annually, and its servicing software is used by approximately 35 clients, including Nelnet, to service nearly \$65 billion in student loans.

Nelnet's business is comprised of five primary business segments:



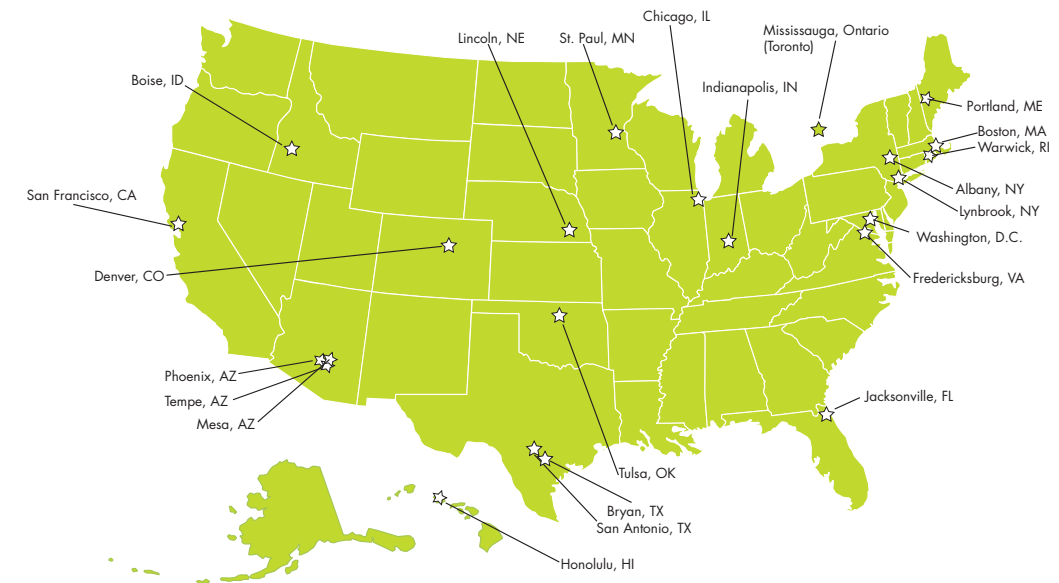
Quick facts

Nelnet provides services for:

- **students**
- **families**
- **schools**
- **lenders**
- **guarantors**

Our long-term issuer credit ratings are as follows:

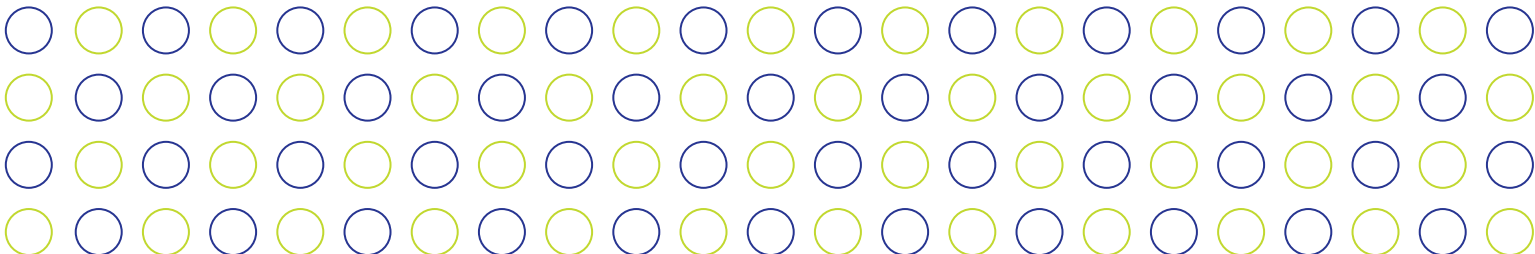
- **BBB+ with a stable outlook by Standard & Poor's**
- **Baa2 with a stable outlook by Moody's Investor Service**



Locations & associates

As of December 31, 2005, Nelnet employed approximately 3,300 people in the United States and Canada.





Board of directors & executive leadership

A critical strength of Nelnet is the depth of talent throughout the organization. Nelnet benefits from a knowledgeable and committed board of directors. In addition, our senior managers have been with Nelnet or one of our predecessor companies for an average of more than 10 years. They know our business and have demonstrated the outstanding leadership skills we need to continue our success. We believe in retaining key employees and creating an environment where employees feel passionate about their work. As a result, we have been able to cultivate a management team with significant expertise across the education finance spectrum.

In addition, to meet the company's aggressive growth and business expansion goals, we are continuing to develop our leaders through the Nelnet Leadership Development Program. This program consists of several components, including work toward a Master of Arts degree in Leadership, and is designed to create a cohesion among management personnel that transcends functional responsibilities. This philosophy will help us continue to develop a wealth of leadership talent from which to draw in the future.

Board of directors



Michael S. Dunlap
Chairman
Co-Chief Executive Officer



Stephen F. Butterfield
Vice Chairman
Co-Chief Executive Officer



James P. Abel
Director



Don R. Bouc
Director



Thomas E. Henning
Director



Arturo R. Moreno
Director



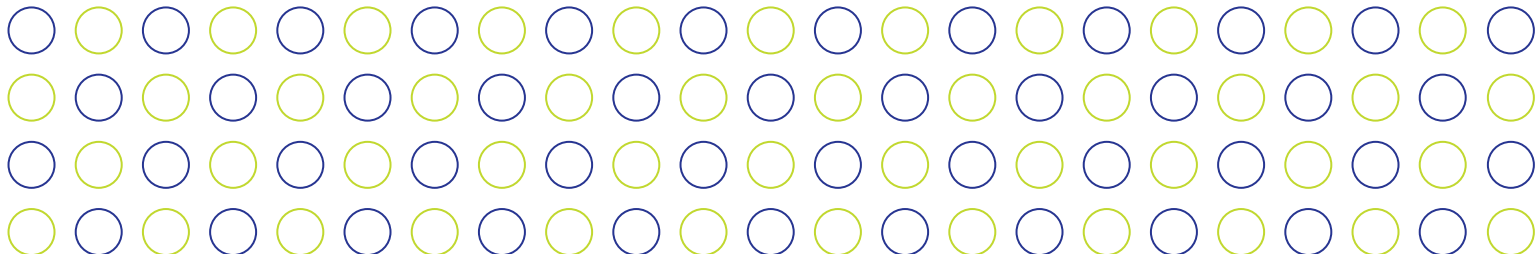
Brian J. O'Connor
Director



Michael D. Reardon
Director



James H. VanHorn
Director



Executive leadership



David A. Bottegal
Chief Executive Officer
Nelnet Education Services



Jeffrey R. Noordhoek
President



Terry J. Heimes
Chief Financial Officer



Raymond J. Ciarvella
Chief Technology Officer



Matthew D. Hall
Chief Operating Officer
Nelnet Education Services



Cheryl E. Watson
Chief Communications
Officer



Todd M. Eicher
Chief Mergers &
Acquisitions Officer



Edward P. Martinez
Chief Legal Officer &
Secretary



Evan J. Roth
Chief Learning Officer

Visit www.nelnetinvestors.net for more information about each member of our board and executive leaders.

Executive directors

In addition to Nelnet's named Executive Officers shown on the previous page, the company benefits from the experience and leadership of a diverse and talented team of Executive Directors.

David Byrnes, Nelnet Business Solutions

Sara Davis, Government and Industry Relations

Harvey Gannon, Nelnet Business Solutions

Fred Henry, Corporate Technology

George Hopkinson, EDULINX

Bill Jeffery, LoanSTAR

Robin Jenkins, Nelnet Campus Solutions

Charlie Kelley, New England Student Loan Authority

Jim Kruger, Corporate Accounting and Finance

Dick Pierce, Nelnet Foundation

Mike Pohl, Mergers and Acquisitions

Dominic Rotondi, Charter Account Systems

Tim Sabo, Corporate Audit

Becky Stilling, Nelnet Guarantee Services

Jan Stumacher, Student Marketing Group

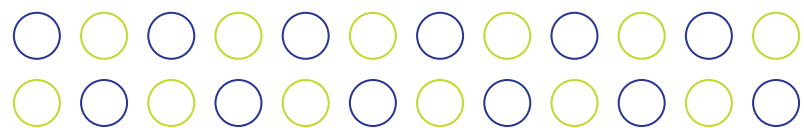
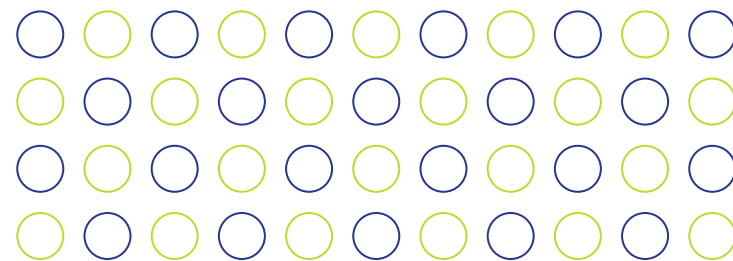
Tim Tewes, Nelnet Business Solutions

Mark Voegele, 5280 Solutions

Dean Wildman, Nelnet Consumer Solutions

"If your **actions inspire** others to dream more, learn more, do more, and become more, **you are a leader.**"

—John Adams



Corporate governance

We believe corporate governance is about the interconnected relationship between a company's owners - its shareholders, who are represented by the Board of Directors - and a company's management, who both serves the best interests of all of its stakeholders, including customers, business partners, employees, and shareholders.

Nelnet's Audit, Compensation, and Nominating and Corporate Governance Committees are composed of independent non-employee Directors who operate under the highest of ethical standards. In addition, strict internal controls are at work in every aspect of Nelnet's day-to-day operations. You can read more on our Web site, www.nelnet.net, under investor briefcase/corporate governance.

In 2005, Nelnet submitted to the New York Stock Exchange a certificate of each of the Co-Chief Executive Officers of Nelnet certifying that they were not aware of any violation by Nelnet of the New York Stock Exchange corporate governance listing standards. Nelnet has filed with the SEC certifications of each of the Co-Chief Executive Officers and the Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act as exhibits to the Annual Report on Form 10-K for the year ended December 31, 2005.

Customer-focused products & services

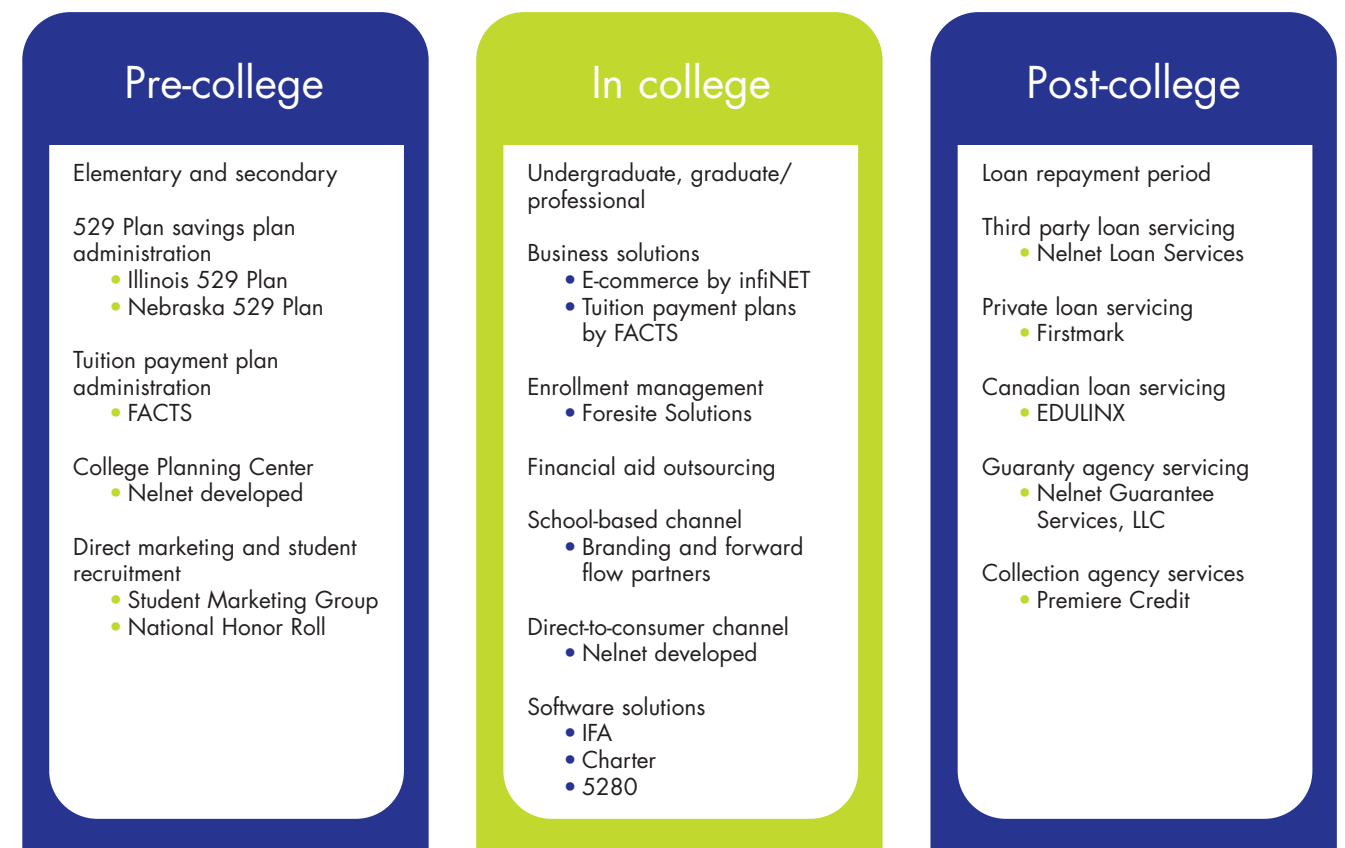
Nelnet's products and services are focused on providing value to students, families, and schools throughout the education and education finance process.

Prior to college enrollment, Nelnet offers families the ability to manage education costs with savings plans and tuition payment services. In 2005, FACTS Management was the nation's largest tuition payment plan administrator, managing more than 650,000 plans. Nelnet also provides toll-free telephone access to students and parents as they search for colleges and scholarships, and complete the enrollment and financial aid process through our College Planning Center. Similarly, for our education partners, Student Marketing Group offers assistance to colleges and universities in making their own connections with prospective students.

Upon college enrollment, Nelnet works with schools and families to originate Stafford, PLUS, and private loans as well as provide technology solutions to maximize efficiencies in the Financial Aid, Admissions, and Bursar's offices.

After students graduate, Nelnet assists with debt management, loan repayment, and loan consolidation. Nelnet also helps new graduates begin plans to make their own children's educational dreams possible.

Integrated value chain offered by Nelnet and its business partners



Social responsibility

Nelnet's charitable giving programs represent our belief that successful students need successful civic foundations. That's why we dedicate millions of dollars each year to scholarship, education, and community betterment programs nationwide through the Nelnet Foundation and local giving programs. In addition to the 2005 highlights below, Nelnet is proud to have contributed financial or volunteer support to hundreds of outstanding organizations dedicated to student and social concerns.

2005 Scholarships

Center City Consortium

Based in our nation's capital, the Consortium is a nationally recognized center of excellence in education with 14 schools dedicated to serving the educational needs of inner-city children.

Hispanic Association of Colleges and Universities (HACU)

Nelnet's partnership with HACU provides higher education opportunities for Hispanic students and families across the country through college planning, financial aid information, and student loans.

Junior Achievement (JA)

As the national sponsor of the Junior Achievement Financial Aid Center, Nelnet provides education finance counseling and tools, scholarship support, and volunteer support to JA students across the nation.

National College Access Network

Nelnet's cooperative scholarship program with the National College Access Network provides financial support to qualifying students across the country.

Nelnet Scholars

Nelnet is proud to provide a program to help our own associates' children earn scholarship support. Each year, we award two \$5,000 and 10 \$1,000 scholarships to deserving dependents of our associates as they pursue higher education.

Student Scholarship Programs

Nelnet's scholarship programs, available for both need-based and merit-based students, are close to our hearts because they truly represent our vision of making educational dreams possible.

United Negro College Fund® (UNCF)

Nelnet's scholarship contribution to the United Negro College Fund helps support the UNCF mission to increase minority degree attainment by reducing financial barriers to college.

2005 Civic highlights

Associates

Nelnet is both proud and supportive of our associates throughout the U.S. who give their time and energy volunteering for student education and community assistance programs.

Big Brothers Big Sisters

The recipient of Nelnet's 2005 holiday honor gift, Big Brothers Big Sisters is one of the oldest youth mentoring organizations in the United States.

Corporate matching gifts

To encourage charitable giving among our associates, Nelnet provides dollar-for-dollar matches to contributions to civic organizations and a three to one match to secondary and higher education institutions.

Hurricane Katrina relief

We all felt the pain of the hurricane victims in 2005 and Nelnet was proud to provide a variety of financial assistance programs, including \$250,000 in Visa® Gift Cards to displaced college students.

Local giving

In addition to its scholarship programs and Foundation gifts, Nelnet's offices also undertake local giving programs to serve our home communities.

United Way

In support of a number of valuable civic organizations, Nelnet conducts associate giving programs for the United Way throughout its offices and provides a corporate match for the funds raised.

Non-GAAP performance measures

We prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). In addition to evaluating the company's GAAP-based financial information, management also evaluates the company on certain non-GAAP performance measures that we refer to as base net income. While base net income is not a substitute for reported results under GAAP, we provide base net income figures as additional information regarding our financial results.

Base net income, excluding certain special allowance yield adjustments and related hedging activity on the company's portfolio of student loans earning a minimum special allowance payment of 9.5 percent, is used by management to develop the company's financial plans, track results, and establish corporate performance targets.

The following table provides a reconciliation of GAAP net income to base net income and also reflects the impact of certain special allowance yield adjustments and related hedging activity related to the 9.5 percent portfolio.

	Year ended December 31	
	2005	2004
	(dollars in thousands, except share data)	
GAAP net income	\$ 181,122	\$ 149,179
Base adjustments:		
Derivative market value adjustments	(95,854)	11,918
Amortization of intangible assets	9,479	8,768
Variable-rate floor income	-	(348)
Total base adjustments before income taxes	<u>(86,375)</u>	<u>20,338</u>
Net tax effect (a)	<u>32,823</u>	<u>(7,728)</u>
Total base adjustments	<u>(53,552)</u>	<u>12,610</u>
Base net income	127,570	161,789
Special allowance yield adjustments (b)	<u>(48,841)</u>	<u>(106,842)</u>
Base net income, excluding the special allowance yield adjustments (b)	<u>\$ 78,729</u>	<u>\$ 54,947</u>
Earnings per share, basic and diluted:		
GAAP net income	\$ 3.37	\$ 2.78
Total base adjustments	<u>(1.00)</u>	<u>0.24</u>
Base net income	2.37	3.02
Special allowance yield adjustments (b)	<u>(0.91)</u>	<u>(2.00)</u>
Base net income, excluding the special allowance yield adjustments (b)	<u>\$ 1.46</u>	<u>\$ 1.02</u>

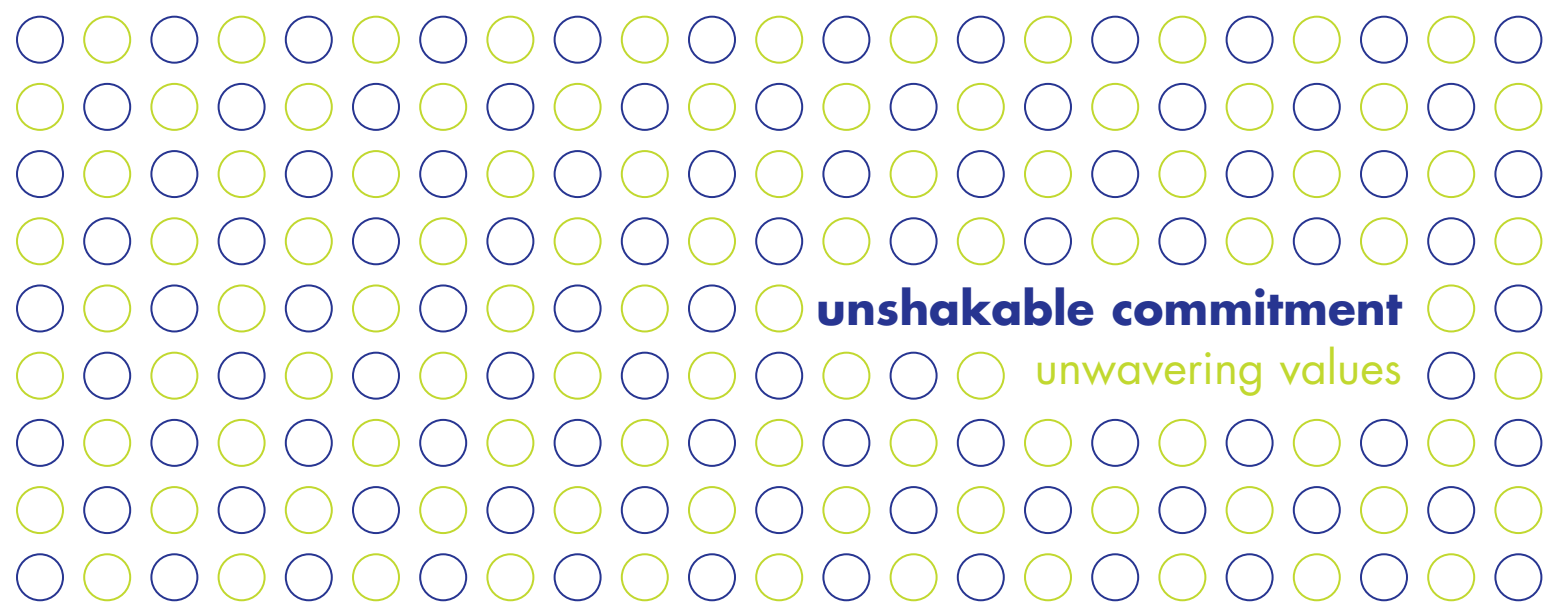
(a) Tax effect computed at 38 percent.

(b) The special allowance yield adjustments are net of derivative settlements of \$15.9 million and \$31.2 million for 2005 and 2004, respectively, and the tax effect computed at 38 percent.

Our base net income is a non-GAAP financial measure and may not be comparable to similarly titled measures reported by other companies. The company's base net income presentation does not represent another comprehensive basis of accounting.



"Nelnet came looking for us and went above and beyond in order to give out money," said Southern University at New Orleans student Patrick Bowman regarding Nelnet's financial support for Hurricane Katrina victims.



dream learn grow[®]

Shareholder information

Stock exchange listing

The Class A common stock of Nelnet trades on the New York Stock Exchange under the symbol **NNI**.

The table below sets forth the quarterly high and low prices of the Class A Common Stock for 2005:

Calendar 2005	High	Low
January 1 – March 31	\$ 34.75	\$ 26.27
April 1 – June 30	38.12	31.00
July 1 – September 30	38.01	33.65
October 1 – December 31	40.68	35.99

Annual meeting

Nelnet's annual meeting of shareholders will be held at 8:30 a.m. on Thursday, May 25, 2006, at the Embassy Suites hotel, 1040 P Street, Lincoln, Nebraska.

Transfer agent

Mellon Investor Services LLC
P.O. Box 3315
South Hackensack, NJ 07606

or

480 Washington Blvd.
Jersey City, NJ 07310-1900

p 888.213.0965

TDD for hearing impaired: 800.231.5469

Foreign shareholders: 201.680.6610

TDD foreign shareholders: 201.680.6578

Web site: www.melloninvestor.com

Investor Relations

Nelnet Investor Relations
8425 Woodfield Crossing Blvd., Suite 101
Indianapolis, IN 46240

p 317.469.2064

investorrelations@nelnet.net

Web site: www.nelnetinvestors.net

Principal office

Nelnet, Inc.
121 South 13th Street, Suite 201
Lincoln, NE 68508

p 402.458.2370