



The Nelnet story
expect extraordinary

2003 Annual Summary Report



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The story continues...
and its extraordinary.



to our shareholders from the Co-CEOs

Among the many common interests we share is the enjoyment of reading, especially non-fiction business topics that often parallel other life events. Therefore, when we sit down to discuss a business presentation, remarks at an employee meeting, our message for Nelnet's annual report, or to describe Nelnet's mission of helping families pay for college, it is not surprising that we tend to provide the information as though we are sharing a story.

A well-written book always has a solid foundation. In this annual report, we want to discuss the foundation from which the Nelnet biography is written. This foundation includes key operating principles related to fundamental value and asset quality that we believe are critical to our long-term focus on customer service, employee satisfaction, and business diversification. These same principles are also critical to creating long-term value for our shareholders. You will find these principles highlighted later in this report within our discussion of core values.

Our biography is one of solid growth, asset quality, and fundamental value. From our early origins in 1978, to our growth and accomplishments in 2003, we are excited and encouraged as we look into the future. In fact, the achievements of this past year were the basis for developing our 2004 corporate theme of "expect extraordinary." Highlighted below and throughout this report, these successes underscore Nelnet's corporate focus, commitment to customer service, and accompanying growth potential.

"These successes signify Nelnet's customer focus, commitment to extraordinary service, and accompanying growth potential."

The company's history dates back to the 1978 formation of two organizations, a non-profit student loan secondary market and a student loan servicing company. Following the company's respective 1998 and 2000 mergers with these organizations, Nelnet responded to market needs for the coordination of the lending, funding, and servicing components of education finance and formed a vertically integrated platform that could effectively address the needs of each sector of the student loan industry. Through a series of strategic acquisitions, Nelnet added geographic diversity, operational expertise, and business diversification.

In December 2003, Nelnet began a new chapter through the initial public offering of Class A common stock (NYSE: NNI), raising net proceeds of approximately \$164 million for the company. While the IPO made for an exciting conclusion to 2003, there were many other significant highlights to the year. Among them was the growth within Nelnet's Asset Management business, which includes student loan originations and acquisitions. At the close of 2003, the company's student loan portfolio reached \$10.3 billion, a 22% increase over 2002.

We attribute this growth to a number of factors, including the expansion of Nelnet's open system student loan technologies and loan consolidation services. At the close of 2003, more than 400 schools were using Nelnet's software products for the distribution and tracking of student loan funds. As we move into 2004, our goal is to increase that number 25% to approximately 500 schools by year-end, thus enhancing our school customer focus and maximizing the interface between schools, students, lenders, servicers, and guarantors.

It is important to recognize that Nelnet's continued growth is fueled by our goal to expand educational opportunities for students. Because our story is so closely tied to the student loan industry as a whole, growth of the Federal Family Education Loan Program (FFELP) is both supported and encouraged by Nelnet. For example, among the schools who selected to transition to the FFEL Program from the Federal Direct Loan Program in 2003 were Wayne State University and Embry-Riddle Aeronautical University. These two schools have annual FFELP loan originations of approximately \$140 million and Nelnet was pleased to be selected to assist them in their repatriation from the Direct Loan Program. We welcome these schools, all colleges and universities who have joined FFELP in the past year, and those considering such a transition in 2004.

The industry has changed dramatically in recent years and continues to evolve. For example, the growth of the FFEL Program has been further enhanced by the development of Consolidation loans. The impact this market segment has had on the industry as a whole, and on Nelnet individually as a company, is nothing short of extraordinary. Three main events coincided to cause what can be referred to as the "perfect storm" of student loan consolidations.

First, the amount of student loan debt at graduation increased from \$8,000 per borrower in 1987 to \$18,000 in 2002. In our opinion, once a student exceeds \$15,000 in student loan debt, it is very difficult to fulfill a 10-year repayment term. Therefore borrowers consolidate their loans into a single large balance loan with a smaller monthly payment, and may extend the maturity from 10 years to 15, 20, or even 30 years, depending on the total balance. Second, as the average student loan balance increased, and long before interest rates decreased dramatically, new competition emerged for Consolidation loan business. Finally, interest rates declined to historic lows, allowing borrowers to lock in fixed rates below 4% for up to a 30-year term.

The rise of Consolidation loans is significant to Nelnet's business operations for many reasons, including the impact on asset protection and asset generation. As a result, Nelnet has committed significant financial and operational resources to this segment of the industry. In addition, the standards by which Nelnet amortizes its cost of acquisition directly influences how the company's financial reporting should be viewed.

We amortize the cost of acquisition (either through purchase or origination) on our loan portfolio over the period of benefit of the loans in accordance with Generally Accepted Accounting Principles. When we look to how Nelnet recognizes expense associated with our acquisition cost, the effect of the Consolidation loan business is highlighted in the impact it has on earnings and

asset quality. We often find it appropriate to treat the Consolidation activity as a new lending relationship and will generally consider whether a Consolidation loan has the same: 1) borrower; 2) loan amount; 3) present value of the cash flows; and 4) effective yield as the existing debt instrument. When we consider the loans we consolidate within our own portfolio, we often find that the answers to these questions vary. Thus, if we conclude the Consolidation loans are new loans, we write off the unamortized premium on the underlying Stafford loans when they are consolidated. The result is an increase in the fundamental value of Nelnet's portfolio, although the activity is actually reflected in our income statement through lower net income.

Consider the fact that on January 1, 2003 Nelnet owned \$8.4 billion in student loans (comprised of approximately 35% Consolidation loans) with unamortized acquisition costs of 1.99%. As of December 31, 2003, Nelnet had \$10.3 billion in student loans (comprised of approximately 50% Consolidation loans) with unamortized acquisition costs of 1.50%. This trend has continued during the initial months of 2004 with our unamortized premium decreasing to 1.41% as of February 29. In the last 12 months, the cost for Nelnet to add loans to its portfolio has not decreased and the portfolio has a substantially longer average life. (Note: the amortization of acquisition costs reflected in the income statement during 2003 exceeded \$69 million.)

In other words, the portfolio's quality and fundamental value remains very high, which is evident on Nelnet's balance sheet. On the contrary, this value "growth" has not been reflected in the income statement. Nelnet's net income has been reduced because of the amortization of acquisition costs. Long-term, however, we are increasing the fundamental value of the shareholder's future cash flow.

We have detailed the above because we believe the most important points in analyzing a company's value are: understanding what drives the business, understanding what drives management, and understanding the key operating factors that impact value. As shareholders ourselves, we find it important to know

that: Nelnet amortizes the cost of acquisition on our loan portfolio over the period of benefit on the loans using methods acceptable under GAAP; the effect of the Consolidation loan business is highlighted in the impact both on

earnings and asset quality; amortization has increased from 28 basis points in 2001 to 73 basis points in 2003; and unamortized acquisition costs have dropped from 2.3% as of December 31, 2001 to 1.5% as of December 31, 2003.

“The most important points in analyzing a company’s value are: understanding what drives the business, understanding what drives management, and understanding the key operating factors that impact value..”

In closing, we'd like to recognize all who have been, and continue to be, such an integral part of the Nelnet story, including our tremendous employee team. Their commitment to customer focus is the central force behind our past growth and future success. We would also like to personally reference the Executive Directors of the company and their teams who have truly dedicated themselves to the support of Nelnet's mission. Our respect for this extraordinary group of individuals is immeasurable, and we'd like to share just a glimpse of their achievements in recent years.

As we consider the student loan cycle, the first step is to provide an effective method for both schools and students to access educational funds. Executive Directors David Bottegal and Todd Eicher have led Nelnet's loan origination and loan generation initiatives with such fervor that the company achieved a growth of over 22% in our loan portfolio and placed loan generation products in close to 100 new schools in 2003. This directly translates to increased access to Nelnet's educational services for thousands of students nationwide.

As the student moves into the repayment term of his or her student loan, Nelnet's loan servicing operations take center stage. Under the leadership of Executive Director Matt Hall, Nelnet has achieved not only significant operating efficiency within its servicing system through performance-based methodologies, but the resulting increase in quality has generated enhanced borrower services, audit ratings of 99%, and improved customer service levels.

Nelnet provides loan servicing software to third parties, in addition to itself, through its subsidiaries, Idaho Financial Associates and Charter Account Systems. Under the direction of Executive Directors Larry Arguinchona and Dominic Rotondi, Nelnet's servicing software is utilized by 35 clients, including ourselves, to service over \$46 billion in student loan assets. Executive Director Ray Ciarvella not only oversees all Nelnet loan servicing software operations, but also carries the responsibility for the technological platform from which Nelnet's servicing system and products perform.

Nelnet representatives ring the opening bell at the NYSE on February 19, 2004.

LR: Dick Pierce; Scottie Pierce; Don Bouc; Penny Walker; Dan Kaplan; Catherine Kinney (NYSE); Jeffrey Sampson; Steve Butterfield; Jeff Noordhoek; Mike Dunlap; Mark Goldstein; Cheryl Watson; Bud Kern; Terry Heimes.



Nelnet's guarantor servicing operation, Guarantec, provides servicing support for \$20 billion in FFELP loans on behalf of guaranty agencies. Executive Director Chuck Hosea oversees that critical operation and has led Guarantec through a number of intensive software development and operational projects.

Portfolio management, strategic partnerships and mergers, along with the acquisition of additional loan holdings, are among the numerous responsibilities shared by Don Bouc, President, and Dick Pierce, Executive Director. Additionally, Don and Dick are both thickly woven into the political landscape and work to ensure valuable legislative outcomes for schools and students.

Jeff Noordhoek and Cheryl Watson, Executive Directors in the Capital Markets and Investor Relations departments, were not only part of the team who successfully completed Nelnet's IPO in 2003, but prior to going public secured a long-term counterparty credit rating of BBB+ with stable outlook from Standard and Poor's Rating Services, of which we are most proud.

Executive Directors Dennis Leach and Ed Martinez (also General Counsel) provide the leadership for critical corporate support areas to assure short-term and long-term goals stay consistent with our corporate mission, goals, and values at the highest level of ethical standards.

Finally, it is crucial that we recognize Terry Heimes, Chief Financial Officer of Nelnet. Terry's persistence, guidance, insight, and vision permeate every aspect of this company to provide the financial foundation from which we operate.

As we look to the new year, we also welcome a tremendous addition to the company's Executive Director team, Charles Kelley, who headed the Rhode Island Student Loan Authority, an organization with whom Nelnet established a strategic relationship in March of 2004. Many of us at Nelnet have known and respected Charlie and his team for years and feel privileged to have the opportunity to work hand-in-hand with them for the benefit of New England schools and students.

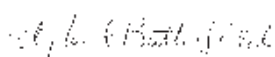
We would also like to thank our customers who demonstrate daily their commitment to students' pursuit of higher education, our borrowers who have allowed Nelnet the privilege of serving their needs, and our shareholders who have joined us as partners in our new journey as a public organization.

We believe 2004 and beyond will hold continued success for Nelnet as we make educational dreams possible.

Expect extraordinary,



Mike Dunlap
Chairman and Co-CEO



Steve Butterfield
Vice Chairman and Co-CEO



Truth, honesty, integrity,
and
clear, open communication

Truth, honesty, integrity, and
clear, open communication.



values at our core...

The following values are core to the two of us personally and to Nelnet as a company. You will find these values in numerous places, upon the desks of Nelnet employees, within the operational discussions we hold, printed in future annual reports, and most importantly exhibited in the conduct of our leadership team. We are proud to point to these values as drivers to the past business success and future direction of Nelnet.

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

We will create an environment in which employees can succeed and are treated with dignity and respect. As we mentioned earlier in this report, Nelnet's employees are key to customer satisfaction. This talented group of individuals brings a tremendous set of skills to our business every day, from a personal dedication to serving others, to extensive experience in the education finance 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.

Truth, honesty, integrity, and clear, open communication are fundamental to our success. It is this value that best describes 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 are committed to delivering results, either in the success of existing strategies or in the development of new or additional strategies. As we pursue these results, the performance of your investment will parallel ours.

It is our goal to have each Nelnet shareholder 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 a high level. Our "fair value" approach may not be preferred by all investors, but we believe it to consistently align with our long-term approach to both our business model and market value.

We will communicate our value measurements to you in several ways, including through our annual report, quarterly 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.

Our goal is to create a diversified educational services company that preserves intellectual capital. We would prefer to reach our goals by directly owning a diversified group of education-related businesses that consistently generate above average returns on capital. Our second choice is to own portions of similar businesses. We will continue to look for opportunities to diversify our company; the price and availability of businesses and the need for capital will determine any given year's expansion.

In any diversification, we are certain to focus on the retention of that organization's intellectual capital, as the individuals within an organization hold the key to its long-term success. We have experienced this through our past acquisitions and continue to hold fast to this belief for future growth.

Although diversification is a valuable component of our growth strategy, we will not diversify through purchases that will cause negative long-term consequences to our shareholder. In the same manner, we will not sell businesses we own, even when short-term profit goals are not achieved, when we believe that the long-term prosperity of the company is viable.

We believe in conservative and transparent accounting policies. Paralleling our commitment to clear, open communication, we rigorously uphold conservative and transparent accounting policies, including "on-balance sheet" recording of all assets and liabilities, and the expensing of all compensation.

We do not use gain on sale accounting methods. Rather, we record all assets and liabilities on our balance sheet. This is both transparent and conservative because it does not result in the front-loading of revenues. Instead, we recognize income as it is generated, and thus, there is no "residual risk" associated with the figures reported on our income statement. Furthermore, we expense all compensation and do not employ stock option plans as a part of our compensation structure.

We will not lose sight of our fundamental value. We used this term earlier in our values statement and you will encounter it in some form in future annual reports. "Fundamental value" is the concept by which we will encourage our shareholder to evaluate their investment in Nelnet over the long-term.

Fundamental value is the estimated value of the 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 or annual guidance, but will supply, as noted above, the information we believe is critical to our value calculation. This includes: the amortization of premium and identifiable intangible assets, variable rate floor income, and mark-to-market adjustments on derivatives.

As noted in our opening letter, Nelnet amortizes the cost of acquisition on our loan portfolio over the period of benefit of the loans in accordance with GAAP. When we look to how Nelnet recognizes expense associated with our cost of loan acquisitions, the effect of our Consolidation loan business is highlighted in the impact it has on earnings and asset quality. Our amortization has increased from 28 basis points in 2001 to 73 basis points in 2003. Consequently, our unamortized acquisition costs have dropped from 2.3% as of December 31, 2001, to 1.5% as of December 31, 2003.

We also have minimal intangible assets on our balance sheet. We generally tie the excess purchase price in acquisitions to identifiable intangible assets, where applicable, in accordance with GAAP and amortize those intangible assets over relatively short time periods. We will disclose the amount of amortization recorded in our statement of operations for our readers' analysis.

Because of our focus and concentration on high quality federally guaranteed assets, it is important to discuss certain characteristics of these assets. As you may be aware, borrower interest rates on student loans may be either fixed or variable. The variable rates reset on July 1st of each year effectively establishing a "floor" rate on the assets for the next year. If interest rates decline substantially after rates have been reset, the company could earn excess interest we refer to as "variable rate floor income." Since we generally do not forecast or rely on variable rate floor income, we will disclose the amount that is generated, if any, in our operations.

With regard to Nelnet's approach to adjustments on our derivatives, we will separately disclose any mark-to-market adjustment on derivatives that do not qualify for hedge accounting treatment to ease shareholder access to this information when analyzing Nelnet's overall business performance.

In closing, as you look at our historical income, it is important to note that we have spent the last two years making significant investments in our infrastructure in the form of additional marketing and Consolidation loan resources, as well as upgrading our technology platforms. We believe these additional expenditures have already translated into strong growth in our portfolio and will increase portfolio growth in 2004 and beyond.

from a good company to a great company

"I appreciate the time and attention the leaders of Nelnet dedicate to their employees.

This is just one example of how Nelnet will go from a good company to a great company."

- Janet Dehnert, Business Partner Support Manager, Edmond, OK



Passion for customer service, integrity, and work ethic

"I'm extremely excited about the direction of Nelnet. I am totally dedicated to providing 100% to the vision and goals of Nelnet, and if only a fraction of my passion for customer service, integrity, and work ethic has the slightest effect on our success, I'll retire a very happy person! I've had several jobs, and never have I worked for a company that I really felt I could actually make a difference - until now."

-Tonya Burton, Quality Assurance Specialist, Indianapolis, IN

Condensed consolidated balance sheets
December 31, 2003 and 2002
(Dollars in thousands)



	2003	2002
Assets		
Student loans receivable, net	\$10,455,442	8,559,420
Cash, cash equivalents, and investments	1,013,374	784,197
Other assets	462,693	422,966
Total assets	\$11,931,509	9,766,583
Liabilities and shareholders' equity		
Liabilities:		
Bonds and notes payable	\$11,366,458	9,447,682
Other liabilities	259,562	209,779
Total liabilities	11,626,020	9,657,461
Shareholders' equity:		
Common stock:		
Class A	396	309
Class B	140	140
Additional paid-in capital	206,831	37,891
Retained earnings	97,885	70,782
Accumulated other comprehensive income	237	-
Total shareholders' equity	305,489	109,122
Total liabilities and shareholders' equity	\$11,931,509	9,766,583

Condensed consolidated income statements
for the years ended December 31, 2003, 2002, and 2001

(Dollars in thousands)

	2003	2002	2001
Interest income:			
Loan interest, excluding variable rate floor income	\$ 416,587	410,414	303,122
Variable rate floor income	12,830	49,800	29,900
Amortization of loan premiums	(69,316)	(55,065)	(14,569)
Investment interest	15,203	20,759	16,794
Total interest income	375,304	425,908	335,247
Interest expense:			
Interest on bonds and notes payable	196,692	235,008	220,682
Net interest income	178,612	190,900	114,565
Less provision for loan losses	11,475	5,587	3,925
Net interest income after provision for loan losses	167,137	185,313	110,640
Other income:			
Loan servicing and other fee income	99,294	103,899	93,172
Software services and other income	19,398	21,909	7,713
Derivative market value adjustment	(1,170)	(579)	(2,962)
Total other income	117,522	125,229	97,923
Operating expenses:			
Salaries and benefits	124,273	106,874	77,370
Other expenses	101,222	105,234	99,897
Amortization of intangible assets	12,766	22,217	18,769
Total operating expenses	238,261	234,325	196,036
Net income before taxes	46,398	76,217	12,527
Income tax expense	19,295	27,679	5,380
Net income	\$ 27,103	48,538	7,147

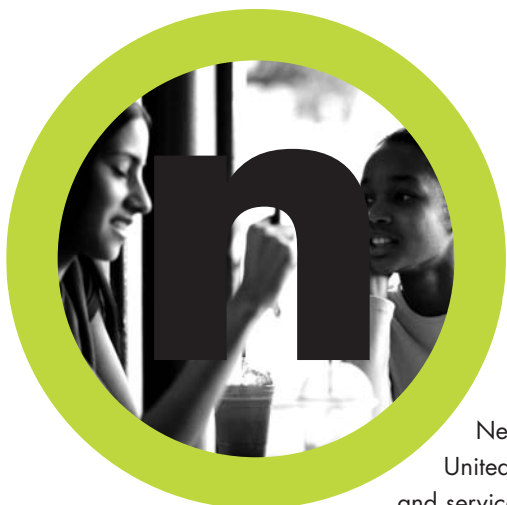


Our story

expect extraordinary

“We would like to thank our customers who daily demonstrate their commitment to students' pursuit of higher education, our borrowers who have allowed Nelnet the privilege of serving their needs, and our shareholders who have joined us in our future as a public organization.”

- Mike Dunlap, Chairman and Co-CEO and Steve Butterfield, Vice Chairman and Co-CEO



Our story...

corporate profile

Nelnet is one of the leading educational finance companies in the United States and is focused on providing quality student loan products and services to students and schools nationwide. Nelnet offers a broad range of student loan and financial services and technology-based products, including student loan origination and lending, student loan and guarantee servicing, and a suite of software solutions. Vertical integration, from loan origination through repayment, is the key to Nelnet's comprehensive, efficient, and cost-effective solutions for our schools and students.

Making educational dreams possible begins with making access to education finance practical, which is why our products are designed to simplify the student loan process by automating financial aid delivery, loan processing, and funds disbursement. Our services help facilitate and streamline education finance for all involved in the industry, including student and parent borrowers, lenders, financial aid officers, guaranty agencies, governmental agencies, servicers, and the capital markets.

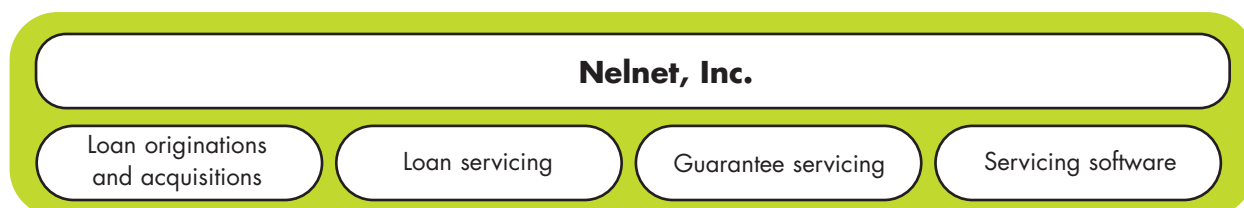
Our business is divided into four primary product and service offerings:

- **Asset management**, including student loan originations and acquisitions, provides student loan sales, marketing, origination, acquisition, and portfolio management. We own a large portfolio of student loan assets through a series of education lending subsidiaries. As of December 31, 2003, our student loan portfolio was \$10.3 billion, consisting of over 99% of FFELP loans and less than 1% of private loans. We generate loans owned in special purpose lending facilities through direct origination or through acquisition of loans. We generate the majority of our earnings from the spread between the yield we earn on our student loan portfolio and the cost of funding these loans. We also provide marketing and sales support and managerial and administrative support related to our asset generation activities, as well as those performed for our branding partners, such as those lenders under whose brand we do business, or other lenders who sell such loans. We have been able to increase the number of schools who utilize Nelnet loan generation products, which provides us a greater opportunity to serve the students at that school. Revenues are primarily generated from interest earnings. While our net interest margin may vary due to fluctuations in interest rates, government special allowance payments ensure that we receive a minimum yield on our student loans, so long as certain requirements are met. Controlling the loan asset gives us the ability to direct business to the servicer, software provider, and guarantor.

- **Student loan servicing** provides student loan servicing for the majority of our portfolio and for third parties. We currently service or provide complete outsourcing of servicing activities for more than \$18.7 billion in FFELP loans, including approximately \$9.2 billion of loans in our own portfolio. The servicing activities include loan origination activities, application processing, borrower updates, payment processing, claim processing, and due diligence procedures. These activities are performed internally for our own portfolio and generate fee revenue when performed for third-party clients.
- **Guarantee servicing** provides servicing support to guaranty agencies, which includes system software, hardware and telecommunication support, borrower and loan updates, default aversion tracking services, claim processing services, and post-default collection services. We currently provide servicing support to agencies that guarantee more than \$20 billion of FFELP loans. These activities generate fee revenue in addition to expanding our relationship with other participants in the education finance sector.
- **Servicing software** provides student loan servicing software internally and to third-party student loan holders and servicers. As of December 31, 2003, our software was used to service \$46 billion of student loans. This included \$27 billion serviced by third parties using our software, which makes us the second largest servicer of FFELP loans, according to SLSA statistics. We also provide computer consulting, custom software applications, and customer service support.

Nelnet believes in having a local presence in the national marketplace, which is why we have 15 offices across the United States. This local approach offers proximity to our borrowers, schools, lenders, and guarantors. Our customers benefit from this closeness by speaking with Nelnet associates who are located near them and who understand their specific needs and requests. Having Nelnet associates in many neighborhoods across the nation gives our company the strength of a broad, nationwide footprint, combined with customized, local expertise.

We believe our future progress will stem from increased loan origination and consolidation activities to support significant organic growth. Acquisitions will be optional and opportunistic. This philosophy will position the company to capitalize on industry growth, and will solidify Nelnet's leadership position as we further penetrate markets and strengthen relationships with schools and lenders nationwide.



Nelnet is also proud to have strategic relationships with the following companies:

Since January 2001, Nelnet has owned 50% of a business services organization, 5280 Solutions, Inc., that provides Nelnet with contract programming and related technological support, as well as certain software development. 5280 specializes in providing information technology services to various market sectors, including higher education and financial services.

In March 2002, Nelnet acquired a 50% interest in Firstmark Services LLC. Firstmark's focus is on private loan servicing and origination solutions, and provides Nelnet with subcontracting servicing functions for private loans.

In August 2003, Nelnet acquired a full-service broker dealer, specializing in mortgage interest rate risk management and structured finance advisory. The organization's mission is to provide itself, its affiliates, and regional financial institutions with capital markets strategies and products to enhance financial performance.

Nelnet also provides marketing support and assistance to Union Bank & Trust Company, program manager for the Nebraska 529 Plan. Under the Nebraska 529 program, the flagship plan is the nationally recognized College Savings Plan of Nebraska. As of December 31, 2003 the overall Nebraska 529 Plan had over 85,000 investors with more than \$600 million in assets.

The relationships Nelnet cultivates with these companies greatly enhances our vertically integrated structure. We are better able to meet the needs of borrowers, schools, lenders, and guarantors in all stages of the education finance process with the breadth of products and services these companies provide.

Extraordinary:
to go beyond ordinary





Beyond ordinary...

competitive strengths

Extraordinary: to go beyond ordinary. In the education finance industry, it is with several distinguishing competitive strengths that Nelnet surpasses the ordinary. These strengths provide ease and speed in navigating today's financial aid process, and create a unique and interlocking system of efficiency, security, and value. While it is possible for others in the industry to duplicate individual components of these areas, our combination of these drivers provides a collective strength and truly unique position in the education finance market.

- **We are a focused leader with a vertically integrated platform.**
With a full range of services to manage the student loan life cycle, Nelnet delivers extraordinary education finance solutions. From financing to repayment and everything in between, customers may choose to access those resources that best meet their institutional needs. We provide school financial aid offices and students with a comprehensive, full-service student lending package (Stafford, PLUS, Consolidation, and private loans), student loan and guarantee servicing, and loan servicing software. In doing so, we maintain a strong position and expertise in each of our product and service offerings and are well positioned to capitalize on industry growth.
- **We have established a high-quality loan portfolio through our concentration on FFELP loans.**
As of December 31, 2003, more than 99% of our student loan portfolio consisted of FFELP loans, which carry at least a 98% federal guarantee on principal and accrued interest.
- **We enjoy strong relationships with student loan market constituents.**
A large part of what makes us extraordinary is our belief that relationships count. We have established long term strategic relationships with school financial aid officers and with eligible lenders that direct portions of their originations for Nelnet's purchase/acquisition. The effort and cost to establish and maintain these relationships, as well as the low turnover of selected providers, act as a barrier to entry for competitors.
- **We have benefited from access to cost-effective financings.**
Our \$2.8 billion loan warehousing capacity allows us to pool student loans in order to aggregate sufficient volume for cost-effective long-term financing and to time securitization market conditions effectively. As a result, our securitizations routinely price in line with our largest competitor within the student loan industry.

competitive strengths (cont'd.)

- **We have built a leading, cost-competitive servicing platform with a focus on asset protection.**
Protecting student loan assets requires financial and technical strength and vision. Our student loan servicing platform, which facilitates interaction with borrowers, is critical to our success as a lender in the student loan marketplace. The quality of our servicing capability is also a key factor in preserving the federal guarantee on our FFELP loans. The quality of our servicing operation is best demonstrated by our low initial claim reject rate due to servicer error, which was 0.33% in 2003.
- **Our comprehensive suite of software products enables us to carry our brand and partners forward to the key constituents of the student loan market.**
We take great pride in simplifying the financial aid process. By offering the latest innovations in financial aid management and delivery, we make life easier for schools, students, and parents. This effort remains most evident in our line of Web-based software products. Our products include an Internet-based financial aid delivery and management system, an Internet-based loan origination system, and a centralized disbursement agent service. Unlike other Web-based applications, our software uses an open system framework which allows schools to interface with any number of lenders instead of just one. A tangible symbol to Nelnet's dedication to extraordinary customer solutions, our open system philosophy streamlines operational interface by providing schools with a single technological platform of interaction with their chosen partners.
- **We are run by a management team with significant operating and acquisition experience.**
We know that people can make the difference between ordinary and extraordinary. Our senior management employees have, on average, been with us or one of our predecessor companies for over 10 years. We have a track record of successfully integrating the companies that we have acquired and retaining the key employees of these companies. As a result, we have built a management team with significant experience and knowledge in both student loan operations and portfolio and company acquisitions.

Nelnet cares about its employees and that makes Nelnet stronger

"I am glad Nelnet cares about its employees and makes it a priority to keep all employees informed about what is happening both in the company and industry-wide. It sends a positive message to employees, and that in turn makes Nelnet stronger."

- Mandy Monson Franklin, Nelnet Affinity Marketing Representative, Lincoln, NE

Relationships. Focus.
Leadership.



Relationships. Focus. Leadership.



strategies

Nelnet's business strategies, principles, and objectives are directed to meeting current and future customer needs through our practice of listening to customer goals and challenges and providing effective solutions in return. This is accomplished through the personal service delivered by our unique Campus Solutions, Business Partner Support, and Lender Product Support teams working in tandem and supported by a multimillion dollar investment in technology. We intend to meet our corporate objectives by executing the following strategies:

- **Establish and maintain leadership in all our product and service offerings by utilizing our technology.**

Schools, lenders, guaranty agencies, and borrowers in today's student loan industry demand cutting edge, state-of-the-art technology to streamline the once burdensome and time consuming processes of originating, servicing, and administering student loans. We believe the technology products we provide position us to become a preferred provider for participants in the student loan industry and that their expanded utilization will promote our originations and acquisitions. We will continue to invest, develop, and upgrade our technology to help solidify our leadership position and further penetrate our potential market.

our vision **Making educational dreams possible.**

What does Nelnet's vision of making educational dreams possible mean? We believe a student's focus should be on getting an education, not on navigating complex systems and processes to pay for one. That's why we've simplified financial aid for schools, students, and parents with easy to access information and services. Making educational dreams possible begins with making access to education finance practical.

- **Focus on increasing our organic growth while maintaining a low-cost infrastructure.**

We believe there is continued opportunity for significant growth in light of the U.S. Department of Education's projected growth rates for the student loan industry. To increase our organic growth, we have expanded our sales and marketing force to promote FFELP loan origination and consolidation efforts.

strategies (cont'd.)

- **Strengthen existing relationships while establishing new ones.**

We have extensive customer relationships with schools and lenders throughout the United States. We will continue to focus on expanding the loan volume associated with these existing relationships while establishing new ones through our sales force.

- **Continue our commitment to highly focused and disciplined loan origination and acquisition practices.**

We will continue to pursue our conservative approach to asset quality by concentrating on originating, acquiring, and holding federally guaranteed loans through the FFEL Program, while maintaining a disciplined underwriting approach to private loans.

- **Opportunistically make company and portfolio acquisitions.**

Although we have reached a point in our development where we offer a comprehensive set of products and services essential to our vertically integrated business model, we will still consider acquisitions of both individual companies and loan portfolios that we believe have the potential to enhance long-term shareholder value.

Nelnet, a diversified educational services company, will consistently deliver premier solutions and quality services. Schools and their students are our primary focus.

our mission

our core values

Customers are number one.

We will create an environment in which employees can succeed and are treated with dignity and respect.

Truth, honesty, integrity, and clear, open communication are fundamental to our success.

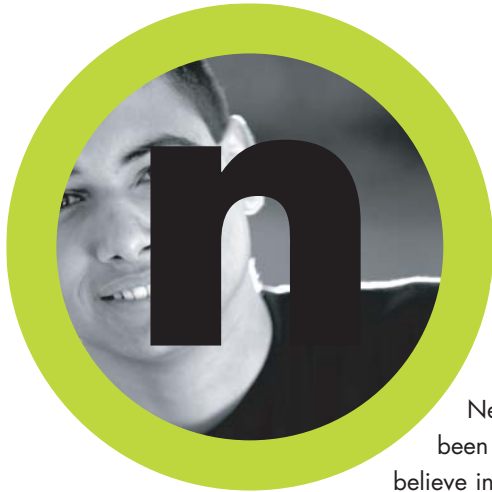
Our goal is to create a diversified educational services company that preserves intellectual capital.

We believe in conservative and transparent accounting policies.

We will not lose sight of fundamental value.



Experience.
Knowledge.



Experience.
Knowledge.

executive leadership

Nelnet benefits from a senior management team, who, on average, have been with us or one of our predecessor companies for over 10 years. We believe in retaining key employees and creating an environment where employees feel passionate about their work. As a result, we have cultivated a management team with significant expertise across the education finance spectrum.

Michael S. Dunlap - Co-CEO and Chairman
Stephen F. Butterfield - Co-CEO and Vice Chairman
Don R. Bouc - President and Executive Director
Terry J. Heimes - Executive Director and Chief Financial Officer
Hilario J. Arguinchona - Executive Director
David A. Bottegal - Executive Director and Chief Marketing Officer
Raymond J. Ciarvella - Executive Director and Chief Information Officer
Todd M. Eicher - Executive Director
Matthew D. Hall - Executive Director
Charles E. Hosea - Executive Director
Dennis V. Leach - Executive Director
Edward P. Martinez - Executive Director and Secretary
Jeffrey R. Noordhoek - Executive Director
Richard H. Pierce - Executive Director
Dominic L. Rotondi - Executive Director
Cheryl E. Watson - Executive Director

Michael S. Dunlap
Co-CEO & Chairman

Michael S. Dunlap, 40, is Nelnet's Chairman and Co-Chief Executive Officer. From December 2001 until August 2003, Mr. Dunlap served as Nelnet's President and sole Chief Executive Officer, and from January 1996 to December 2001, he served as Chairman of Nelnet's predecessor. Mr. Dunlap has served on the Nelnet board since its inception.

Mr. Dunlap is currently the non-executive Chairman of Union Bank & Trust Company where he has held various positions for approximately 20 years, including Chief Executive Officer. Mr. Dunlap is also a Director and President of Farmers & Merchants Investment Inc., the parent of Union Bank & Trust Company.

Mr. Dunlap serves on the President's Community Council for Union College and the Board of Directors for the University of Nebraska Foundation. He also currently serves as Chairman of the Education Committee of the Young Presidents' Organization, Nebraska Chapter. In addition, Mr. Dunlap is a member of the Board of Directors of First National Life Insurance Company USA, Linwood, Inc., Capital Casualty Company, First National Bank Northeast, and BankFirst of Norfolk.

Mr. Dunlap is a member of the Nebraska State Bar Association. He received a B.S. degree in Finance and Accounting and a J.D. degree from the University of Nebraska.

Stephen F. Butterfield
Co-CEO & Vice Chairman

Stephen F. Butterfield, 51, has served as our Co-Chief Executive Officer since August 2003, and as our Vice Chairman since March 2000. He served as Vice Chairman and a Director of Nelnet's predecessor since January 1996.

Mr. Butterfield is responsible for managing our capital market relationships and investor relations. Mr. Butterfield directs our overall management and direction, including asset purchasing, marketing of corporate services, and coordination of our capital market activities.

Mr. Butterfield has been involved in the student loan industry since January 1989, first as President of a for-profit student loan secondary marketing facility located in Scottsdale, Arizona, and later as President of the Student Loan Acquisition Authority of Arizona, a non-profit secondary marketing facility in Scottsdale, Arizona. Prior to his work in the student loan industry, Mr. Butterfield spent 15 years as an investment banker, the last four years of which for Boettcher and Company, specializing in municipal finance.

Mr. Butterfield received his B.S. degree in business administration from Arizona State University.

Responsible business.

corporate governance

Nelnet was founded on principles of responsible business. This is a hallmark of our success and a driving force behind our corporate governance philosophy. We believe that governance is not simply an exercise of ticking off boxes on a best-practices survey. It 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 serves the best interests of its stakeholders, including customers and business partners, employees, and shareholders.

Nelnet's Audit, Compensation, and Nominating committees are composed of independent outside Directors who operate under the Charters detailed within the Corporate Governance section of our Web site (<http://www.nelnetinvestors.net/corpgov-overview.cfm>).

Ethical governance is a philosophy that permeates our company from the top. And it starts with open communication. All shareholders are encouraged to visit the site for additional information on Nelnet's governance philosophy, as well as the company's below named Board of Directors, governance guidelines, and code of conduct.

board of directors

Michael S. Dunlap - Chairman
Stephen F. Butterfield - Vice Chairman
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. Van Horn - Director

"Our leaders take time out of their busy schedules to update us on how Nelnet is doing as a company, what direction we are going, and provide a forum for questions and answers for the employees. That's important to me."

- Chris Daly, Call Center Operations Manager, Lincoln, NE





the storyline...

the year in review 2003

● january

- Nelnet celebrated the one year anniversary of its new corporate brand identity, released in 2002.
- House staff evaluated the proposals to reauthorize the Higher Education Act (HEA) as submitted by the higher education and student loan communities at the end of December. Generally, the student loan proposals were very similar in that they suggested an expansion of borrower loan limits and several refinements to the loan program prompted in large part by the consolidation activity in the industry.
- Congressman McKeon (R-CA) introduced the FED-UP bill - a group of technical amendments intended to simplify the federally sponsored student aid programs in advance of the larger reauthorization activity.

● february

- The Department reduced the projected costs for the FFEL Program of fiscal year 2003 and at the same time increased the projected costs for Direct loans.
- Congressman Regula (R-OH) introduced a bill to repeal the single holder rule.

● march

- Nelnet announced the launch of Nelnet College Planning, an initiative focused on providing information and resources for college bound students and their parents.
- Congressman McKeon (R-CA) announced plans to introduce legislation aimed at addressing dramatically increasing college costs.
- The Congressional Budget Office noted in a routine report to Congress that there would be substantial savings to the government if floor income resulting from the annual and quarterly interest rate resets was eliminated.

the year in review

2003

april

- Nelnet hosted the Client Symposium in Orlando, FL. Education finance sessions and discussions with professionals from around the country punctuated this three day event.
- Senator Landrieu (D-LA) introduced a bill to repeal the single holder rule.
- In much the same way as occurred for the House of Representatives, the higher education and student loan communities responded to requests from the Senate for proposals to reauthorize the HEA.
- U.S. Public Interest Research Group released a report suggesting that students do not need expanded loan limits but do need expanded grant funds.

may

- The House of Representatives held its first hearing regarding the reauthorization of the HEA.

june

- Nelnet presented the first Full Circle Award to Robert D. Walker, Director of Financial Aid for Creighton University.
- In addition to expanding its volunteer commitment to Junior Achievement, Nelnet was privileged to become the exclusive sponsor of the Junior Achievement Online Financial Aid Center, which currently contains information and resources regarding college costs, financing, selection, scholarships, and more.
- Representatives DeLauro (D-CT), Davis (D-IL), and Wu (D-OR) all introduced separate bills to allow for the refinancing of outstanding Consolidation loans.
- A federal jury ruled in favor of Sallie Mae on all counts, including those related to efforts by a loan consolidation company to set aside the application of the single holder rule.

july

- Nelnet launched a national financial aid column called "Paying for College," published in over 400 newspapers.
- Interest rates on student loans dropped to an all time low, prompting a new round of loan consolidation.

the year in review

2003

● august

- Nelnet acquired a full service broker dealer.
- The Department of Education's Office of the Inspector General suggested that the anti-inducement rules promulgated by the Department needed clarification.
- The Congressional Budget Office significantly revised the projected baseline costs for the student loan program upward by \$6 billion for the student loan programs due to the dramatically expanded loan consolidation program.
- The House of Representatives held its third hearing regarding reauthorization. The topic of the hearing was the loan consolidation program.
- Nelnet filed its S-1 Registration Statement with the Securities and Exchange Commission and created a "buzz" in D.C.

● september

- Don Bouc was elected to Junior Achievement's National Board of Directors.
- A unique combination of schools, FFELP participants, and parents formed the Coalition for Better Student Loans. In addition to adopting the fundamental reauthorization positions of the FFELP community, the Coalition aggressively promoted the expansion of borrower loan limits.
- The House of Representatives held a hearing in anticipation of the reauthorization on college costs.

● october

- Nelnet, Inc. announced it received a long-term counterparty credit rating of BBB+ and stable outlook from Standard and Poor's Rating Services.
- Congressmen McKeon (R-CA) and Boehner (R-OH) introduced the Affordability in HEA.
- USA Funds became the first guaranty agency to publicly announce the re-instatement of borrower paid guarantee fees.
- Senator Gregg (R-NH) held the first hearing in the Senate regarding reauthorization of the HEA.
- Senator Kennedy (D-MA) introduced the Democratic proposals for reauthorization that included efforts to preserve the Direct Loan Program.
- Senator Campbell (R-CO) introduced legislation that would establish or maintain variable borrower rates for all student loans.

the year in review

2003

● november

- Nelnet formed the Nelnet School Advisory Council to serve as an expert reference on how Nelnet can add value to its educational solutions for schools, borrowers, and the student lending industry as a whole.

● december

- Nelnet debuted on the New York Stock Exchange under the ticker symbol NNI.
- Nelnet, Inc. announced Michael D. Reardon to the company's Board of Directors. Mr. Reardon has served since 2001 as an independent Director for a Nelnet financing subsidiary, and will serve on Nelnet's Audit, Compensation, and Nominating and Corporate Governance committees.
- The General Accounting Office issued a report reflecting the expanding federal costs associated with the loan consolidation program.
- Congress recessed without having completed the appropriations process for the bulk of the federal government.
- The leadership of the House of Representatives deferred the introduction of the major provisions of the Higher Education Act until 2004.

with sincere gratitude

"I would like to recognize the outstanding customer service I have experienced from two of your employees this week. My first encounter was with Lisa and my experience with her was delightful. She constantly kept me informed of what she was doing and when she had to put me on hold (because of my complex situation) she would come back and check on me if she thought it was taking too long. In a separate phone call, I spoke with a most agreeable specialist named Ben. I now have a great day and evening contact with your organization and I thank you for having high standards in the quality of people you hire."

With sincere gratitude, Philip M. Cushing, Nelnet borrower

"Wisdom, and knowledge, as well as virtue, diffused generally among the body of the people, being necessary for the preservation of their rights and liberties; and as these depend on spreading the opportunities and

Stories and literature are an intricate part of the educational process. Nelnet underscored this with our gift to the New York Stock Exchange to commemorate our Initial Public Offering - an engraved section of the Massachusetts Constitution. Authored by John Adams, the words of this passage represent a common sentiment that prevails today regarding our society's commitment and responsibility to education. Nelnet shares this vision and strives to make educational dreams possible with our work each day.

advantages of education in the various parts of the country, and among the different orders of the people, it shall be the duty of legislatures and magistrates, in all future periods of this commonwealth, to cherish the interests of literature and the sciences, and all seminaries of them; especially the university at Cambridge, public schools and grammar schools in the towns; to encourage private societies and public institutions, rewards and

immunities, for the promotion of agriculture, arts, sciences, commerce, trades, manufactures, and a natural history of the country; to countenance and inculcate the principles of humanity and general benevolence, public and private charity, industry and frugality, honesty and punctuality in their dealings; sincerity, good humor, and all social affections, and generous sentiments among the people."

- John Adams



simplifying the financial aid process



products and services

We take great pride in simplifying the financial aid process. By offering the latest innovations in financial aid management and delivery, we make life easier for schools, students, and parents through our line of Web-based software products. Unlike other Web-based applications, our software utilizes an open system, school-centric framework, which enables schools to work with the lenders of their choice while remaining in control of the process and taking advantage of our software's powerful features.

We define our open system through the following guiding principles: Nelnet will embrace and use industry standards wherever possible; Nelnet will maintain open interfaces to its products; Nelnet will balance open interfaces with strict security and privacy policies; Nelnet products will not directly, or overtly influence schools on the lenders with whom they do business; and Nelnet products will strive to have equal functionality for all participants or trading partners.

The products that stem from this open system philosophy include:

- **Nteract** - our Internet-based, open-architecture student loan origination and disbursement system.
- **Ntrust** - our centralized disbursement service.
- **Ngenius** - our origination engine that supports Ntrust and Nteract.
- **Nservice** - our servicing system for FFELP and private loans.

These programs are designed to reduce paperwork, streamline the approval process, and improve communication between a school's financial aid office and its students. The software unites financial aid offices, lenders, students, secondary markets, and servicing companies, reduces turnaround time, simplifies the process for students, and provides better service with fewer errors.

In addition, Nelnet offers college planning services, which focus on providing information and resources to college bound students and their parents. Nelnet College Planning (www.collegeplanning.nelnet.net) provides students and parents with a single-source financial aid planning solution, including a call center, an interactive Web site, and other free information and services.

Consistent with our philosophy of providing total customer solutions, Nelnet also offers Life After College software, which is comprised of resources for college graduates on graduate school, managing debt, finding a job, and finding a place to live.



building strong relationships

school synergy

In November 2003, Nelnet took a proactive step toward giving schools the opportunity to directly impact the future of educational finance. The Nelnet School Advisory Council was formed to serve as an expert reference on how Nelnet can add value to its educational solutions for schools, borrowers, and the student lending industry as a whole. The Council has not only been designed specifically to provide schools with a voice in Nelnet's evolution, but to provide a forum for feedback and discussion on educational finance issues. The inaugural Nelnet School Advisory Council meeting in Washington, D.C. on November 6 - 7 was attended by educational professionals from across the country as well as representatives from Nelnet. Discussion ranged from the history of Nelnet and general financial aid topics, to what the higher education community looks for in a premier service provider.

Nelnet was pleased in 2003 to introduce the Full Circle Award, a recognition program designed to highlight the professional excellence of Financial Aid Officers. We understand that making educational dreams possible is a process, and the Financial Aid Office is often where



"It is always gratifying to receive recognition for one's work and passion, especially by an organization as well respected and known as Nelnet. The high expectation for service Nelnet demands of itself makes this award even more special."

- Robert D. Walker, Director of Financial Aid, Creighton University

students begin their journey. The professionals who guide students in not only making the right financial decisions for their education, but who

also provide clear explanations and advice on the many complicated aspects of Financial Aid, are the people who tap into the "full circle" of education finance. It is those individuals who go above and beyond their daily tasks to invest in each student and their specific concerns that this award honors. Winners include:

Second quarter 2003

Robert D. Walker, Director of Financial Aid for Creighton University

Third quarter 2003

Glendi Gaddis, Director of Student Financial Services for Lewis and Clark College

Fourth quarter 2003

Scott Medlin, Financial Aid Director at the University of Arkansas Fort Smith

touching the community

civic responsibility

By positioning student loan origination and servicing offices throughout the United States, Nelnet strengthens its connection to its customers and the communities in which they live and work. The company and its employees provide both financial and volunteer resources to a variety of student, family, and civic-oriented organizations, underscoring the many channels through which educational dreams are made possible.

In 2003, Nelnet was named the exclusive sponsor of the Junior Achievement Online Financial Aid Center at www.ja.org. The Financial Aid Center is available free of charge to over 300,000 high school students who participate in Junior Achievement programs nationwide, as well as to the general public. The Center features Nelnet-sponsored scholarships, a college planning calendar, student loan application information, budgeting calculators, loan information for parents, and more. In addition, Nelnet provides online visitors with access to its staff of college planning advisors to assist students with questions or further information.

"The JA Financial Aid Center has the very distinct purpose of providing students with a single source of accurate financial aid information," commented Don Bouc, President of Nelnet and a member of the Junior Achievement National Board of Directors. "Junior Achievement does a phenomenal job of helping students understand that they can pursue their educational dreams. Nelnet helps make those dreams possible by connecting students to the resources that count when paying for college."



Don Bouc, President and Executive Director, visits East High School in Lincoln, Nebraska as part of Nelnet's partnership with Junior Achievement.

In addition to its Junior Achievement scholarship program, Nelnet funds thousands of dollars in additional scholarships through its own College Planning program and through contributions made to colleges and universities across the United States. In 2003, Nelnet awarded over 165 scholarships. Internally, a Nelnet Scholars program benefiting the children of company employees was also introduced recently, the recipients of which will be named in the spring of 2004. For many students, these scholarships represent a critical portion of their annual education funding.

While the impact of Nelnet's charitable and civic donations are immeasurable, the objective of such actions is quite simple. We realize that making educational dreams possible starts with the dedication of so many admirable organizations and volunteers who work each day making children healthy, communities safe, opportunities accessible, and goals achievable.



corporate information

offices

As of December 31, 2003, Nelnet employed approximately 2,100 people in nationwide offices:

Lincoln, Nebraska
Albany, New York
Boise, Idaho
Denver, Colorado
Fredericksburg, Virginia
Honolulu, Hawaii
Indianapolis, Indiana
Jacksonville, Florida
Scottsdale, Arizona
Portland, Maine
Tempe, Arizona
Tucson, Arizona
Tulsa, Oklahoma
Warwick, Rhode Island
Washington, D.C.

stock exchange listing

The common stock of the company trades on the New York Stock Exchange under the symbol of NNI.

transfer agent

Mellon Investor Services LLC
P.O. Box 3315
South Hackensack, NJ 07606
or
85 Challenger Road
Ridgefield Park, NJ 07660
888.213.0965
TDD for hearing impaired: 800.231.5469
Foreign shareholders: 201.329.8660
TDD foreign shareholders: 201.329.8354
Web site: www.melloninvestor.com

financial information

Shareholders may receive a copy of our annual report on Form 10-K by contacting Nelnet Investor Relations at 317.469.2064 or by visiting the SEC Web site at www.sec.gov.

Investor Relations

Nelnet Investor Relations
8425 Woodfield Crossing Blvd., Suite 401
Indianapolis, IN 46240
p 317.469.2064

Web site

Nelnet's Investor Relations Web site is www.nelnetinvestors.net.



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.