



**NASDAQ**<sup>®</sup>

# Built for Business

2004 Annual Report

NASDAQ® is a publicly traded company that runs the premier electronic stock market in the U.S., home to over 3,200 leading companies across every industry in 2004. A world-renowned market and world-class competitor, NASDAQ is supported by diversified business lines with the goal of providing exceptional value to the marketplace and significant opportunities to the company with the highest regulatory integrity.

# NASDAQ has moved the needle of opportunity significantly since 2003. We're now positioned on every level as a business and as a market to lead, and to deliver superior opportunities to all our stakeholders.

In 2004, we became a highly focused enterprise in support of our goal to out-compete and outperform our competitors. NASDAQ has also developed a more responsive organization, able to set — and meet — the highest standards for corporate governance and compliance, including the added demands of Sarbanes-Oxley.

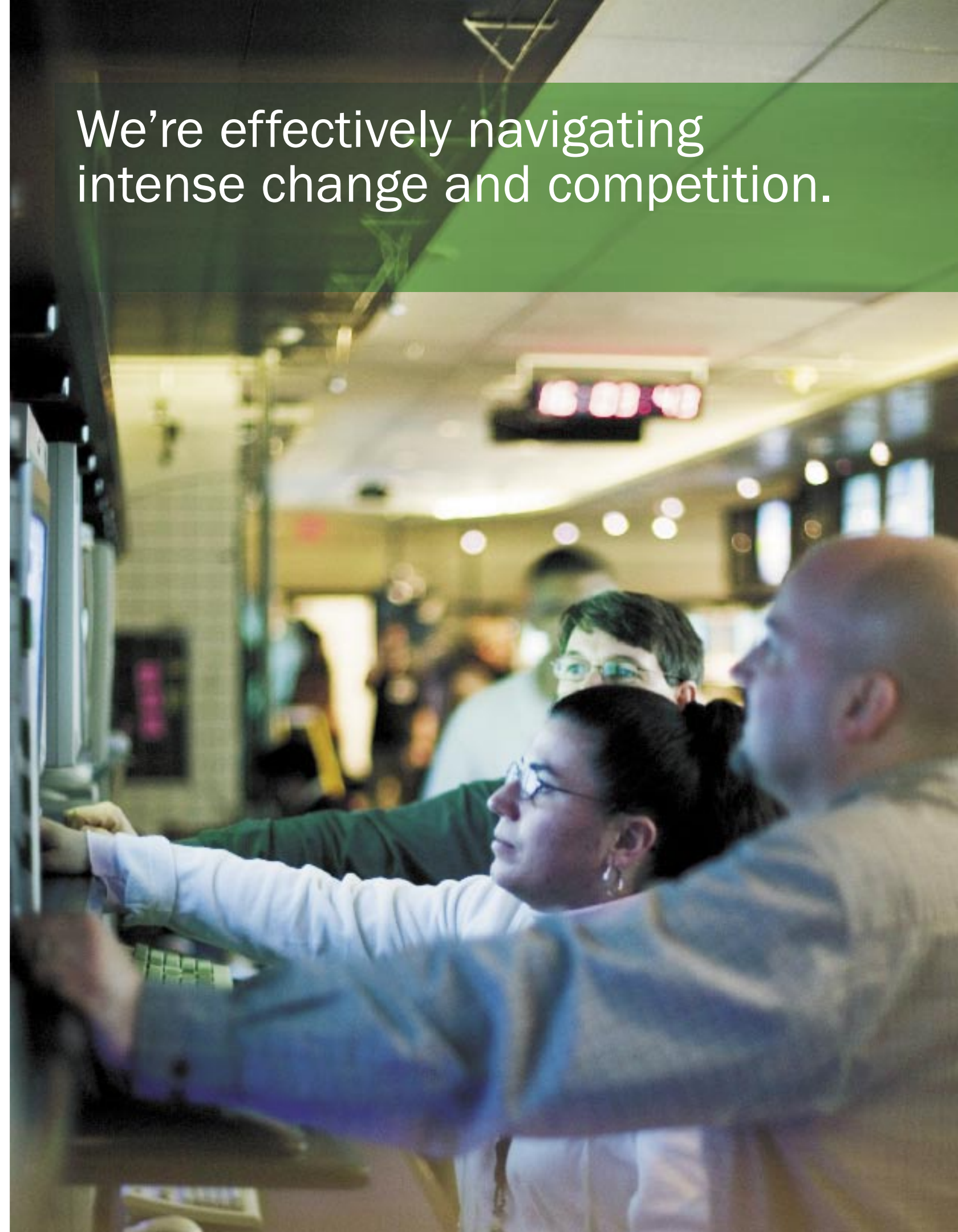
We formulated far-reaching strategic plans in 2003 and have since begun implementing them. We expect to see the wisdom and to begin reaping the results in 2005. And, we have otherwise prepared our entire enterprise to progress in the face of coming changes for the industry near and long-term, especially on the regulatory front.

Unlike other U.S. equities markets and alternative trading systems, NASDAQ is more diversified and adaptable. In comparison to every other U.S. equity market, we're fairer, more transparent and more cost efficient for the user. We completed a secondary offering in February 2005, and NASDAQ's common stock is now listed on our own NASDAQ National Market® making NASDAQ a more liquid and visibly traded equity.

We continue to champion investor protection and raise awareness about the virtue and value of having the right market structure and quality. We also continue to ensure and enhance market integrity by promoting increasingly heightened corporate governance standards for our over 3,200 listed companies — the same rigorous standards NASDAQ follows.

**Whatever perspective you take, you'll see NASDAQ operating from a position of strength and strategy.**

We're effectively navigating  
intense change and competition.



# NASDAQ is built to compete and win business.

## IPOs up 174%

to 148; representing 61% of total IPOs on all markets. Source: Thomson Financial, as of 12/31/04

## 25 newly listed

international companies; 10 from China. Source: Thomson Financial, as of 12/31/04

## \$15 billion

in IPO capital raised on NASDAQ in '04. Source: Thomson Financial, as of 12/31/04

**As a sophisticated, sales-centric business, we've shaped and streamlined the entire company to be tremendously efficient and competitive.**

2004 was a year of strong forward momentum for our Issuer and Market Services segments, with NASDAQ cutting costs, improving systems and infrastructure, satisfying existing customers and attracting new ones, and leveraging our assets and advantages with the goal of building revenues and profits.

### More Diversified and Competitive

Our listings, financial products, transaction services and data products businesses distinguish NASDAQ from most of our competitors that rely on trading volume driven revenue. For those building a model based *solely* on transaction processing — an area that has become highly commoditized — there's little opportunity for true market leadership; especially for higher cost providers. We've priced aggressively in this area and believe our average trade execution fee per share is the most competitive in the industry.

We have taken out significant costs to improve margins on transactions, which may result in organic growth that would effectively improve our bottom line.

ISSUER SERVICES provides NASDAQ-listed companies with the highest level of support, visibility and market intelligence; and a body of well-designed and in-demand financial instruments and indexes.

### Listings — The NASDAQ Corporate Client Group

NASDAQ continues to list more companies than any other U.S. equity market. In adding 148 initial public offerings (IPOs) in 2004, our growth in IPOs was nearly three times the level of 2003<sup>1</sup>. We're benefiting from a healthy domestic and international pipeline of companies seeking to access the capital markets, which generates incremental revenues for the company through new listings.

Thanks to our solid international reputation, 25 of these new listings were foreign companies, 10 from China alone<sup>1</sup>. Last year, over 99% of NASDAQ-listed companies chose to retain their listing on NASDAQ, and two NYSE companies made the switch to our market. Additionally, the venerable Sears Holdings Corporation has announced its intent to switch to NASDAQ in connection with its merger with Kmart, a NASDAQ-listed company.

<sup>1</sup> Thomson Financial as of 12/31/04

## 98.5 million

QQQ shares traded daily on average in 2004. Source: FactSet Research Systems Inc. as of 12/31/04

## 1st foreign ETF

listed in Latin America, with May '04 QQQ launch in Mexico. Source: NASDAQ, as of 12/31/04

## 160 licensees

Approximately 160 licensees contracted with NASDAQ to use NASDAQ indexes as benchmarks for trading their financial products. Source: NASDAQ, as of 12/31/04

For any company that believes in competition, and giving their stockholders the best possible execution and trading venue in an environment of the highest regulatory integrity, it makes sense to consider a move to NASDAQ.

Our performance for liquid stocks continues to be demonstrably better, a fact confirmed by Securities and Exchange Commission (SEC)-mandated “Dash-5” data reported by all market centers. Our cost-to-value is even more compelling. Our electronic market model is widely preferred and endorsed by investors. Our brand is one of the best known globally – especially for growth and innovation. And, NASDAQ-listed companies are benefiting from more products, tools and resources to help them be more effective.

NASDAQ is building a comprehensive suite of exclusive programs and services, valued by NASDAQ companies in all stages of going and being public. The *NASDAQ Director* is a dedicated, professional, day-to-day contact working to answer companies' questions and provide information affecting their stocks. *The Market Intelligence Desk*<sup>®</sup> gives companies a critical touch point for timely trading analysis, market and company information, using 20 different information sources; many of them real-time. NASDAQ Online<sup>SM</sup>, a proprietary investor relations (IR) web site, supports solid investor relations strategies. NASDAQ facilitates premier IR program building, and *IR Conferences* help

companies develop more effective IR programs. The *NASDAQ Insurance Agency*, as of January 2005 a wholly owned subsidiary of NASDAQ, is a full-service corporate insurance broker specializing in customized management liability and risk management advice.

The NASDAQ MarketSite<sup>®</sup>, a state of the art media studio and event setting located in New York's Times Square, provides our listed companies with a high profile venue for opening bell ceremonies and other high visibility events.

As we navigate through 2005, market structure changes are still pending with the SEC. These include how market data is sold and displayed, and whether investors will be free to choose where and when their orders are traded – meaning more buyers and sellers could have the ability to bypass slower markets and direct their trades to an electronic venue that offers them more certainty of fast order fills at the prices they expect. We've been vocal in advocating solutions based on the competitive dynamic, believing that any legislation supporting natural market forces will lead to a better outcome for investors.



The NASDAQ MarketSite broadcast studio in New York's Times Square.

Beyond this, our dual-listing initiative has fundamentally changed the whole listing conversation and opened a new channel of opportunity for NASDAQ. In 2004, we had more discussions with NYSE-listed companies than at any time in our history, to educate them on the benefits of NASDAQ's model. We believe this effort has moved the listing decision onto board agendas to be considered and reconsidered regularly. It has also pushed our competitors to improve their price and trade performance — a good thing for investors.

For any company that believes in competition, and giving their stockholders the best possible execution and trading venue in an environment of the highest regulatory integrity, it makes sense to consider a move to NASDAQ. In our view, if a company isn't getting critical value from its market or that market isn't providing much beyond brand image, it's time to explore a NASDAQ listing.

#### **NASDAQ Financial Products**

We believe we're exceptionally positioned to enhance our fast-growing global funds business on numerous fronts. These opportunities range from developing and licensing

more financial and derivative products to listing more exchange traded funds (ETFs). Domestically and internationally, our leadership remains strong crowned by QQQ®, our NASDAQ-100 Index Tracking Stock®, still the most liquid and actively traded listed equity security in the United States and the most actively traded exchange traded fund worldwide in terms of average daily share volume.

During the last year, we met demand for QQQ in new markets. In addition to moving its listing to our NASDAQ National Market in December, QQQ began trading in Israel, Mexico and Japan, offering NASDAQ more brand exposure and bottom line revenue. The European version of our ETF, EQQQ®, is listed in Switzerland and Germany, and continues to extend throughout Europe. EQQQ continues to grow in assets and visibility as investors overseas seek to invest in innovative financial products. Additionally in 2004, we saw assets in the BLDRS<sup>SM</sup> Funds grow. Listed on NASDAQ, BLDRS are ETFs that track The Bank of New York ADR Indexes. Lastly, we're developing additional indexes to advance our position as a world-class index provider.

# We're running the world's best electronic equity market, and doing it more fairly, efficiently, transparently and responsively than anyone else.

**455.6 billion**

total share volume for '04; Up 7%.  
Source: NASDAQ Economic Research,  
as of 12/31/04

**\$8.8 trillion**

total dollar volume for '04; average  
daily volume was \$34.8 billion; up 24%.  
Source: NASDAQ Economic Research, as  
of 12/31/04

**333 million**

shares executed in 10 seconds in the NASDAQ Closing  
Cross on June 25, 2004, at the annual reconstitution of  
the Russell U.S. stock indexes; representing \$5.3 billion  
in dollar volume. Source: NASDAQ Economic Research

**We're delivering on our total value proposition: actively investing and innovating to increase transparency and improve execution for participants, and provide higher value for listed companies.**

Our trading network links, with ease and speed, a large and geographically dispersed body of market participants that have very different business models and trading technologies — and enables them to freely interact and compete.

MARKET SERVICES provides market participants with a fast, low-cost way to invest, trade and compete — and a higher level of data to help them make better decisions.

#### **NASDAQ Transaction Services**

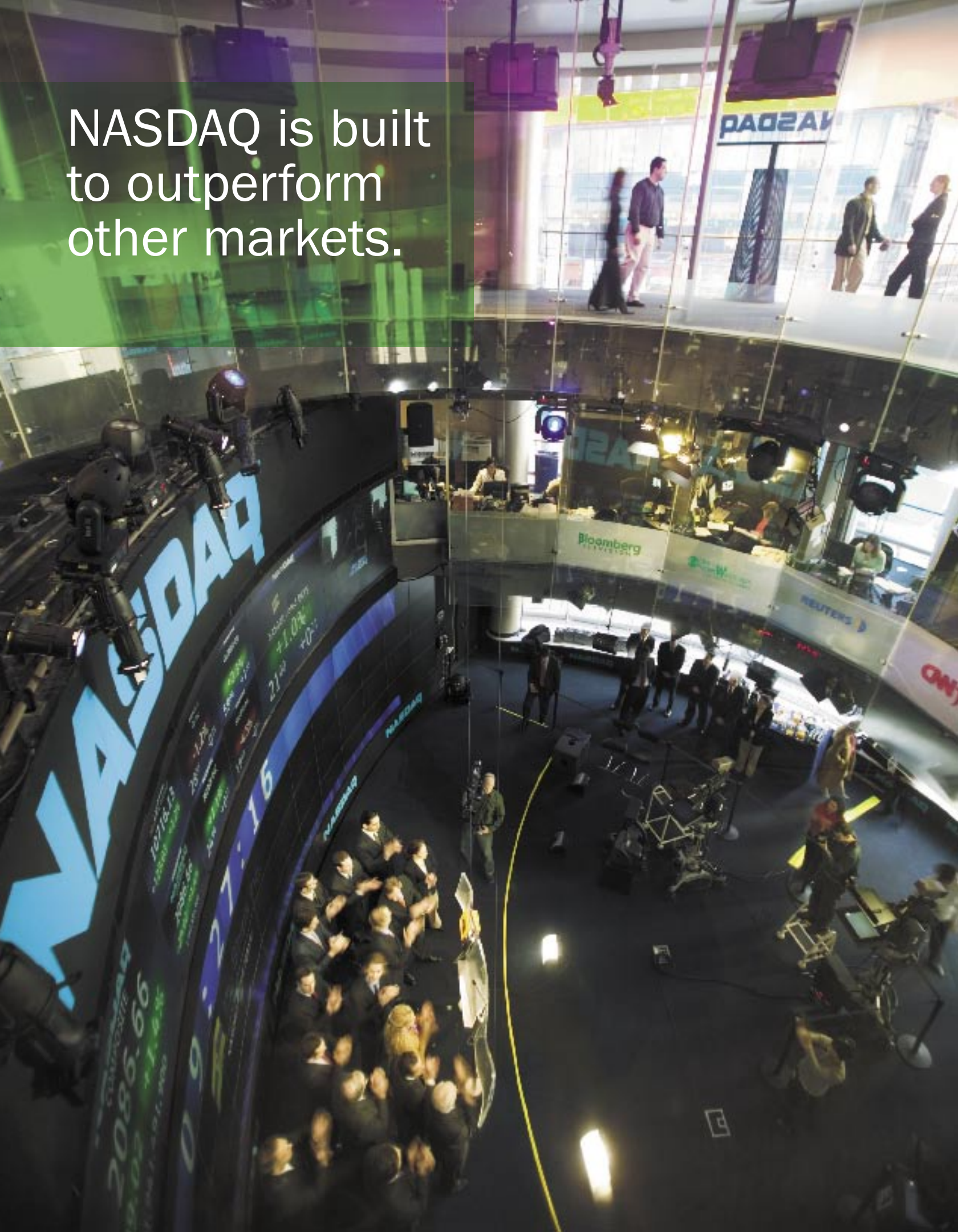
This is the engine of our market. Over the course of 2004, we established and acquired important assets to improve it, by creating an integrated, higher-powered Market Center<sup>SM</sup>. It enables us to trade all equity securities listed on major U.S. capital markets, on a single, seamless platform; including the capability to trade all NASDAQ, NYSE and AMEX-listed stocks.

Other major market innovations in this area included the rollout of the Opening and Closing Crosses which enable NASDAQ to capture liquidity at the most important and active points of every trading day. When the markets open at 9:30 AM, the Opening Cross is an efficient, fair and transparent electronic process, where market forces play a key role in discovering a single, start-of-day price that reflects the true state of supply and demand for each NASDAQ stock.

Similarly, the Closing Cross provides more transparency and price discovery for all participants at the market close. It brings together the buy-and-sell interest in specific NASDAQ stocks and executes the maximum shares for each stock at a single accurate price. Like the Opening Cross, it's driving a new level of efficiency, and helping to maximize volume while tempering volatility. A great reflection of the success of the Closing Cross was the 2004 annual rebalance of the Russell Indexes, a major trading event in June, where NASDAQ executed 333 million shares representing \$5.3 billion in volume — in all of 10 seconds. The Closing Cross generates a closing price widely used throughout the industry including all major indexes such as the Russell Indexes, Standard & Poor's and Dow Jones.



NASDAQ is built  
to outperform  
other markets.





**NASDAQ Business Group Heads (L-R):**  
**John L. Jacobs**, EVP Worldwide Marketing and Financial Products; **Bruce E. Aust**, EVP NASDAQ Corporate Client Group; **Adena T. Friedman**, EVP Strategy and NASDAQ Data Products; **Christopher R. Concannon**, EVP NASDAQ Transaction Services

## 2004 was a year of strong forward momentum for our Issuer and Market Services segments, with NASDAQ cutting costs, improving systems and infrastructure, satisfying existing customers and attracting new ones.

Our acquisition and integration of the BRUT ECN in 2004 has raised our efficiency across the board and allowed us to lower prices to the trading community. We've enjoyed a resulting overall increase in liquidity, which is translating into substantial growth in business and revenues. We also gained the added reach of BRUT's routing and distribution channel, which has accelerated our opportunities, especially with the derivative and arbitrage desks at major trading firms by opening the door to new relationships and revenues.

Last year, we re-priced our transactions business to fit our future cost structure. We took a hit to revenue up front, but believe now our average trade execution fee per share is the most competitive in the business. This is designed to increase our transaction volume in the future.

The net effect of pending SEC national market structure regulation, Regulation NMS, will be to push more automation into the markets, which strongly reinforces the value of

NASDAQ's market model. In the bigger picture, trading orders are seeking the least friction, and the trend is toward a fully electronic and frictionless market – a strategic advantage for NASDAQ.

### **NASDAQ Data Products**

This business group gives market participants, from investors to issuers, a clear, deep and open view into our market and trading activity, and vital, real-time market intelligence that is essential to making informed investment decisions.

In a fast-paced environment where transparency, immediacy and reliability matter most, NASDAQ is an extremely fast and transparent equity market. NASDAQ's premier data product, TotalView®, displays every quote and order at every price level in the NASDAQ Market Center. At the start of 2005 TotalView achieved a 50% speed improvement making it the fastest data feed available for receiving NASDAQ order book information.



**Steven J. Randich,**  
EVP Operations and  
Technology and  
Chief Information Officer

## 2 million

terminals receive NASDAQ data in over 146 countries. Source: Market Data Distribution (VARS database)

## 30% more trades

executed in '04; averaging 3.8 million daily. Total executed trades were 955.2 billion. Source: NASDAQ Economic Research, as of 12/31/04

## 420,000

The number of Level 1 professional market data terminals is over 420,000. Source: Market Data Distribution (BIS billing system)

These improvements not only enable users to better identify trading opportunities, but also to assist participants in fulfilling best execution obligations. Every participant has the ability to know exactly what's available, and when, and is able to *confirm* that they are receiving quality executions.

NASDAQ Data Products continues to raise the bar on market quality and transparency by investing in research to develop new ways to see the market. We have a pipeline of market data enhancements and new market data products, some of which are featured on our new Experimental Market Information web site (<http://emi.nasdaq.com>). The EMI site, launched in 2004, enables NASDAQ to test new information products, and gives investors and traders a way to provide valuable feedback about what they want in terms of data products and services. Response has been overwhelmingly positive with over 1,200 registered users to date for this free service.

In 2004, we invested in new technology that enables us to be nimbler in getting our products out to the investing public. We also broadened the number of networks carrying our data and created a cost advantage we're sharing with our clients.

Relative to regulation, the outcome of Regulation NMS will define what data can be sold competitively versus what data must be placed in a central pool and sold collectively, with those revenues shared across *all* markets. We have been a leading voice in the industry discussion, promoting the idea of pricing essential data at very reasonable levels for investors and letting the markets compete on selling other value-added products. As it stands, NASDAQ has been able to capitalize consistently on its data offerings and is well positioned to compete under new rules.

We continue building sustainable long-term strategic advantages and setting the pace for the industry, from business and market model to corporate governance and compliance.



# NASDAQ is built to go the distance and set the standard.

**1/50<sup>th</sup> second**

or less response time can be maintained  
by NASDAQ systems. Source: NASDAQ  
Operations and Technology, as of 12/31/04

**20,000**

transactions per second can be handled  
by NASDAQ systems. Source: NASDAQ  
Operations and Technology, as of 12/31/04

**7,800**

Over 7,800 NASDAQ, NYSE and AMEX-listed  
stocks tradable through the new NASDAQ  
Market Center<sup>SM</sup>. Source: NASDAQ Economic  
Research, as of 12/31/04

We're delivering on our total value proposition: actively investing and innovating to increase transparency and improve execution for participants, and provide higher value for listed companies.

**The world's markets have moved to the electronic model because the benefits of all-electronic markets are clear to investors. Dynamic companies continue to come to our market, drawn by the power of our brand and the proven value of a NASDAQ listing. NASDAQ is publicly out front, helping to frame the big issues that impact the markets and investors with the goal of serving those interests first, best and foremost.**

We believe our competitive strengths include: our leading and unconflicted market model; diversified set of businesses and revenue streams; proven track record and globally potent brand; strong momentum and public accountability.

As we progress through 2005, we're taking the assets we have built and leveraging them from our brand and customer base to our sales channels and portfolios of products and services. In every dimension that truly matters to investors, issuers and stockholders, we're a leader in the field, and ready to capitalize on a wealth of new opportunities.

## We're Leading on All Levels

Like all stock markets, NASDAQ is a unique business. We are striving to lead the capital markets on every essential level, heeding our corporate charter to work for the greater good of the investors. We're focused on our regulatory responsibilities and the dialogue on Regulation NMS for the right market and corporate governance regulations...



**Robert Greifeld**  
President and CEO

**... We're innovating more technologically, and out-maneuvering the competition with dynamic and diversified business lines. I believe we're enhancing the entire value proposition for all our stakeholders, and approaching a tremendous lift-off point in performance and realized potential.**

For NASDAQ, 2003 was a year of refocusing, and 2004, a year of repositioning strategies designed to grow revenues and profits. This year, 2005, is our year of expanding on this success. Since last year's report, there has been much progress with our business and market, which is a great source of pride and energy for the company.

*In Listings*, one of the highest profile accomplishments was winning Google's landmark IPO, and 147 others, a nearly 174% jump from 2003. Twenty-five were international companies. We're also proud that Sears Holdings, as part of the Kmart merger, has announced its plan to list on our market, a historic move from the NYSE where they have listed since 1910. In addition to successfully retaining a record number of companies, our dual-listing program continues to attract attention, getting us in front of companies listed on competing markets and onto board agendas for consideration. And we are expanding our already strong foothold with

companies in Israel and India that are seeking U.S. investors, as well as further expanding our international reach into Russia, South America and China.

*In Transactions*, we acquired BRUT, an ECN, which immediately brought us routing capability, better connectivity and increased market share in trade reporting. We created new Opening and Closing processes, to better meet investors' needs. We also launched an integrated Market Center, where 7,800 NASDAQ, NYSE and AMEX stocks can be traded on one advanced platform. The Market Center simplifies trading and gives us more cost efficiencies. To increase our reach and revenues, we fielded an expanded transaction services sales force.

*In Financial Products*, we exported our leading ETFs globally, with QQQ to Japan, Israel and Mexico, and EQQQ to Switzerland and Germany.

*With Data Products*, we're sharpening our edge with our proprietary data product TotalView, our flagship proprietary data product that displays more depth and information about NASDAQ stocks than any other data product offered by any market. Further, we continue to innovate, as shown by recent enhancements to our existing data products and by new data products featured on our Experimental Market Information web site.

With a solid foundation in place across each business line, we're ready to move forward on many levels. This includes capitalizing on the result of the SEC's pending Regulation NMS changes, which are designed to modernize an outdated 1970s market structure. Although the rules are not yet finalized, I am confident that they will bring other markets in line with NASDAQ's pioneering, all-electronic model and enable electronic markets to compete more effectively with traditional, floor-based markets.

If you're an institutional investor, it's important that you think about which equity market delivers the most value, from quality to transparency, and what the very real and critical differences are *between* markets.

If you're an individual investor, it makes sense to think about which market is committed to investor protection and strong standards of regulation.

If you're a board member or CEO, ask which market offers strong performance. Based on SEC Dash-5 data<sup>2</sup>, NASDAQ is a clear winner. Our electronic market model brings buyers and sellers together electronically, and intermediaries compete to provide the best value for investors.


If you're a stockholder, be sure you are looking carefully at which equity market business is positioned to win; which market has a diversified business model and opportunities; and which has the most scale and substance. You should also understand why a competitive market maker model, like NASDAQ's, makes the most sense.

Without question, NASDAQ is exceptionally well built as a business and as a market. We also continue to be an important national asset and economic force — a channel for established and emerging companies from China and Israel to India, seeking capital, liquidity and U.S. investors. Just as importantly, we're unwavering in our commitment to promote and follow the highest level of corporate governance and compliance.

There's a lot of good news from and about NASDAQ. Above all, I believe we're at a major tipping point in every business line — a point of concentrating all our assets and executing on a confident, high-impact business plan based on our progress and notable successes in 2004.

Heading now into the rest of 2005 and beyond, our goal is to deliver further diversification around our core strengths, including more value-added products and services for customers; robust market share growth; more listings; more trading volume; and even greater efficiency, effectiveness and innovation.

NASDAQ's trademark entrepreneurial thinking, vision and spirit are inspiring and propelling our people, business and market resiliently into the future.



Robert Greifeld  
President and CEO

<sup>2</sup> Based on 2004 data mandated by SEC Rule 11Ac1-5, S&P 500 stocks, all marketable orders, all order sizes. Stocks listed on NASDAQ have, on average, lower effective spreads, lower quoted spreads, and faster execution speeds than stocks listed on other markets. Averages executed share volume weighted.



# Officers and Directors

## EXECUTIVE OFFICERS

### **Robert Greifeld**

President and Chief Executive Officer

### **Bruce E. Aust**

Executive Vice President  
NASDAQ Corporate Client Group

### **Christopher R. Concannon**

Executive Vice President  
NASDAQ Transaction Services

### **Adena T. Friedman**

Executive Vice President  
Strategy and  
NASDAQ Data Products

### **Ronald Hassen**

Senior Vice President  
Controller  
Principal Accounting Officer and  
Treasurer

### **John L. Jacobs**

Executive Vice President  
Worldwide Marketing and  
Financial Products  
Chief Executive Officer  
NASDAQ Global Funds, Inc.

### **Edward S. Knight**

Executive Vice President and  
General Counsel

### **Steven J. Randich**

Executive Vice President  
Operations and Technology and  
Chief Information Officer

### **David P. Warren**

Executive Vice President and  
Chief Financial Officer

## BOARD OF DIRECTORS

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Retired Chairman and  
Chief Executive Officer  
Mercantile Bankshares Corporation

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Executive Vice President,  
Chief Financial Officer and  
Chief Administrative Officer  
Starbucks Corporation

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Head of Global Capital Markets  
and Financing  
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### **Lon Gorman**

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### **Robert Greifeld**

President and Chief Executive Officer  
The Nasdaq Stock Market, Inc.

### **John P. Havens**

Managing Director,  
Global Head of Institutional Sales  
Morgan Stanley

### **Patrick J. Healy**

Head of Europe  
Hellman & Friedman Europe, Ltd.

### **John D. Markese**

President  
American Association of  
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Senior Vice President and Treasurer  
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Staples, Inc.

### **Fred D. Thompson**

Attorney-at-Law/Consultant/Actor

### **Mary Jo White**

Partner  
Debevoise & Plimpton

### **Deborah L. Wince-Smith**

President  
Council on Competitiveness

# Shareholder Information

## INVESTOR INFORMATION

NASDAQ's home page on the World Wide Web is at [www.NASDAQ.com](http://www.NASDAQ.com)

Stockholders are advised to review financial information and other disclosure about NASDAQ contained in its Annual Report on Form 10-K (the "Form 10-K"). Investor information, including the Annual Report, Form 10-K, Form 10-Q, Proxy Statement and other periodic SEC updates, as well as press releases and earnings announcements can be accessed directly from our web site at: [www.NASDAQ.com/investorrelations/ir\\_home.stm](http://www.NASDAQ.com/investorrelations/ir_home.stm)

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## Cautionary Note Regarding Forward-Looking Statements

The matters described herein may contain forward-looking statements that are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve a number of risks, uncertainties or other factors beyond the control of The Nasdaq Stock Market, Inc. (the "Company"), which could cause actual results to differ materially from historical results, performance or other expectations and from any opinions or statements expressed or implied with respect to future periods. These factors include, but are not limited to, the Company's ability to implement its strategic initiatives, economic, political and market conditions and fluctuations, government and industry regulation, interest rate risk, U.S. and global competition, and other factors detailed in the Company's registration statement on Form 10-K, as amended, and other periodic reports filed with the U.S. Securities and Exchange Commission. We undertake no obligation to release any revisions to any forward-looking statements.

## The Nasdaq Stock Market, Inc.

### Selected Consolidated Financial Data

As of or for the year ended December 31,  
(in thousands, except share amounts)

	2004	2003	2002
<b>Statements of Income Data:</b>			
Total revenues	\$ 540,441	\$ 589,845	\$ 787,154
Cost of revenues	(55,845)	—	—
Gross margin	484,596	589,845	787,154
Total expenses	476,413	647,159	675,307
Net income (loss) from continuing operations	1,804	(45,112)	65,021
Net income (loss) from discontinued operations, net of tax	9,558	(60,335)	(21,893)
Net income (loss)	11,362	(105,447)	43,128
Net (loss) income applicable to common stockholders	(1,826)	(113,726)	33,363
Weighted average common shares outstanding	78,607,126	78,378,376	83,650,478
<b>Basic and diluted net (loss) earnings per share:</b>			
Continuing operations	\$ (0.14)	\$ (0.68)	\$ 0.66
Discontinued operations	0.12	(0.77)	(0.26)
Total basic and diluted net (loss) earnings per share	\$ (0.02)	\$ (1.45)	\$ 0.40
<b>Balance Sheet Data:</b>			
Cash and cash equivalents and investments available-for-sale	\$ 233,099	\$ 334,633	\$ 423,588
Total assets <sup>(1)</sup>	814,820	851,254	1,175,914
Total long-term liabilities <sup>(1)</sup>	449,941	452,927	636,210
Total stockholders' equity <sup>(1)</sup>	156,563	160,696	270,872

<sup>(1)</sup> Includes continuing and discontinued operations.

Results were positively impacted by lower operating expenses from corporate-wide cost reduction programs and NASDAQ's 2003 strategic review. However, continued competitive pressure resulted in lower revenues and gross margin (total revenues less cost of revenues).

NASDAQ's revenues and gross margin declined 8% and 18%, respectively, during 2004 when compared to 2003. Driving the decline in revenues and gross margin is increased competition from regional exchanges and alternative trading systems. To remain competitive, NASDAQ continues to focus on expanding market share and reducing expenses while driving toward operational self-sufficiency.

NOTE: The above review of NASDAQ's financial performance should be read in conjunction with the consolidated financial statements and notes thereto included in the 2004 Form 10-K as filed with the Securities and Exchange Commission. NASDAQ's future performance may differ materially from that of 2004, 2003 and 2002 as a result of certain factors, including, but not limited to, those set forth in the 2004 Form 10-K under "Item 1. Business—Risk Factors" and elsewhere in the 2004 Form 10-K.

This Annual Report includes market share and industry data that we obtained from industry publications and surveys, reports of governmental agencies, and internal company surveys. Industry publications and surveys generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position are based on available market data that speaks as of the date indicated. For market comparison purposes, data in this Annual Report for initial public offerings or IPOs of companies in the United States is based on data provided by Thomson Financial, which does not include best efforts underwritings and, therefore, may not be comparable to other publicly-available IPO data. While we are not aware of any misstatements regarding industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in "Item 1. Business-Risk Factors" in NASDAQ's Form 10-K, as amended.

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