

THE RELENTLESS PURSUIT OF BETTER IDEAS
IS FUNDAMENTALLY HUMAN

The never-ending quest to find a better way is an inherent part of human nature—a persistent effort to make things easier, faster and smarter; a continuous desire to overcome obstacles and defy limitations; and the enduring ability to see any success as an invitation to pursue the next big idea, the next big opportunity.

THE RELENTLESS PURSUIT OF BETTER IDEAS IS SYMBOLICALLY AMERICAN

This persistent desire to build a better life, a better future, is something that is truly and manifestly American. Likewise the freedom and fearlessness to take risks, and the potential to succeed and reap the rewards. These are the deep roots that fed and continue to form our vibrantly enterprising, competitive culture—one that continues to thrive and draw people with ideas and aspirations to our shores and markets.



NASDAQ

MARKETSITE

NASDAQ



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THE RELENTLESS PURSUIT OF BETTER IDEAS IS IRREFUTABLY NASDAQ

Our market embodies and enables entrepreneurial ideas and ambitions. NASDAQ® has always been driven by the vision of building a fairer, more open, efficient and competitive equity market—even though many perceived the status quo to be sufficient. The power of this idea has fueled our rise and leading role as the engine of opportunity: for entrepreneurs to raise capital and for investors to buy into growth. NASDAQ is where most of America's growth companies start, and where many—now giants—live.

NASDAQ'S PURSUIT OF BETTER IDEAS HAS GIVEN THE WORLD A BETTER MARKET.

In 2002, NASDAQ continued delivering on its vision as a category-defining market for category-defining companies—with a new, next-generation trading platform and a new Market Intelligence DeskSM for NASDAQ-listed companies. Of equal importance were the enhanced corporate governance standards we introduced for our listed companies.

MARKET PERFORMANCE

When compared to our principal competitor, NASDAQ is providing a superior market with higher quality execution in several critical investor areas:

FASTER EXECUTIONS—On average, orders in NASDAQ-listed S&P 500 stocks execute in an average time of 2.5 seconds—9.7 times faster than orders for comparable NYSE-listed S&P 500 stocks. The benefit: less chance of the market moving away from an investor's price.

LOWER TRADING COSTS—The average trading costs, as measured by effective spreads, for NASDAQ-listed S&P 500 stocks are 55.9% lower than that of NYSE-listed S&P 500 stocks. The benefit: investors can put more toward their investments.

NARROWER SPREADS—The average quoted bid-and-ask price spread for NASDAQ-listed S&P 500 securities is 61.8% tighter than the quoted spread for comparable NYSE-listed stocks. The benefit: better prices for investors and traders accessing liquidity. Source: Market Systems Inc. (MSI), based on October 2002 data

SUPERMONTAGESM

We delivered a new, next-generation trading system with SuperMontage.

Launched successfully at the end of 2002 in the U.S., this new system gives investors, traders and market participants a superior quality execution platform, and gives NASDAQ a foundation for future growth and trading enhancements. It is the continuation of a 20-year evolution of market structure that we've been leading.

SuperMontage is a faster, more efficient platform, far more efficient and flexible than its predecessors. It offers a center of transparency and liquidity that allows investors to have their orders displayed and protected, even when they are not at the best bid and offer. It also gives market participants immediate access to greater depth at each of the five best bids and offers for any given stock. Going forward, our goal is that SuperMontage will help build our market share of orders executed in NASDAQ, while providing a superior marketplace for investors and our companies.

In connection with SuperMontage, we also introduced data products that provide increased information on orders in NASDAQ, and deliver the single best source of information about our listed companies.

Our ultimate goal is to be an open environment for market participants, in which they compete with each other to serve their customers the best way possible; we believe that free-flowing competition creates the healthiest marketplace.

LISTED COMPANIES

Over 3,600 companies are traded here.

NASDAQ is home to the category-defining companies of today, and those of tomorrow. Companies in every sector, like JetBlue, Starbucks, Intel and Dell. And, in the case of biotechnology, NASDAQ facilitated the capitalization of an entire industry.

We host a highly diverse market that covers the spectrum from financial services, transportation and manufacturing to health care, telecom and retail. Technology is represented by roughly one-third of our companies. We also have a strong track record of bringing non-U.S. companies to American investors, and American companies to non-U.S. investors.

One demonstration of our strong relationships with our listed companies is that 99% of them chose to stay with NASDAQ, despite a difficult year for all of the market indices.

In 2002, we greatly enhanced our services to NASDAQ companies with the launch of the Market Intelligence Desk, the first of its kind. It gives senior executives at our listed companies an immediate, integrated and insightful source of real-time market information, customized to their companies and needs.

DISCLOSURE AND CORPORATE GOVERNANCE

We're focused on disclosure, and the integrity and future of corporate America.

We quickly recognized investor concerns around corporate scandals in 2002, and proposed changes to further strengthen our listing standards. We attempted to do so without extinguishing the entrepreneurial dynamic at the core of NASDAQ-listed companies.

These changes include giving our listed companies the flexibility to keep the size of their boards at manageable levels, and to qualify major stakeholders as independent directors, since we believe their involvement highly correlates, traditionally, with better shareholder performance.

NASDAQ is committed to the most effective regulation, and its companies are guided by rules with teeth and traction. We want investors to see exactly what's going on and make well-informed judgments and decisions accordingly. In our view, disclosure is the heart of investment and shareholder protection.

As for corporate governance debates, we're an active participant in every important public discussion, raising needed awareness, encouraging companies to speak out and helping investors clearly understand all the issues.

FINANCIAL PRODUCTS

We're playing unique multiple roles as index provider, sponsor, licensee and listing venue.

Our NASDAQ-100 Index[®] is one of the world's most closely watched financial barometers, and the NASDAQ-100 Index Tracking StockSM (symbol QQQ) is one of the most heavily traded securities in the U.S. and the most actively traded exchange traded fund (ETF) in the world.¹

We're an epicenter for innovative financial products based on the NASDAQ-100 Index and QQQSM: the benchmarks for over 400 NASDAQ-branded products that trade in 27 countries. These products give retail and institutional investors of all kinds the ability to invest in and trade instruments that tie back to our listed companies—everything from equity-linked notes to options, warrants and futures.

In 2002, we introduced BLDRSSM (Baskets of Listed Depositary Receipts) on our market, a series of ETFs that track baskets of U.S.-traded American Depositary Receipts.

In Europe, we rolled out NASDAQ-100 European TrackerSM (symbol EQQQ), a European version of the QQQ, our first ETF there.

¹Source: FactSet Research Systems, Inc. As of 12/31/02

NASDAQ provides a powerful opportunity for visionaries, innovative companies and investors. A market for entrepreneurs and their enterprises, both emerging and established, like Jim Sinegal and Costco, JetBlue, Michael Dell and Dell Computer, and Starbucks.



FROM EVERY POINT OF VIEW, NASDAQ IS A BETTER IDEA.

Our history and trajectory since 1971 underscore NASDAQ as a true democratizing force in the investment world, an integral part of the nation's economic infrastructure and a jewel in the crown of American capitalism. Our achievements have earned us a powerful, exportable brand, and a leading position as the largest, most actively traded electronic stock market in existence.

NASDAQ is a proven idea that's universally recognized and respected. One that makes other ideas possible. One we will continue to promote, protect and evolve.

TO THE NASDAQ COMMUNITY

Looking Back 2002 was a year that tested the confidence and resolve of investors and markets alike. The worst bear market in 30 years combined with well-publicized corporate scandals to create a “perfect storm.” The result has been investors’ search for integrity of the financial system, and the clear need to restore and reinforce confidence.

Despite all the turbulence, entrepreneurial vision and creativity continued to encircle the globe. The developed world’s dependence on personal and public technology has in no way decreased. And, through the use of new technology, NASDAQ has continued to redefine and expand the possibilities and potential of what a stock market can be.

In good times it’s easy to take the equity markets for granted. In tough times we realize just how vital a market and asset like NASDAQ is to driving our economy and competitiveness as a nation. We provide a center of liquidity for thousands of companies and their shareholders, and an efficient, accessible and transparent environment for millions of investors.

NASDAQ is a very different model, a stock market with a different “DNA.” We’re a category-defining company in our own right, an entrepreneurial culture not satisfied with the status quo.

How We Did As it was for much of the country and world, last year was challenging for NASDAQ’s business, a period where our revenues, net income, expenses and market share were under pressure.

And yet, despite the difficulties of 2002, NASDAQ delivered. We took our market structure and technology to a new level with

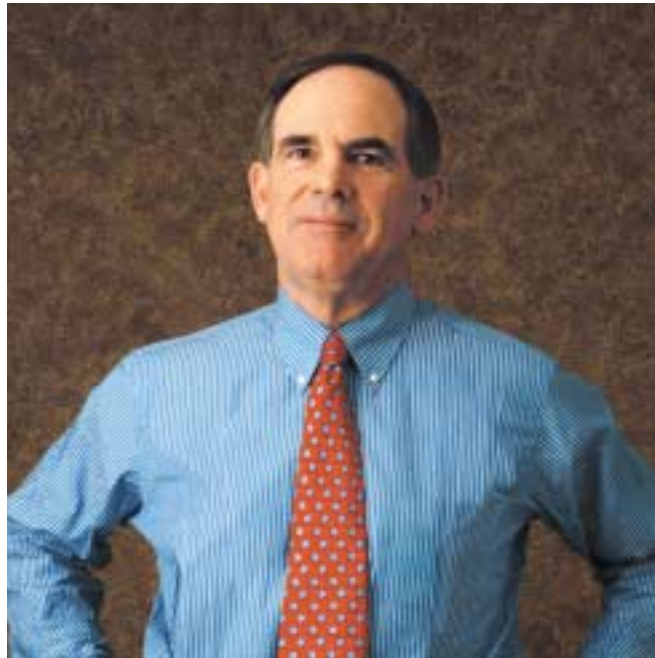
the launch of SuperMontage. We had our best year in terms of market reliability—with over 99.98% uptime. And, as mentioned previously, we continued to surpass our principal competitor in terms of providing a superior market with higher quality execution.

In terms of corporate governance, we acted responsibly to moderate excesses to help effect a return to equilibrium. Last year we proposed more exacting yet understandable rules that further strengthen our existing standards—a move our listed companies were solidly behind us on. It’s these very high standards that make us one of the world’s most transparent markets.

On the international front, we made a strategic decision to end our Japanese initiative given the prevailing economic circumstances there.

In Europe, we realized we were premature in developing a pan-Continental market. Interest wasn’t sufficient and market conditions weren’t supportive. So, NASDAQ EuropeSM reorganized its approach and shifted to an in-country strategy, starting with NASDAQ DeutschlandSM, which is expected to commence trading in German and U.S. securities in March 2003. We believe there are significant opportunities here and in other countries where our powerful capital formation cachet and unique trading platform can provide meaningful, welcome and healthy competition.

A clear disappointment in 2002 was our failure to gain exchange registration. NASDAQ should be an official exchange. We have all the safeguards, we operate like an exchange and everyone thinks of us as one. We continue to seek this designation and are hopeful that we will obtain it shortly.



Challenges and Opportunities As a market, NASDAQ can and is doing a number of other things to improve investors' access to information. Especially by informing and educating them, something we accomplish daily through resources like our comprehensive, public NASDAQ.com Web site.

As a trading system, we can also continue making our own process more efficient and transparent. That is now happening in a significant way with SuperMontage. The wider success of this system and realization of its full end-benefits will hinge on three things: our ability to make system adjustments in response to our customers' needs, the capacity of third-party front-end terminal operators to enable access for their customers, and, lastly, our capability to expand the number of participants actively using the system. We'll succeed to the degree SuperMontage becomes the center of liquidity for NASDAQ-listed stocks.

As a brand, one of our single biggest opportunities relates to our powerful presence in the public consciousness, underscored by pervasive global awareness of NASDAQ in the marketplace; by our QQQ, one of the most heavily traded securities in the world, and by the enormous direct and indirect interest, trading activity and media coverage around our companies. We are committed to continue building the strength of NASDAQ's brand, and upholding the responsibility that comes with it.

Looking Ahead Directly and indirectly through their IRAs and 401(k)s, almost 50%² of U.S. households today are invested in equities and therefore in the economy. This also makes many of them members of NASDAQ's community-at-large.

With history as a guide, there are a few sure things investors have learned, regardless of economic downdrafts: that entrepreneurs with brilliant ideas will continue to seek and find capital, create aspiring companies and continue building those that have arrived—many here on NASDAQ; that our lives will continue to be transformed by the advent of new technology; and that, over time, the equity market will continue to provide the best long-term opportunity for investors.

Through every business cycle, NASDAQ has been making it easier for investors to make choices, and market participants to compete and better serve their customers. Our goal to provide everyone with the fairest, fastest and most open and efficient environment is real. We intend to continue delivering on that goal.

It is because we are such a uniquely powerful and proven engine of innovation, economic progress and opportunity that we believe NASDAQ is not only a better idea, but also the best possible place to be, now and for the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Hardwick Simmons".

Hardwick Simmons
Chairman and Chief Executive Officer

²Source: Investment Company Institute. As of 5/02

BOARD OF DIRECTORS



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The Nasdaq Stock Market, Inc.



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The Nasdaq Stock Market, Inc.



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Thomas Weisel Partners



Mary Jo White
Partner
Debevoise & Plimpton

Board member not pictured

Thomas G. Stemberg
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David P. Warren
Executive Vice President and
Chief Financial Officer

David Weild IV
Vice Chairman and Executive Vice
President, Corporate Client Group

THE NASDAQ STOCK MARKET, INC. SELECTED CONSOLIDATED FINANCIAL DATA

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

	2002	2001	2000
Statements of Income Data:			
Total revenue	\$ 799,217	\$ 857,232	\$ 832,711
Total expenses	720,081	796,101	636,043
Income before cumulative effect of change in accounting principle	43,128	40,463	124,396
Cumulative effect of change in accounting principle, net of taxes \$67,956 ⁽¹⁾	—	—	(101,090)
Net income	\$ 43,128	\$ 40,463	\$ 23,306
Weighted average common shares outstanding	83,650,478	116,458,902	112,090,493
Basic and diluted earnings per share:			
Before cumulative effect of change in accounting principle	\$ 0.40	\$ 0.35	\$ 1.11
Cumulative effect of change in accounting principle	—	—	(0.90)
Net income	<u>\$ 0.40</u>	<u>\$ 0.35</u>	<u>\$ 0.21</u>
Balance Sheet Data:			
Cash and cash equivalents	\$ 204,271	\$ 293,731	\$ 262,257
Total assets	1,175,914	1,326,251	1,164,399
Total long-term obligations	616,063	507,563	221,464
Total stockholders' equity	270,872	518,388	645,159

Economic conditions, regulatory delays and fundamental changes in the composition of our market posed challenges for NASDAQ. While these uncertainties had a negative impact on the financial performance of NASDAQ during the year, NASDAQ remained focused on its goals and executed on several key initiatives.

NASDAQ's revenue declined 6.8% during 2002 when compared to 2001. Driving the decline in revenue was increased competition from regional exchanges and Alternative Trading Systems, combined with a weaker macroeconomic operating environment. However, NASDAQ continues to focus on expenses while driving toward operational self-sufficiency. Despite lower revenue, NASDAQ further leveraged its infrastructure, delivering improved net income margin of 5.4%.⁽²⁾

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 latest 2002 Form 10-K as filed with the Securities and Exchange Commission ("SEC"). NASDAQ's future performance may differ materially from that of 2002, 2001 and 2000 as a result of certain factors, including, but not limited to, those set forth in the latest 2002 Form 10-K under "Item 1. Business—Risk Factors" and elsewhere in the 2002 Form 10-K.

(1) As a result of the adoption of SAB 101, NASDAQ recognized a one-time cumulative effect of a change in accounting principle in the first quarter of 2000.

(2) NASDAQ calculates net income margin as net income divided by total revenue.

SHAREHOLDER INFORMATION

The annual meeting will be held on Wednesday, May 7, 2003, at 10:00 a.m. at the NASDAQ MarketSite in Times Square. The address is 4 Times Square, New York, New York 10036, at the corner of 43rd & Broadway.

INVESTOR INFORMATION

NASDAQ's home page on the World Wide Web is at www.NASDAQ.com.

Shareholders are advised to review financial information and other disclosure about NASDAQ contained in its 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.

Investor inquiries should be directed to:

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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 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.

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