

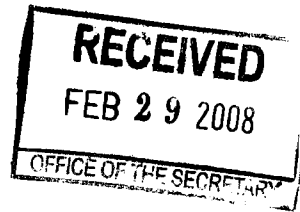
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February 28, 2008

**VIA ELECTRONIC DELIVERY AND FIRST-CLASS MAIL**

Ms. Nancy M. Morris  
Secretary  
U.S. Securities & Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549

Re: Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End  
Management Investment Companies  
SEC Release No. IC-28064; File No. S7-28-07

Dear Ms. Morris:

T. Rowe Price<sup>1</sup> appreciates the opportunity to submit comments on behalf of the T. Rowe Price family of mutual funds (“**Price Funds**”) and offer our views on the above-referenced Commission proposal (“**Proposal**”) to change the disclosure and delivery framework for mutual fund prospectuses. As of December 31, 2007, the Price Funds comprised 121 funds with over 10.9 million shareholder accounts and assets of approximately \$250 billion. The Price Funds currently maintain the third largest market share in the direct-marketed retail distribution channel. As such, the proposal is of great interest to us.

T. Rowe Price began producing fund profiles (under current Rule 498 of the Securities Act) in 1999 and over the past 9 years has had more experience using profiles than any other mutual fund complex. Since the concept of a summary prospectus was first introduced in the early 1970’s, we have worked with the Investment Company Institute (“**ICI**”) to promote the

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<sup>1</sup> For purposes of this letter, “**T. Rowe Price**” refers to the following entities: T. Rowe Price Associates, Inc., which serves as investment adviser for the Price Funds (other than the international funds); T. Rowe Price International, Inc., which serves as investment adviser for the international Price Funds; T. Rowe Price Investment Services, Inc., which serves as principal underwriter and distributor for the Price Funds; T. Rowe Price Services, Inc., which acts as the Price Funds’ transfer and dividend disbursing agent and provides shareholder and administrative services for the Price Funds; and T. Rowe Price Retirement Plan Services, Inc., which provides recordkeeping, sub-transfer agency, and administrative services for employer-sponsored retirement plans investing in the Price Funds.

adoption of more concise selling documents for mutual funds on the basis that more concise disclosure is in fact better disclosure and benefits investors. Accordingly, we strongly support the concept of a Summary Prospectus, which would replace the fund profile, and commend the Commission on its efforts to improve mutual fund disclosure. The Proposal represents an important step forward in providing key information to investors in an easier to use and more streamlined document, while retaining the comprehensive information that is currently available for those who desire it.

**While we are in full agreement with the underlying principles of the Proposal, we are very concerned that certain of its provisions will deter fund companies, especially those involved in direct marketing, from fully utilizing the Summary Prospectus.** We wish to note our general concurrence with the views expressed by the ICI in its comment letter dated February 28, 2008, and strongly encourage the Commission to consider the additional issues we raise and alternatives we offer in this letter. We are providing our perspectives with respect to the following specific issues:

- **Most importantly, the Summary Prospectus should be permitted to cover multiple funds and should allow for an integrated presentation;**
- The standard of “greater prominence” is ambiguous and we encourage the Commission to only require the Summary Prospectus to be separate from, and not bound together with, other materials;
- We agree with much of the key information required in the summary but disagree with quarterly updating, placement of the fee table, and inclusion of intermediary compensation information for direct-sold funds;
- Internet availability of the Summary Prospectus and incorporated documents is a sound framework but certain of the proposed technology requirements should be reconsidered; and
- Incorporation by reference should eliminate most liability concerns arising out of using a Summary Prospectus but a few remaining issues should be addressed.

Our detailed comments on these issues are set forth below.

### **Allow the Summary Prospectus for Multiple Funds**

While we realize that a Summary Prospectus could include information on multiple share classes of a fund, we strongly oppose the proposed requirement that the Summary Prospectus be limited to information on just one fund. This proposed restriction will prohibit well-developed, sensible and investor friendly practices that we and others have developed over many years, is not supported by an empirically-based analysis, will place direct-marketed mutual funds at a significant competitive disadvantage, and is not necessary for the protection of the investing public.

For many, many years, T. Rowe Price has carefully identified categories of funds where it is logical and valuable to investors to combine information into one profile or prospectus.

Shareholder feedback has supported the notion that this structure is helpful in making comparisons among similar funds. Deviation from our current approach would be extremely disruptive to our shareholder base and greatly inhibit the efficiency with which prospective shareholders are able to compare our funds.

As a leading provider of direct-sold funds, T. Rowe Price has been an active user of the fund profile. Except for a very small percentage of accounts that are opened through our investor centers, we do not have the advantage of face-to-face customer interactions so it is essential that we develop documents, be they fund profiles, statutory prospectuses or Summary Prospectuses, that are clear, understandable and enable customers to easily compare our funds. We have found that a multiple fund profile for certain types of funds serves as an effective tool in this process. (If the Commission determines that multiple fund Summary Prospectuses are acceptable, we urge the Commission to also permit an integrated presentation instead of a sequential presentation (discussed later)).

The profile for the T. Rowe Price Maryland Tax-Free Funds, which consist of the Maryland Tax-Free Money Fund, Maryland Tax-Free Bond Fund and Maryland Short-Term Tax-Free Bond Fund, is a simple example of the clear advantages of a combined disclosure document. It allows an investor seeking tax-exempt income in Maryland to compare similar funds in a clear, logical and convenient manner. There is nothing complex or misleading about the presentation that would justify outlawing Summary Prospectuses of this nature. Under the Proposal, an investor seeking to determine which of these funds to invest in would be forced to look at three Summary Prospectuses rather than one. As described below, there are many other situations where three or four related T. Rowe Price funds have been combined in a single profile for the benefit of the investing public and Price Fund shareholders.

The profile for the T. Rowe Price international equity funds builds on the logic and convenience of the multiple fund approach and combines 12 T. Rowe Price international equity funds into a single disclosure document. While it is much longer than a single fund Summary Prospectus would be, we believe it presents information in an easy-to-read, simple format and see no reason why this presentation should be prohibited. Investors are often uncertain of which international fund to choose and the combined format helps them parse through what would otherwise be repetitive information in order to make an informed investment decision. It is comparable to an investor sitting down with a broker and discussing the multiple funds available for international investing. We find very troublesome the notion that an investor with a general interest in international investing would need to receive 12 separate documents with all the repetition this would involve in order to narrow her choice to one or more funds. In our view, this would make direct-sold funds, which are generally less expensive, less desirable relative to broker-sold funds.

Finally, the profile for the T. Rowe Price Retirement Funds provides yet another example of how information about funds can be combined effectively. The Retirement Funds follow asset allocation paths that are managed to an array of target retirement dates. The earliest target retirement date is 2005, followed by 2010 and then in 5-year increments until the latest target

retirement date of 2055. Funds having target dates within 5 years of each other have similar target asset allocations. An investor whose anticipated retirement year falls in between two target dates should not be inconvenienced by navigating between two separate Summary Prospectus documents. And, retirement plan sponsors, who currently can choose to distribute one document (a combined profile, for example) to each of their retirement plan participants, would have significant logistical difficulty in having to match one or more Summary Prospectuses with each of thousands or tens of thousands of participants.

Set forth below are examples of multi-fund profiles that we now use. We believe we should be able to continue to combine these funds in single Summary Prospectuses. For your convenience, each profile is included with this letter. Upon review, we believe you will agree that these are effective, user-friendly, simple and desirable disclosure documents.

- **Retirement Funds.** The profile covers all 12 T. Rowe Price Retirement Funds, which are target-date fund-of-funds designed for investors anywhere from those already in retirement to an investor expected to retire in 2055. The target allocation of each fund becomes more conservative over time in relation to its target retirement date.
- **Index Funds.** The profile covers five funds that seek to match the performance of a particular stock or bond index. The funds are generally passively managed and seek to replicate the following broad-based market sectors: the U.S. large-cap stock market; the U.S. small- and mid-cap stock market; the entire U.S. stock market; international developed markets; and the U.S. investment-grade bond market.
- **Spectrum Funds.** The profile covers the three T. Rowe Price Spectrum Funds (growth, income and international), which are broadly diversified fund-of-funds that maintain their exposure to certain areas of the market through allocations to other T. Rowe Price funds.
- **Personal Strategy Funds.** The profile covers the three T. Rowe Price Personal Strategy Funds, which are asset allocation strategies within prescribed limits and ranges based on either Growth (80% stocks and 20% bonds), Balanced (60% stocks, 30% bonds and 10% money market), and Income (40% stocks, 40% bonds and 20% money market).
- **Tax-Efficient Funds.** The profile covers three tax-efficient funds, two stock funds and a balanced fund, that seek attractive after-tax returns when compared with similar funds that do not make tax efficiency a primary focus.
- **International Equity Funds.** The profile covers all 12 of our retail, international equity funds. Certain funds focus on a specific country or region, while the others invest worldwide but target either developed or emerging countries or employ different investment styles.
- **International Bond Funds.** The profile covers two international bond funds, one of which focuses on high-quality foreign bonds and one on debt securities of emerging nations.
- **U.S. Treasury Funds.** The profile covers three funds designed for investors seeking the credit safety of securities issued by the U.S. Treasury. The funds include a money market fund, intermediate-term bond fund, and a long-term bond fund.

- **Tax-Free Funds.** The profile covers four municipal bond and money funds (not specific to a particular state) that are designed for investors seeking income exempt from federal taxes. These include a money market fund, short- to intermediate-term bond fund, long-term bond fund, and high yield bond fund.
- **Maryland Tax-Free Funds.** The profile covers three Maryland-specific municipal funds, a money market fund, short-term bond fund, and a long-term bond fund, all designed for investors seeking income exempt from federal and Maryland state income taxes.
- **California Tax-Free Funds.** The profile covers two California-specific municipal funds, a money market fund and long-term bond fund designed for investors seeking income exempt from federal and California state income taxes.
- **New York Tax-Free Funds.** The profile covers two New York-specific municipal funds, a money market fund and long-term bond fund designed for investors seeking income exempt from federal and New York state income taxes.
- **Summit Funds.** The profile covers two Summit Funds, one which is a money market fund and the other which is a government mortgage fund. The Summit Funds are distinguished from other T. Rowe Price taxable bond funds by their \$25,000 minimum initial investment requirement.
- **Summit Municipal Funds.** The profile covers three municipal bond and money funds designed for investors seeking tax-exempt income. The Summit municipal funds are distinguished from other T. Rowe Price municipal funds by their \$25,000 minimum initial investment requirement.

We realize that some mutual fund companies employ a single prospectus that encompasses every fund or a very large number of funds within their respective fund families. We recognize that this practice could be viewed as undesirable since these prospectuses can number 100-200 pages or more. A similar practice could result in unduly long Summary Prospectuses and undercut the Commission's objective of providing an easily accessible Summary Prospectus document. We are not in a position to comment on how widespread this practice is or its rationale. While the Commission expressed a great deal of concern over the use of dense and lengthy multi-fund prospectuses, and their potential to undermine the Summary Prospectus initiative, there is no substantive data in the Proposal that either supports or detracts from the Commission's position. Is this practice primarily limited to certain types of fund families? Is it as common among directly-marketed funds as broker-sold funds or funds underlying insurance products? Are the investors who receive lengthy prospectuses relying on their intermediaries to choose their fund investments? Could the negative impact of such disclosure practices be adequately monitored and addressed by the Commission's staff in the registration statement review process?

The Proposal does not distinguish between the very different selling practices associated with directly-marketed funds versus broker-sold funds. For example, could the practice of combining many dissimilar funds into one prospectus be primarily limited to broker-sold funds? If this is true, could this practice have evolved because the prospectus does not now, nor would

the Summary Prospectus if adopted, play a significant part in the decision-making process for investors in this distribution channel? It appears that the Commission may be assuming that the primary factor inhibiting investor acceptance of current prospectuses is their length and complexity. This assumption ignores the role of intermediaries in the selling process. It does not make sense to us that the Commission would prohibit the directly-marketed channel, which has a demonstrated history of well-designed and user-friendly combined profiles and prospectuses, from the non-abusive use of combined Summary Prospectuses because of apparent problems in the broker-sold channel. Certainly, such a drastic step should not be taken without a more definitive, empirically-based finding and cost/benefit analysis demonstrating that the current misuse of combined statutory prospectuses would be a clear indicator of the potential misuse of combined Summary Prospectuses.

In sum, the benefits of multi-fund disclosure documents and a multi-fund Summary Prospectus are clear and significant. The Proposal does not present evidence to substantiate why every multiple-fund Summary Prospectus should on its face be deemed too lengthy or unmanageable for investors to extract information. This is particularly troubling when fund complexes like T. Rowe Price have successfully used combined fund profiles for some time now without significant comment from the staff and every indication from our investors that this format is strongly preferred. We are extremely concerned that the benefits of a multiple fund, short-form disclosure document will no longer be an option, due possibly to the perception that prospectuses have been constructed inappropriately by a handful of complexes that may not even use the prospectus as a means of selling funds. The Proposal would clearly harm direct-sold fund groups since they are more likely to produce combined prospectuses for specific groupings of funds for the benefit of their fund shareholders.

We strongly urge the Commission to permit the use of a combined, integrated Summary Prospectus. At a minimum, the final rule should identify certain categories of funds for which it is acceptable to produce a multiple fund Summary Prospectus. However, the final rule preferably will allow the Commission's disclosure staff to monitor inappropriate fund combinations within a Summary Prospectus through its filing review process. This approach would greatly enhance the utility of the Summary Prospectus, particularly for investors in direct-sold funds, but would not diminish the Commission's goal of improving mutual fund disclosure through a more streamlined document.

### **Allow Integration of Summary Information in Statutory Prospectus**

While the Proposal would allow the summary section of a statutory prospectus to still include information on multiple funds, we strongly oppose the proposed requirement that the information must be presented sequentially. This requirement would necessitate a dramatic change to how we present critical information to our shareholders. T. Rowe Price prepares combined fund statutory prospectuses for the same fund groupings for which we produce combined fund profiles. Within the risk/return summary that is currently required in the beginning of each prospectus, we integrate the information for each fund. Deviation from this approach would be extremely unsettling to our shareholder base and significantly impair

investors' ability to easily compare our funds. The Proposal aims to implement an improved disclosure framework that provides investors with information that is easier to use and more readily accessible. Requiring sequential presentation undermines the foundation of the Proposal.

We have invested substantial time and resources to continually improve the quality and utility of our disclosure materials. Focus group findings and shareholder feedback have made it clear to us that the types of funds we combine and the manner in which we present the information is preferred. Our focus group research, discussed later, clearly supports our position that shareholders prefer a short-form disclosure document that facilitates easy comparison across multiple funds through an integrated format.

For our combined fund prospectuses, we first list the objectives for each fund together, followed by the principal investment strategies for each fund, risks for each fund, performance for each fund, and then the expenses for each fund. When appropriate, we include a concise table within the risk/return summary that highlights the differences between the funds covered by that prospectus. The tables include headings such as "expected risk/reward relative to each other" for stock funds and "expected share price fluctuation" and "credit-quality categories" for bond funds. These helpful tables, in conjunction with our integrated presentation, advance our goal of making our prospectuses as easy to use as possible for our shareholders. The Proposal would proscribe use of the tables in the summary section because they discuss more than one fund. The Proposal's constraints on integration not only would considerably lengthen our multiple fund prospectuses but would also interfere with the Commission's goal of providing mutual fund investors with access to key information in a more easily understandable format.

Take, for instance, a prospective shareholder who is interested in one of the T. Rowe Price international equity funds that does not focus on a particular country or region. Assume, as is often the case, that the investor has not yet narrowed his or her decision to a particular fund. Our combined international equity funds prospectus would enable the investor to easily determine which of the funds invest worldwide and then make meaningful comparisons across those particular funds. A sequential format would force the investor to constantly flip back and forth through pages to locate similar information for each fund. This process would prove very cumbersome and we fear that the investor could become so frustrated that the prospectus would prove to be a deterrent to investing.

Our integrated presentation permits the investor to make a straightforward comparison of all the key information the Commission deems essential. Different investors consider different pieces of information to be more or less important. If one investor feels that investment strategy is most important, whereas another investor feels that fees/expenses is most important, why should either investor be compelled to sift through the prospectus to track down the relevant information for each fund when integration allows that information to be available in one convenient location? Moreover, sequential presentation would result in redundant information and cause the entire prospectus to be more lengthy, intimidating and unwieldy. We strongly urge the Commission to modify the Proposal to address the issues relating to sequential presentation outlined in this letter.

## **T. Rowe Price Focus Group Research**

On September 5-6, 2007, T. Rowe Price conducted focus group research to evaluate preferences for summary versus full prospectuses, particularly testing whether investors favored information presented in an integrated or sequential fashion. The research involved four focus groups of 24 seasoned mutual fund investors. The groups were composed of men and women ages 50-65, each of whom described himself as a fairly savvy, self-directed investor. The findings validate our position that the Summary Prospectus should be available for multiple funds and that the summary section of a statutory prospectus should be able to integrate fund information.

The research primarily sought to reveal investor preferences for either sequential or integrated information involving documents covering multiple funds. The participants were presented with both summary and full prospectuses in both sequential and integrated formats. The focus group participants strongly preferred the integrated formats and rejected the sequential formats because the integrated formats were easier to read and allowed for more useful comparisons across funds. The integrated presentation was preferred for both the summary and full prospectuses and found to expand investor thinking by encouraging fund comparisons. In contrast, the few who preferred the sequential format also liked the integrated format and felt that there were only marginal advantages to the sequential format. The main rationales for favoring an integrated presentation included the following:

- The use of side-by-side charts and explanations encourages investors to consider additional options that might better meet their needs;
- There was less need to go back and forth through pages looking for information if an investor were interested in more than one fund;
- The repetition of sequential information was found to be aggravating;
- The document was less text-heavy and charts and tables were more prominent; and
- The documents were less wasteful as a result of fewer pages.

A secondary objective of the research was to elicit feedback on the use of a summary versus full prospectus. Participants admitted to generally paying little attention to full prospectuses and preferred to rely on a summary document and then go to the full prospectus for more information if necessary. In the area of self-directed investors, the research revealed that a summary prospectus had the potential to change investors' overall perceptions about the utility of fund prospectuses. In terms of information that investors considered important, the findings were largely consistent with what the Commission has proposed as key information to be included in the proposed Summary Prospectus.



## **Standard of Greater Prominence**

T. Rowe Price currently sends Price Fund profiles together with sales materials and an application. We plan to take a similar approach if the Summary Prospectus replaces the profile. However, the Proposal requires that the Summary Prospectus must be given greater prominence than any other materials that accompany a Summary Prospectus. This standard raises significant compliance and interpretive questions.

The determination of whether materials accompanying a Summary Prospectus have greater prominence is completely subjective. Would a Summary Prospectus not be given greater prominence merely because accompanying materials are in a different format or size, or printed in a more colorful or distinctive font type? Will the number of pages of each document or the number of documents be determinative? Will the order of the documents matter? Would a violation depend on whether an investor opens a fulfillment package from the bottom or the top? What about electronic use of a Summary Prospectus? If a distributor wishes to make sales through the use of Summary Prospectuses on its website or by emailing the Summary Prospectus or a link to it, how will the greater prominence standard apply to the website presentation or an email that contains other information? It would be extremely difficult to evaluate greater prominence for any of these scenarios.

The Proposal also does not indicate how this standard would be monitored or enforced in an even-handed, objective manner. Other prominence standards, for example under Rule 482, have only required comparisons of information contained within a single document yet even these have presented many interpretive challenges. Countless issues of interpretation will arise with the “greater prominence” standard. Who will decide them and how? Would FINRA be delegated the authority to enforce the standard in the context of their review of mutual fund advertising and sales materials?

It appears that a failure to satisfy the vague “no greater prominence” standard could result in a violation under Section 5(b)(2) of the Securities Act. This is a very serious consequence with respect to a rule standard of such great subjectivity. If the Commission is concerned that a Summary Prospectus could be obscured by other accompanying documents, we suggest requiring the Summary Prospectus to be a separate document that cannot be bound with any other materials and that carries a legend on its cover page, such as “Important Fund Information” or the like. Ultimately, we think the requirement of separateness should be enough to ensure that investors see the Summary Prospectus when it is accompanied by other written material.

## **Content, Order, and Quarterly Updating of Summary Information**

We generally agree with the Commission’s identification of the key information necessary for investors to make informed decisions. However, we encourage the Commission to thoroughly consider the comprehensive analysis and discussion presented by the ICI in its comment letter regarding industry opposition to quarterly updating of performance and top ten

holdings. Particularly if the Summary Prospectus is restricted to a single fund, the updating of both performance and top ten holdings within 30 days after the prior calendar quarter would create significant burdens with respect to our resources and workflow. We believe any benefits of a quarterly updating requirement are outweighed by the costs.

In addition, the Price Funds operate on different fiscal year cycles. As noted in the ICI letter, we are concerned that certain fiscal year-ends could result in the incorporation by reference of outdated documents or that five or six annual updates could be required instead of the four updates likely envisioned by the Commission. We also oppose quarterly updating because the Summary Prospectus would be inconsistent with the summary section of the statutory prospectus, which could lead to confusion where an investor is reviewing both documents.

We offer the following more specific comments, some of which are in response to questions posed in the Proposal.

- **Fee Table.** We recommend that the fee table continue to be placed in its current location and not be moved forward immediately after the fund's objectives. The proposed relocation suggests that fees are more important than the fund's investment strategies. Separating the fund's objectives from the explanation of how it attempts to achieve those objectives is not a logical progression and it minimizes the importance of how the fund invests.

We appreciate the Commission's efforts to increase investor understanding of expenses by revising the parenthetical that currently reads "expenses that are deducted from fund assets." However, the proposed change to read that "ongoing expenses that you pay each year as a percentage of the value of your investment" is verbose and may further confuse investors. The statement that "you pay" is potentially misleading in that it could be interpreted by investors as expenses deducted directly from their account, even though such expenses are already included in the net asset value calculation and returns for the fund. In addition, while it is true that fund expenses are ongoing in nature, we think investors already understand this concept. To indicate that expenses in the fee table are "ongoing" could imply that the figures provided in the fee table, which actually reflect expenses incurred in the most recent fiscal year, will not change from year to year.

We support the Proposal to amend the requirement that a fund disclose its annual operating expenses gross of any fee waivers or expense reimbursements. It makes sense that the fee table should display the fund's actual expenses in cases where a waiver or reimbursement arrangement will continue for at least one year from the effective date of the fund's registration statement.

- **Performance Information.** We believe that performance information is appropriately included in the Summary Prospectus and summary section of the statutory prospectus. However, the unnecessary expense of quarterly updating the Summary Prospectus is at

odds with one of the fundamental premises of the Commission's Proposal — that is, leveraging the internet and developing a layered disclosure approach whereby certain key information is presented in a streamlined document with more detailed information provided elsewhere. Performance for the Price Funds is updated on the T. Rowe Price website every business day with returns for the following periods: daily and monthly year-to-date, and one, three, five and 10 years or since inception to the most recent calendar quarter-end. The Commission seems hopeful that investors will access the internet for fund information and our website information will always be more current than what is available in a Summary Prospectus. The Commission could condition use of a Summary Prospectus that contains year-end performance information upon website disclosure of quarterly fund performance. Investors without internet access could be provided with a toll-free number by which to obtain the information. The Summary Prospectus could also include a prominent legend identifying the website address and phone number to access current performance information.

- **Top Ten Holdings.** Mutual funds' full portfolio holdings are publicly disclosed on a regular basis in their semi-annual and annual reports and on Form N-Q. The Price Funds disclose their full calendar quarter-end portfolio holdings conspicuously on the T. Rowe Price website and post their top ten holdings each month on the website. While we acknowledge that some investors find top ten holdings to be "key information," inclusion of top ten holdings within the Summary Prospectus, and requiring them to be updated quarterly, is unnecessary in light of the website availability. Again, we recommend that the Commission condition use of a Summary Prospectus on a fund's posting of its top ten holdings on its website, along with a legend identifying the website address and toll-free number where such information can be obtained. This approach would further the layered disclosure model embraced by the Commission, supply investors with more up-to-date information than could possibly be provided through the Summary Prospectus, and promote far wider industry use of the Summary Prospectus.
- **Financial Intermediary Compensation.** We recognize the importance of disclosure relating to conflicts of interest associated with the receipt of distribution-related compensation by intermediaries from a fund. However, we recommend that the proposed disclosure not be required where a fund does not charge a sales load or 12b-1 fee, and the fund's related companies (a term used in the Proposal but not clearly defined) do not compensate the broker-dealer or other financial intermediary for the sale of fund shares or other distribution-related services. The goal should be to simplify and eliminate unnecessary disclosure in the Summary Prospectus and funds should be able to eliminate the three-sentence paragraph on intermediary compensation if it is not applicable.

## **Technology Issues and Internet Availability**

We endorse a layered, web-based disclosure regime and are in general support of the online requirements to link between the Summary Prospectus, statutory prospectus, and statement of additional information (SAI) in order to locate more detailed information. However, the provision that a person accessing the Summary Prospectus be able to move between each section of the Summary Prospectus and any section of the statutory prospectus and SAI that provides additional detail is overly vague. Uncertainty over which sections or subject matter must be linked between the various documents would generate numerous interpretive questions and foster inconsistency across websites.

Certain topics in the Summary Prospectus will relate to a number of different places in the statutory prospectus and SAI. However, it is not currently possible for us to link to more than one place in another document. Thus, if the subject matter appears in more than one location, the link could only be to one place and there would need to be separate links to the subsequent locations. This limitation could force difficult decisions regarding which places in the linked document have greater significance or relevance. Furthermore, such linking would complicate the need to make changes in the “linked-to” document. For instance, if that document is reorganized or content must be changed, the links likely would no longer function properly. Due to these complexities and potential pitfalls, we believe that linking from the Summary Prospectus to the tables of contents in the statutory prospectus and SAI is sufficient.

This is the first time we are aware that the Commission has tied prospectus delivery to the use of specific technology requirements. Certain requirements could become outdated and other methods could take their place. The Commission may want to reassess the linking specifications, particularly if Extensible Business Reporting Language (XBRL) may be mandated for funds in the near future.

Finally, we wish to clarify the requirements that a person be able to permanently download an electronic version of the various web documents that is convenient for both reading online and printing. We would like confirmation that providing these documents in Adobe Portable Document Format (PDF) will satisfy the requirements. Additionally, we hope the final rule will clarify that the links do not need to remain active once a document has been downloaded by an investor.

## **Liability Issues**

We support the Commission’s position that all of the information incorporated by reference into the Summary Prospectus is deemed conveyed to an investor at the time the person receives a Summary Prospectus. However, application of this concept should not be limited to Rule 159 of the Securities Act.

If the Commission elects to require quarterly updating, the associated inventory management and fulfillment complexities could create additional liability concerns. Due to such complexities, there will likely be occasions where a Summary Prospectus is inadvertently sent with stale holdings or performance information. The Commission should consider adding a safe harbor to Rule 498 to ensure that the inadvertent delivery of a current Summary Prospectus, but for stale portfolio holdings or performance information, would not result in a violation of Section 5(b)(2).

Another potential updating issue surfaces if an investor purchases a fund on the basis of a Summary Prospectus that is more than one quarter old or older than the fund's updated statutory prospectus. Rule 159 states that only information that is conveyed to the investor at the time of sale is considered for purposes of assessing Section 12(a)(2) and 17(a) liability and that an issuer cannot cure a materially false or misleading prospectus with information delivered after the sale. The Commission should consider a safe harbor under Rule 498 as a corollary to Rule 159, which would provide that a previously provided Summary Prospectus is considered to be current notwithstanding subsequent quarterly updates to it for performance or portfolio holdings. Under this approach, an investor who completes an application to purchase a fund but waits to send it weeks after receiving a Summary Prospectus would be deemed to receive current information notwithstanding interim quarterly updates. Otherwise, funds may need to send the Summary Prospectus again with the transaction confirmation.

We appreciate the opportunity to submit our comments on this Proposal. If you have any questions or if you need additional information, please feel free to phone us at the following numbers: Darrell Braman at 410-345-2013; Forrest Foss at 410-345-6601; Henry Hopkins at 410-345-6640; David Oestreicher at 410-345-2628; or Brian Poole at 410-345-6646.

Sincerely,



Darrell N. Braman  
Associate Legal Counsel



Forrest R. Foss  
Associate Legal Counsel



Henry H. Hopkins  
Chief Legal Counsel



David Oestreicher  
Chief Legal Counsel Elect



Brian R. Poole  
Attorney

Enc: Price Fund Profiles

T. ROWE PRICE

# International Funds — Foreign Bond Funds

Two international income funds seeking high current income and capital appreciation from foreign fixed-income securities.



*This profile summarizes key information about the funds that is included in the funds' prospectus. The funds' prospectus includes additional information about the funds, including a more detailed description of the risks associated with investing in each fund that you may want to consider before you invest. You may obtain the prospectus and other information about the funds at no cost by calling 1-800-638-5660 or by visiting our Web site at [troweprice.com](http://troweprice.com).*

# T. Rowe Price International Funds, Inc.

## T. Rowe Price International Bond Fund – RPIBX

## T. Rowe Price Emerging Markets Bond Fund – PREMXX

### What are each fund's objectives and principal investment strategies?

#### International Bond Fund

*Objective:* The fund seeks to provide high current income and capital appreciation by investing primarily in high-quality, nondollar-denominated bonds outside the U.S.

*Strategy:* Normally, the fund will invest at least 80% of net assets in bonds and 65% of net assets in high-quality (AA or better) foreign bonds. The fund may invest up to 20% of total assets in below investment-grade, high-risk bonds, including those in default or with the lowest rating. Up to 20% of total assets may be invested in U.S. dollar-denominated foreign bonds such as Brady and other emerging market bonds.

Although we expect to maintain an intermediate- to long-weighted average maturity, there are no maturity restrictions on the overall portfolio or on individual securities. The fund has wide flexibility to purchase and sell currencies and engage in hedging transactions. However, we normally do not attempt to cushion the impact of foreign currency fluctuations on the dollar. Therefore, the fund is likely to be heavily exposed to foreign currencies.

Investment decisions are based on fundamental market factors, such as yield and credit quality differences among bonds as well as demand and supply trends and currency values. The fund generally invests in countries where the combination of fixed-income returns and currency exchange rates appears attractive or, if the currency trend is unfavorable, where we believe the currency risk can be minimized through hedging. The fund sells holdings for a variety of reasons, such as to adjust its average maturity or credit quality, to shift assets into higher-yielding securities, or to alter geographic or currency exposure.

#### Emerging Markets Bond Fund

*Objective:* The fund seeks to provide high income and capital appreciation.

*Strategy:* The fund will normally invest at least 80% (and potentially all) of net assets in the government or corporate debt securities of emerging nations. Fund holdings may include the lowest-rated bonds, including those in default.

Although we expect to maintain an intermediate- to long-weighted average maturity, there are no maturity restrictions on the overall portfolio or on individual securities. Under normal circumstances, most of the fund's total assets are expected to be denominated in U.S. dollars, and the fund will not usually attempt to cushion the impact of foreign currency fluctuations on the dollar. Security selection relies heavily on research, which analyzes political and economic trends

as well as creditworthiness. The fund tends to favor bonds it expects will be upgraded. The fund sells holdings for a variety of reasons, such as to adjust its average maturity or credit quality, to shift assets into higher-yielding securities, or to alter geographic or currency exposure.

Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

**Table 1 International Funds Comparison Guide**

<i>Fund</i>	<i>Geographic focus</i>	<i>Quality of securities</i>	<i>Normal currency exposure</i>	<i>Expected risk relative to one another</i>
International Bond	Outside U.S.	Primarily high quality	High	High
Emerging Markets Bond	Outside U.S.	Primarily lower quality	Varies	Higher

► **Both of these funds are considered “nondiversified” for purposes of the Investment Company Act of 1940.**

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by a fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

### **What are the main risks of investing in the funds?**

The risk profiles of the funds vary with the types of bonds they purchase, their degree of currency exposure, and whether they invest in developed markets, emerging markets, or both. Of the two funds, Emerging Markets Bond is more risky, with a higher potential for sharp price declines.

- **Interest rate risk** This risk refers to the decline in bond prices that accompanies a rise in the overall level of interest rates. (Bond prices and interest rates move in opposite directions.) Because prices of long-term bonds are more sensitive to interest rate changes than prices of short-term bonds, the funds have greater interest rate risk than short-term bond funds.



- **Credit risk** This risk is the chance that any of the funds' holdings will have their credit ratings downgraded or will default (fail to make scheduled interest or principal payments), potentially reducing the funds' income level and share price. The risk of default is much greater for emerging market bonds.
- **Nondiversified risk** Because they are nondiversified, each fund can invest more of its assets in a smaller number of issuers than diversified funds. Concentrating investments could result in greater potential losses than for funds investing in a broader variety of issues.
- **Currency risk** This is the risk of a decline in the value of a foreign currency versus the U.S. dollar, which reduces the dollar value of securities denominated in that currency. The overall impact on each fund's holdings can be significant and long-lasting, depending on the currencies represented in the portfolio, how each one appreciates or depreciates in relation to the U.S. dollar, and whether currency positions are hedged. The International Bond Fund normally is heavily exposed to foreign currencies, and, as a result, changes in currency exchange rates are likely to play a significant role in fund performance. Bonds held in the Emerging Markets Bond Fund are often denominated in U.S. dollars to improve their marketability, but this does not protect them from substantial price declines in the face of political and economic turmoil.
- Currency trends are unpredictable, and to the extent each fund purchases and sells currencies, it will also be subject to the risk that its trading strategies, including efforts at hedging, will not succeed. Furthermore, hedging costs can be significant and reduce fund net asset value, and many emerging market currencies cannot be effectively hedged.
- **Emerging market risk** The funds' investments in emerging markets are subject to the risk of abrupt and severe price declines. The economic and political structures of developing nations, in most cases, do not compare favorably with the U.S. or other developed countries in terms of wealth and stability, and their financial markets often lack liquidity. These economies are less well developed and can be overly reliant on particular industries and more vulnerable to the ebb and flow of international trade and capital trade barriers and other protectionist or retaliatory measures. Some countries have legacies of hyperinflation and currency devaluations versus the dollar (which adversely affect returns to U.S. investors). Significant devaluations have occurred in recent years in various emerging market countries. Governments of some emerging market countries have defaulted on their bonds, and investors in this sector must be prepared for similar events in the future.
- **Other risks of foreign investing** Risks can result from varying stages of economic and political development, differing regulatory environments, trading days, and accounting standards, uncertain tax laws, and higher transaction costs of non-

U.S. markets. Investments outside the United States could be subject to governmental actions such as capital or currency controls, nationalization of a company or industry, expropriation of assets, or imposition of high taxes.

- **Derivatives risk** To the extent the funds use futures, swaps, and other derivatives, they are exposed to additional volatility and potential losses.

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***The share price and income level of each fund will fluctuate with changing market conditions and interest rate levels. When you sell your shares, you may lose money. An investment in each fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.***

### **How can I tell which fund is more appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. Neither fund is suitable for near-term financial goals. Your decision should take into account whether you have any other foreign bond investments. If not, you may wish to invest in the International Bond Fund to gain broad exposure to opportunities abroad. The Emerging Markets Bond Fund may be an appropriate part of your portfolio if you are supplementing existing holdings that are primarily in developed foreign markets and can accept the potentially greater volatility of emerging markets.

Each fund can be used in both regular and tax-deferred accounts, such as IRAs.

- ▶ ***The fund or funds you select should not represent your complete investment program or be used for short-term trading purposes.***

### **How has each fund performed in the past?**

The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Past fund returns (before and after taxes) are not necessarily an indication of future performance.

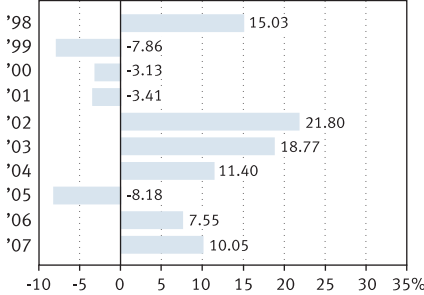
The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor's situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-

deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund's other returns because the loss generates a tax benefit that is factored into the result.

**International Bond Fund**

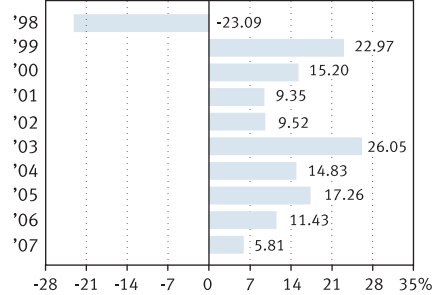
*Calendar Year Returns*



	Quarter Ended	Total Return
Best Quarter	6/30/02	13.56%
Worst Quarter	3/31/99	-5.04%

**Emerging Markets Bond Fund**

*Calendar Year Returns*



	Quarter Ended	Total Return
Best Quarter	12/31/99	13.90%
Worst Quarter	9/30/98	-30.20%

**Table 2 Average Annual Total Returns**

	<i>Periods ended 12/31/07</i>		
	<b>1 year</b>	<b>5 years</b>	<b>10 years</b>
<b>International Bond Fund</b>			
<i>Returns before taxes</i>	10.05%	7.53%	5.68%
<i>Returns after taxes on distributions</i>	7.95	5.80	4.32
<i>Returns after taxes on distributions and sale of fund shares</i>	6.48	5.59	4.14
<i>Lehman Brothers Global Aggregate ex-U.S. Dollar Bond Index</i>	11.03	8.07	6.06
<i>Lipper International Income Funds Average</i>	8.16	6.35	5.61
<b>Emerging Markets Bond Fund</b>			
<i>Returns before taxes</i>	5.81	14.88	10.07
<i>Returns after taxes on distributions</i>	2.99	12.38	6.77
<i>Returns after taxes on distributions and sale of fund shares</i>	3.98	11.81	6.67
<i>J.P. Morgan Emerging Markets Bond Index Global</i>	6.28	12.67	10.09
<i>Lipper Emerging Markets Debt Funds Average</i>	5.65	13.76	10.36

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

Lehman Brothers Global Aggregate ex-U.S. Dollar Bond Index tracks investment-grade government, corporate, agency, and mortgage-related bonds in markets outside the U.S.

J.P. Morgan Emerging Markets Bond Index Global tracks Brady Bonds of a number of foreign countries.

## What fees and expenses will I pay?

The shares that are offered in this profile are 100% no load. However, the funds charge a 2.00% redemption fee, payable to the funds, on shares purchased and held for 90 days or less. There are no other fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds. There are no 12b-1 fees.

**Table 3 Fees and Expenses of the Funds\***

Fund	Shareholder fees (fees paid directly from your investment)		Annual fund operating expenses (expenses that are deducted from fund assets)	
	Redemption fee <sup>a</sup>	Management fee	Other expenses	Total annual fund operating expenses
International Bond	2.00%	0.66%	0.18%	0.84%
Emerging Markets Bond	2.00	0.76	0.22	0.98

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund. Accounts with less than a \$2,000 balance (with certain exceptions) are subject to a \$10 fee.

<sup>a</sup> On shares purchased and held for 90 days or less.

**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table shows how much you would pay if operating expenses remain the same, you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

Fund	1 year	3 years	5 years	10 years
International Bond	\$ 86	\$268	\$466	\$1,037
Emerging Markets Bond	100	312	542	1,201

## Who manages the funds?

T. Rowe Price International is responsible for the selection and management of fund portfolio investments. The U.S. office of T. Rowe Price International is located at 100 East Pratt Street, Baltimore, Maryland 21202.

### International Bond Fund

Ian Kelson manages the fund day to day and has been chairman of its Investment Advisory Committee since 2001. He joined T. Rowe Price International in 2000 as the head of international fixed-income investments. Prior to joining T. Rowe Price International, he spent 10 years as chief investment officer, fixed income at Morgan Grenfell/Deutsche Asset Management.

### Emerging Markets Bond Fund

Michael Conelius manages the fund day to day and has been chairman of its Investment Advisory Committee since 2001. He joined T. Rowe Price International in 1995 and has been responsible for portfolio management and analysis of emerging markets debt since that time. He joined T. Rowe Price in 1988 as a financial analyst.

***To participants in employer-sponsored retirement plans: The following questions and answers about buying and selling shares and services do not apply to your plan. Please call your plan's toll-free number for additional information. Also note that this profile may include funds not available through your plan.***

## How can I purchase shares?

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$2,500 (\$1,000 for IRAs and gifts or transfers to minors). The minimum subsequent investment is \$100 (\$50 for IRAs, gifts or transfers to minors, or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

## How can I sell shares?

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

**When will I receive income and capital gain distributions?**

Each fund distributes income monthly and net capital gains, if any, at year-end. For regular accounts, income and short-term gains are taxable at ordinary income rates, and long-term gains are taxable at the capital gains rate. Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check. Distributions paid to IRAs and employer-sponsored retirement plans are automatically reinvested.

**What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.

T. Rowe Price Associates, Inc.  
100 East Pratt Street  
Baltimore, MD 21202  
[troweprice.com](http://troweprice.com)



T. ROWE PRICE

**U.S. Treasury Money Fund**

**U.S. Treasury Intermediate Fund**

**U.S. Treasury Long-Term Fund**

Money market and bond funds seeking the income potential and credit safety of securities issued by the U.S. Treasury.



*This profile summarizes key information about the funds that is included in the funds' prospectus. The funds' prospectus includes additional information about the funds, including a more detailed description of the risks associated with investing in each fund that you may want to consider before you invest. You may obtain the prospectus and other information about the funds at no cost by calling 1-800-638-5660 or by visiting our Web site at [troweprice.com](http://troweprice.com).*



## T. Rowe Price U.S. Treasury Funds, Inc.

**U.S. Treasury Money Fund – PRTXX**

**U.S. Treasury Intermediate Fund – PRTIX**

**U.S. Treasury Long-Term Fund – PRULX**

### What is each fund's objective?

**Money Fund** seeks maximum preservation of capital and liquidity and, consistent with these goals, the highest possible current income.

**Intermediate Fund** seeks a high level of income consistent with maximum credit protection and moderate fluctuation in principal.

**Long-Term Fund** seeks the highest level of income consistent with maximum credit protection.

### What is each fund's principal investment strategy?

**Money Fund** is managed to provide a stable share price of \$1.00. The fund invests at least 80% of its net assets in U.S. Treasury securities, which are backed by the full faith and credit of the federal government. The remainder is invested in other securities backed by the full faith and credit of the U.S. government. The fund will not purchase any security with a maturity of more than 13 months, and the fund's weighted average maturity will not exceed 90 days.

**Intermediate Fund** invests at least 80% of its net assets in U.S. Treasury securities, which are backed by the full faith and credit of the federal government. The remainder is invested in other securities backed by the full faith and credit of the U.S. government. The portfolio's weighted average maturity is expected to range between three and seven years.

**Long-Term Fund** invests at least 85% of its net assets in U.S. Treasury securities, which are backed by the full faith and credit of the federal government. The remainder is invested in other securities backed by the full faith and credit of the U.S. government. The portfolio's weighted average maturity is expected to vary between 15 and 20 years, but may range from 10 to 30 years.

### All funds

Treasury securities in which the funds may invest include Treasury bills, notes, and bonds, as well as Treasury inflation-protected securities (TIPS). In addition, the funds' other investments will either be (1) backed by the full faith and credit of the U.S. government (such as GNMA mortgage-backed securities) and, for the bond funds, (2) futures and repurchase agreements collateralized by such investments; or (3) shares of a T. Rowe Price internal money fund that invests exclusively in securities backed by the full faith and credit of the U.S. government.

**Table 1 Differences Among Funds**

<b>Fund</b>	<b>Credit-quality categories</b>	<b>Income</b>	<b>Expected share price fluctuation</b>	<b>Expected average maturity</b>
Money	Highest	Lower	Stable	90 days or less
Intermediate	Highest	Moderate	More than Money, less than Long-Term	3 to 7 years
Long-Term	Highest	Higher	High	15 to 20 years

Each fund may sell holdings for a variety of reasons, such as to adjust a portfolio's average maturity or to shift assets into higher-yielding securities.

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by the fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

### **What are the main risks of investing in the funds?**

**Money Fund** should have little or no *credit risk* because it invests only in securities backed by the federal government, the most creditworthy issuer of fixed-income instruments, and other investments involving such securities. (Credit risk is the chance that a fund's holdings will have their credit ratings downgraded or that their issuers will default, that is, fail to make scheduled interest and principal payments.)

There is little risk of principal loss because the fund is managed to maintain a constant \$1.00 share price. However, price stability is not guaranteed, and there is no assurance that the fund will avoid principal losses if interest rates rise sharply in an unusually short period. It is possible to lose money by investing in the fund. In addition, the fund's yield will vary; it is not fixed for a specific period like the yield on a bank certificate of deposit. This is a disadvantage when interest rates are falling. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

**Intermediate and Long-Term Funds** should have minimal credit risk because they invest only in securities backed by the federal government and other investments involving such securities. The primary source of risk is the possibility of *rising interest rates*, which generally cause bond prices and a bond fund's share price to fall. The Long-Term Fund is subject to the greatest price swings because the longer the maturity, the greater the price decline when rates rise and the greater the price increase when rates fall. If the funds purchase longer-maturity bonds and interest rates rise unexpectedly, their prices could decline.

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***The income level of the funds will fluctuate with changing market conditions and interest rate levels. The bond funds' share prices will also fluctuate; when you sell your shares, you may lose money. An investment in the fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.***

### **How can I tell which fund is most appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. The Money Fund may be appropriate for you if the stability and accessibility of your investment are more important to you than the opportunity for higher income or total return. The Intermediate and Long-Term Funds may be appropriate if you seek an attractive level of income and are willing to accept the risk of a loss of principal when interest rates rise. The Long-Term Fund should have the highest income and potential return over time, but also the greatest risk of price declines.

Each fund can be used in both regular and tax-deferred accounts, such as IRAs.

- ▶ ***The fund or funds you select should not represent your complete investment program or be used for short-term trading purposes.***

### **How has each fund performed in the past?**

The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Past fund returns (before and after taxes) are not necessarily an indication of future performance.

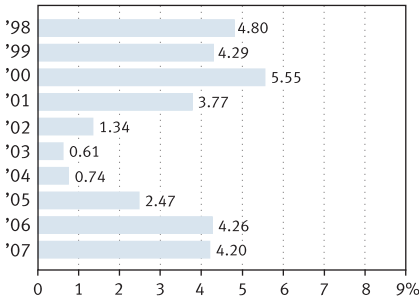
The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor's situation and may differ from

those shown. After-tax returns are not relevant if the shares are held in a tax-deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund's other returns because the loss generates a tax benefit that is factored into the result.

**U.S. Treasury Money Fund**

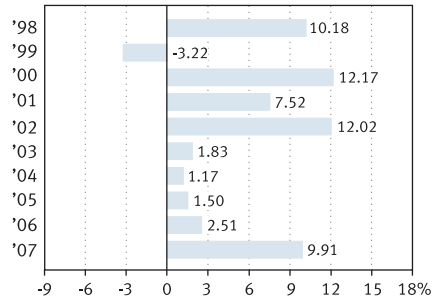
*Calendar Year Returns*



	Quarter Ended	Total Return
Best Quarter	12/31/00	1.45%
Worst Quarter	6/30/04	0.12%

**U.S. Treasury Intermediate Fund**

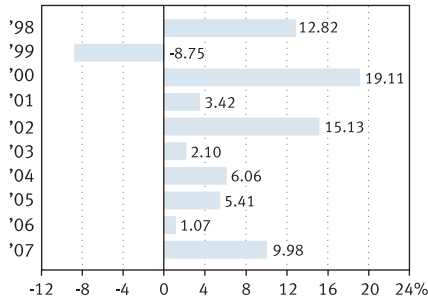
*Calendar Year Returns*



	Quarter Ended	Total Return
Best Quarter	9/30/02	7.46%
Worst Quarter	6/30/04	-3.01%

**U.S. Treasury Long-Term Fund**

*Calendar Year Returns*



	Quarter Ended	Total Return
Best Quarter	9/30/02	10.53%
Worst Quarter	6/30/04	-4.44%

**Table 2 Average Annual Total Returns**

	<i>Periods ended 12/31/07</i>		
	<b>1 year</b>	<b>5 years</b>	<b>10 years</b>
<b>Money Fund</b>	4.20%	2.44%	3.19%
<i>Lipper U.S. Treasury Money Market Funds Average</i>	4.09	2.31	3.06
<b>Intermediate Fund</b>			
<i>Returns before taxes</i>	9.91	3.33	5.43
<i>Returns after taxes on distributions</i>	8.36	2.24	3.78
<i>Returns after taxes on distributions and sale of fund shares</i>	6.39	2.32	3.71
<i>Lehman Brothers U.S. Treasury 4-10 Year Index</i>	10.20	4.07	6.12
<i>Lipper General U.S. Treasury Funds Average</i>	8.57	4.08	5.72
<b>Long-Term Fund</b>			
<i>Returns before taxes</i>	9.98	4.88	6.36
<i>Returns after taxes on distributions</i>	8.25	3.41	4.44
<i>Returns after taxes on distributions and sale of fund shares</i>	6.42	3.46	4.36
<i>Lehman Brothers U.S. Treasury Long Index</i>	9.81	5.63	7.14
<i>Lipper General U.S. Treasury Fund Average</i>	8.57	4.08	5.72

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

Money funds are not required to show after-tax returns.

Lehman Brothers U.S. Treasury 4-10 Year Index is a total return index of Treasury securities with maturities from four to 10 years.

Lehman Brothers U.S. Treasury Long Index is a total return index of all publicly traded obligations of the U.S. Treasury with maturities of 10 years or longer.

## What fees and expenses will I pay?

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**Table 3 Fees and Expenses of the Funds\***

<i>Fund</i>	<i>Annual fund operating expenses (expenses that are deducted from fund assets)</i>		
	<i>Management fee</i>	<i>Other expenses</i>	<i>Total annual fund operating expenses</i>
Money	0.30%	0.19%	0.49%
Intermediate	0.30	0.27	0.57
Long-Term	0.30	0.25	0.55

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund. Accounts with less than a \$2,000 balance (with certain exceptions) are subject to a \$10 fee.

**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table shows how much you would pay if operating expenses remain the same, you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

<i>Fund</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>10 years</i>
Money	\$50	\$157	\$274	\$616
Intermediate	58	183	318	714
Long-Term	56	176	307	689

## Who manages the funds?

The funds are managed by T. Rowe Price Associates, Inc. (T. Rowe Price). Founded in 1937, T. Rowe Price and its affiliates manage investments for individual and institutional accounts. The company offers a comprehensive array of stock, bond, and money market funds directly to the investing public.

**Money Fund** James M. McDonald manages the fund day to day and has been chairman of its Investment Advisory Committee since 2002. He joined T. Rowe Price in 1976 as a financial statistician and has been managing investments since 1979.

**Intermediate Fund** Cheryl A. Mickel manages the fund day to day and has been chairman of its Investment Advisory Committee since 1998. She joined T. Rowe Price in 1989 and has been managing investments since 1997.

**Long-Term Fund** Brian J. Brennan manages the fund day to day and has been chairman of its Investment Advisory Committee since 2003. He joined T. Rowe Price in 2000 and has been managing investments since 1995. Prior to joining T. Rowe Price, he was a fixed-income manager at Howard Hughes Medical Institute.

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**How can I purchase shares?**

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$2,500 (\$1,000 for IRAs and gifts or transfers to minors). The minimum subsequent investment is \$100 (\$50 for IRAs, gifts or transfers to minors, or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

**How can I sell shares?**

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

**When will I receive income and capital gain distributions?**

Each fund distributes income monthly and net capital gains, if any, at year-end. Normally there are no capital gain distributions for money market funds. For regular accounts, income and short-term gains are taxable at ordinary income rates, and long-term gains are taxable at the capital gains rate. Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check. Distributions paid to IRAs and employer-sponsored retirement plans are automatically reinvested.

**What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.

T. Rowe Price Associates, Inc.  
100 East Pratt Street  
Baltimore, MD 21202  
troweprice.com



T. ROWE PRICE

**Tax-Exempt Money Fund**  
**Tax-Free Short-Intermediate Fund**  
**Tax-Free Income Fund**  
**Tax-Free High Yield Fund**

A family of money and municipal bond funds for investors seeking income exempt from federal income taxes.



*This profile summarizes key information about the funds that is included in the funds' prospectus. The funds' prospectus includes additional information about the funds, including a more detailed description of the risks associated with investing in each fund that you may want to consider before you invest. You may obtain the prospectus and other information about the funds at no cost by calling 1-800-638-5660 or by visiting our Web site at [troweprice.com](http://troweprice.com).*



## T. Rowe Price Tax-Exempt Money Fund, Inc. – PTEXX

## T. Rowe Price Tax-Free Short-Intermediate Fund, Inc. – PRFSX

## T. Rowe Price Tax-Free Income Fund, Inc. – PRTAX

## T. Rowe Price Tax-Free High Yield Fund, Inc. – PRFHX

### OBJECTIVE, STRATEGY, RISKS, AND EXPENSES

#### What is each fund's objective?

**Money Fund** seeks to provide preservation of capital, liquidity, and, consistent with these objectives, the highest current income exempt from federal income taxes.

**Short-Intermediate Fund** seeks to provide, consistent with modest price fluctuation, a high level of income exempt from federal income taxes by investing primarily in short- and intermediate-term investment-grade municipal securities.

**Income Fund** seeks to provide a high level of income exempt from federal income taxes by investing primarily in long-term investment-grade municipal securities.

**High Yield Fund** seeks to provide a high level of income exempt from federal income taxes by investing primarily in long-term low- to upper-medium-grade municipal securities.

#### What is each fund's principal investment strategy?

**Table 1** *Differences Among Funds*

<i>Fund</i>	<i>Credit-quality categories</i>	<i>Income*</i>	<i>Expected share price fluctuation*</i>	<i>Expected average maturity</i>
Money	Two highest	Low	Stable	90 days or less
Short-Intermediate	Predominately four highest	Low to moderate	Low to moderate	2 to 5 years
Income	Predominately four highest	High	Higher	Over 10 years
High Yield	Generally low-quality to upper-medium quality	Highest	Higher	Over 10 years

\* Relative to each other.

**Money Fund** invests in municipal securities that mature in 13 months or less. The fund's weighted average maturity will not exceed 90 days. While the fund's yield will fluctuate with changes in interest rates, its share price is managed to remain stable at \$1.00. The fund buys securities within the two highest short-term rating categories assigned by established agencies or, if unrated, deemed to be of comparable quality by T. Rowe Price. All securities purchased by the fund present minimal credit risk in the opinion of T. Rowe Price.

**Short-Intermediate Fund** invests primarily in short- and intermediate-term municipal securities. Its weighted average maturity normally ranges from two to five years and is not expected to exceed five years. Most investments are in investment-grade securities, which means their ratings are within the four highest credit categories (AAA, AA, A, BBB, or equivalent) as determined by at least one nationally recognized credit rating agency or, if unrated, deemed to be of comparable quality by T. Rowe Price. The fund may invest up to 5% of total assets in below investment-grade securities, including those with the lowest rating. The fund may invest in bonds whose income must be included in recalculation of alternative minimum tax.

**Income Fund** invests primarily in long-term municipal securities. The fund's weighted average maturity is expected to exceed 10 years. Most investments are in investment-grade securities, which means their ratings are within the four highest credit categories (AAA, AA, A, BBB, or equivalent) as determined by at least one nationally recognized credit rating agency or, if unrated, deemed to be of comparable quality by T. Rowe Price. The fund may invest up to 10% of total assets in below investment-grade securities, including those with the lowest rating.

**High Yield Fund** invests a substantial portion of assets in below investment-grade municipal or "junk" bonds and may buy bonds in default as long as they do not exceed 10% of total assets. The fund's weighted average maturity is expected to exceed 10 years. The fund may invest in bonds whose income must be included in recalculation of alternative minimum tax.

## **All funds**

In selecting securities for the money fund, the fund manager may examine relationships among yields of various types and maturities of money market securities in the context of the outlook for interest rates. Similarly, investment decisions for the other funds ("bond funds") reflect the managers' outlook for interest rates and the economy, as well as the prices and yields of various securities. This approach is designed to help the managers capture appreciation opportunities when rates are falling and reduce the impact of falling prices when rates are rising. For example, if we expect rates to fall, we may buy longer-term securities within each fund's maturity range to provide higher yield (and, in the case of

the bond funds, greater appreciation) potential. Conversely, shorter-term maturities may be favored if rates are expected to rise. And if our economic outlook is positive, we may take advantage of the bond funds' "baskets" for noninvestment-grade bonds. From time to time, a fund may invest a significant portion of its assets in sectors with special risks, such as hospital, electric utility, or private activity bonds. The funds may sell holdings for a variety of reasons, such as to adjust the portfolio's average maturity, duration, or credit quality or to shift assets into higher-yielding securities.

While most assets will be invested in municipal securities, other securities may also be purchased, including derivatives such as futures and swaps, in keeping with fund objectives.

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by the fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

### **What are the main risks of investing in the funds?**

Any of the following could cause a decline in a fund's price or income:

- **Interest rate risk** This risk refers to the decline in bond prices that accompanies a rise in the overall level of interest rates. (Bond prices and interest rates move in opposite directions.) Generally, the longer the maturity of a fund or security, the greater its interest rate risk.

While a rise in rates is the principal source of interest rate risk for bond funds, falling rates bring the possibility that a bond may be "called," or redeemed before maturity, and that the proceeds may be reinvested in lower-yielding securities.

- **Credit risk** This risk is the chance that any of the funds' holdings will have their credit ratings downgraded or will default (fail to make scheduled interest or principal payments), potentially reducing the fund's income level and share

price. This risk is reduced for the money fund because of the high-rated securities in its portfolio.

On the other hand, the High Yield Fund is most exposed to this risk because of its high component of noninvestment-grade bonds, which carry a greater risk of default. Lower-quality municipals are vulnerable to real or perceived changes in the business climate and can be less liquid and more volatile.

While generally considered to be of medium quality, securities in the BBB category are more susceptible to adverse economic or investing conditions, and some BBB securities have speculative characteristics. We may retain a security whose credit quality is downgraded after purchase.

- **Political risk** This risk is the chance that a significant restructuring of federal income tax rates or even serious discussion on the topic in Congress could cause municipal bond prices to fall. The demand for municipal securities is strongly influenced by the value of tax-exempt income to investors. Lower income tax rates could reduce the advantage of owning municipals.
- **Other risks** Bonds of certain sectors have special risks. For example, the health care industry can be affected by federal or state legislation, electric utilities are subject to governmental regulation, and private activity bonds are not government backed. Prices of municipals may be affected by major changes in cash flows into or out of municipal funds. For example, substantial and sustained redemptions from municipal bond funds could result in lower prices for these securities. In addition, the value of a municipal bond and the advantage of owning a mutual fund investing in municipals, in part, is dependent on the fact that interest payments from the bonds (and exempt-interest dividends paid by the mutual fund) generally are not taxed by the state where the bonds are issued. In May 2007, the United States Supreme Court agreed to hear a case that challenges whether it is permissible for a state to tax interest payments from bonds issued by out-of-state municipal entities while exempting from tax interest payments from bonds issued by the state itself or other in-state municipalities. It is not known what the Supreme Court will decide nor when the Supreme Court will render an opinion. However, if the court finds that differential treatment of interest income from in-state and out-of-state bonds is impermissible, the value of bonds held by the fund could decline and the tax advantage of owning a mutual fund investing in municipal bonds could be diminished.
- **Derivatives risk (bond funds)** To the extent the funds use futures, swaps, and other derivatives, they are exposed to additional volatility and potential losses.
- **Risks of the money fund** An investment in the money market fund is not insured or guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. For example, a sharp and unexpected rise in

interest rates in an unusually short time or the default of a portfolio security could cause the fund's NAV to fall below \$1.00. However, the fund has maintained a constant share price since its inception, and the fund manager will make every effort to continue to meet this objective.

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***The income level of the funds will fluctuate with changing market conditions and interest rate levels. The bond funds' share prices will also fluctuate; when you sell your shares, you may lose money.***

### **How can I tell which fund is most appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. The funds can be used to generate income or to diversify a stock portfolio. The higher your tax bracket, the more likely tax-exempt securities are appropriate. If you are investing for maximum tax-free income and can accept sharp price declines in an effort to achieve income exempt from federal income taxes and capital appreciation, the High Yield Fund could be an appropriate part of your overall investment strategy. If you are looking for high income with less volatility and risk, the Income Fund may be more appropriate. If you are seeking more income than a money fund offers with low volatility, the Short-Intermediate Fund would be a possibility. Finally, if you are investing for principal stability and liquidity, you should consider the Money Fund.

The funds are inappropriate for tax-deferred accounts, such as IRAs.

- ▶ ***The fund or funds you select should not represent your complete investment program or be used for short-term trading purposes.***

### **How has each fund performed in the past?**

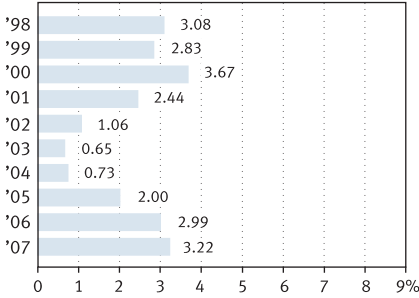
The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Past fund returns (before and after taxes) are not necessarily an indication of future performance.

The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor's situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund's other returns because the loss generates a tax benefit that is factored into the result.

**Tax-Exempt Money Fund**

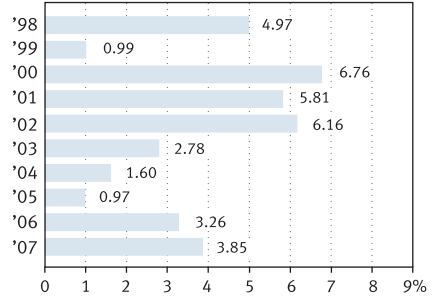
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/00	0.97%
Worst Quarter	3/31/04	0.12%

**Tax-Free Short-Intermediate Fund**

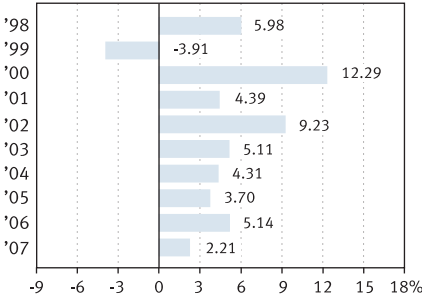
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/02	2.62%
Worst Quarter	6/30/04	-1.34%

**Tax-Free Income Fund**

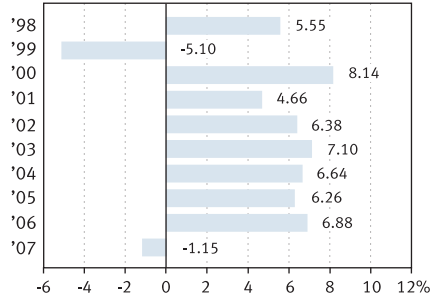
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/00	4.99%
Worst Quarter	6/30/04	-2.10%

**Tax-Free High Yield Fund**

Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	9/30/04	3.32%
Worst Quarter	12/31/99	-2.48%

**Table 2 Average Annual Total Returns**

	<i>Periods ended 12/31/07</i>		
	<i>1 year</i>	<i>5 years</i>	<i>10 years</i>
<b>Money Fund</b>	3.22%	1.91%	2.26%
<i>Lipper Tax-Exempt Money Market Funds Average</i>	3.00	1.73	2.12
<b>Short-Intermediate Fund</b>			
<i>Returns before taxes</i>	3.85	2.49	3.70
<i>Returns after taxes on distributions</i>	3.85	2.48	3.67
<i>Returns after taxes on distributions and sale of fund shares</i>	3.72	2.56	3.67
<i>Lehman Brothers Municipal Bond 1-5 Year Blend (1-6 Maturity) Index</i>	4.96	2.84	4.10
<i>Lipper Short-Intermediate Municipal Debt Funds Average</i>	3.37	2.53	3.57
<b>Income Fund</b>			
<i>Returns before taxes</i>	2.21	4.09	4.77
<i>Returns after taxes on distributions</i>	2.21	4.09	4.75
<i>Returns after taxes on distributions and sale of fund shares</i>	2.99	4.15	4.76
<i>Lehman Brothers Municipal Bond Index</i>	3.36	4.30	5.18
<i>Lipper General Municipal Debt Funds Average</i>	1.15	3.48	4.08
<b>High Yield Fund</b>			
<i>Returns before taxes</i>	-1.15	5.09	4.45
<i>Returns after taxes on distributions</i>	-1.15	5.09	4.44
<i>Returns after taxes on distributions and sale of fund shares</i>	0.92	5.12	4.56
<i>Lehman Brothers Municipal Bond Revenue Index</i>	1.71	4.61	5.24
<i>Lipper High Yield Municipal Debt Funds Average</i>	-2.98	4.63	4.01

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

Money funds are not required to show after-tax returns.

Lehman Brothers Municipal Bond 1-5 Year Blend (1-6 Maturity) Index is a sub-index of the Lehman Brothers Municipal Bond Index. It is a rules-based, market-value-weighted index of one- to six-year maturities engineered for the tax-exempt bond market.

Lehman Brothers Municipal Bond Index is an unmanaged index that tracks municipal debt instruments.

Lehman Brothers Municipal Bond Revenue Index is an unmanaged index that tracks municipal debt instruments.

## What fees and expenses will I pay?

The shares that are offered in this profile are 100% no load. There are no fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds. There are no 12b-1 fees.

**Table 3 Fees and Expenses of the Funds\***

<i>Fund</i>	<i>Annual fund operating expenses (expenses that are deducted from fund assets)</i>		
	<i>Management fee</i>	<i>Other expenses</i>	<i>Total annual fund operating expenses</i>
Money	0.41%	0.06%	0.47%
Short-Intermediate	0.41	0.10	0.51
Income	0.46	0.06	0.52
High Yield	0.61	0.11	0.72

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund. Accounts with less than a \$2,000 balance (with certain exceptions) are subject to a \$10 fee.

**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table shows how much you would pay if operating expenses remain the same, you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

<i>Fund</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>10 years</i>
Money	\$48	\$151	\$263	\$591
Short-Intermediate	52	164	285	640
Income	53	167	291	653
High Yield	74	230	401	894

## Who manages the funds?

The funds are managed by T. Rowe Price Associates, Inc. (T. Rowe Price). Founded in 1937, T. Rowe Price and its affiliates manage investments for individual and institutional accounts. The company offers a comprehensive array of stock, bond, and money market funds directly to the investing public.

**Money Fund** Joseph K. Lynagh manages the fund day to day and has been chairman of its Investment Advisory Committee since 2000. He joined T. Rowe Price in 1991 and has been involved in the investment process since 1994.

**Short-Intermediate Fund** Charles B. Hill manages the fund day to day and has been chairman of its Investment Advisory Committee since 1997. He joined T. Rowe Price in 1991 and has been managing investments since 1986.



**Income Fund** Konstantine B. Mallas and Mary J. Miller manage the fund day to day and are Co-chairmen of its Investment Advisory Committee. Ms. Miller has been chairman of the committee since 1997 and Mr. Mallas became co-chair in 2007. Ms. Miller joined T. Rowe Price in 1983 and has been managing investments since 1987. Mr. Mallas joined T. Rowe Price in 1987 and has been managing investments since 1991.

**High Yield Fund** James M. Murphy manages the fund day to day and has been chairman of its Investment Advisory Committee since 2002. Prior to joining T. Rowe Price in 2000, he was a portfolio manager for Prudential Investments.

### **How can I purchase shares?**

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$2,500 (\$1,000 for gifts or transfers to minors). The minimum subsequent investment is \$100 (\$50 for gifts or transfers to minors or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

### **How can I sell shares?**

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

### **When will I receive income and capital gain distributions?**

The funds distribute income monthly and net capital gains, if any, at year-end. Normally there are no capital gain distributions for money market funds. For regular accounts, income and short-term gains are taxable at ordinary income rates, and long-term gains are taxable at the capital gains rate. Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check.

### **What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.

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[troweprice.com](http://troweprice.com)



T. ROWE PRICE

**Maryland Tax-Free Money Fund**

**Maryland Short-Term Tax-Free  
Bond Fund**

**Maryland Tax-Free Bond Fund**

A money market fund and short- and long-term bond funds seeking income exempt from federal and Maryland state and local income taxes.



*This profile summarizes key information about the funds that is included in the funds' prospectus. The funds' prospectus includes additional information about the funds, including a more detailed description of the risks associated with investing in each fund that you may want to consider before you invest. You may obtain the prospectus and other information about the funds at no cost by calling 1-800-638-5660 or by visiting our Web site at [troweprice.com](http://troweprice.com).*

# T. Rowe Price State Tax-Free Income Trust

## Maryland Tax-Free Money Fund – TMDXX

## Maryland Short-Term Tax-Free Bond Fund – PRMDX

## Maryland Tax-Free Bond Fund – MDXBX

### What is each fund's objective?

**Tax-Free Money Fund** seeks to provide preservation of capital, liquidity, and, consistent with these objectives, the highest level of income exempt from federal and Maryland state and local income taxes.

**Short-Term Tax-Free Bond Fund** seeks to provide the highest level of income exempt from federal and Maryland state and local income taxes consistent with modest fluctuation in principal value.

**Tax-Free Bond Fund** seeks to provide, consistent with prudent portfolio management, the highest level of income exempt from federal and Maryland state and local income taxes by investing primarily in investment-grade Maryland municipal bonds.

### What is each fund's principal investment strategy?

**Tax-Free Money Fund** will invest at least 65% of total assets in Maryland municipal securities, and at least 80% of the fund's income is expected to be exempt from federal and Maryland state and local income taxes. All securities held by the fund will mature in 13 months or less, and the fund's weighted average maturity will not exceed 90 days. While the fund's yield will fluctuate with changes in interest rates, its share price is managed to remain stable at \$1.00. The fund buys securities within the two highest short-term rating categories assigned by established agencies or, if unrated, deemed to be of comparable quality by T. Rowe Price. All securities purchased by the fund will present minimal credit risk in the opinion of T. Rowe Price.

**Short-Term Tax-Free Bond Fund** will invest so that, under normal market conditions, at least 80% of its net assets are invested in bonds that pay interest exempt from federal and Maryland state and local income taxes, and at least 80% of the fund's income is exempt from federal and Maryland state and local income taxes. The fund's weighted average maturity will not exceed three years, but there is no maturity limit on individual securities. The fund may invest in bonds whose income must be included in the calculation of alternative minimum tax.

**Tax-Free Bond Fund** will invest so that, under normal market conditions, at least 80% of its net assets are invested in bonds that pay interest exempt from federal and Maryland state and local income taxes, and at least 80% of the fund's income is exempt from federal and Maryland state and local income taxes. The fund's weighted average maturity is expected to exceed 10 years. The fund may invest in bonds whose income must be included in the calculation of alternative minimum tax.

Each bond fund will generally purchase investment-grade securities, which means their ratings are within the four highest credit categories (AAA, AA, A, BBB, or equivalent) as determined by at least one nationally recognized credit rating agency or, if unrated, deemed to be of comparable quality by T. Rowe Price. The bond funds may occasionally purchase below investment-grade securities (including those with the lowest or no rating), but no such purchase will be made if it would cause the funds' noninvestment-grade bonds to exceed 10% of their total assets.

In selecting securities for the money fund, the fund manager may examine relationships among yields of various types and maturities of money market securities in the context of the outlook for interest rates. Similarly, investment decisions for the bond funds reflect the managers' outlook for interest rates and the economy, as well as the prices and yields of various securities. This approach is designed to help the managers capture appreciation opportunities when rates are falling and reduce the impact of falling prices when rates are rising. For example, if we expect rates to fall, we may buy longer-term securities within each fund's maturity range to provide higher yield (and, in the case of the bond funds, greater appreciation) potential. Conversely, shorter-term maturities may be favored if rates are expected to rise. And if our economic outlook is positive, we may take advantage of the bond funds' 10% "basket" for noninvestment-grade bonds. From time to time, a fund may invest a significant portion of its assets in sectors with special risks, such as hospital, electric utility, or private activity bonds. The funds may sell holdings for a variety of reasons, such as to adjust a portfolio's average maturity, duration, or credit quality or to shift assets into higher-yielding securities.

Each fund sometimes invests in obligations of the commonwealth of Puerto Rico and its public corporations (as well as the U.S. territories of Guam and the Virgin Islands) that are exempt from federal and Maryland state and local income taxes. These securities are generally purchased when they offer a comparably attractive combination of risk and return.

Due to seasonal variations in the supply of suitable Maryland securities, each fund may invest in municipals whose interest is exempt from federal but not Maryland income taxes. Every effort will be made to minimize such investments, but they could compose up to 10% of each fund's annual income.

While most assets will be invested in municipal securities, other securities may also be purchased, including derivatives such as futures and swaps, in keeping with fund objectives.

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other

characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by a fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

- ▶ ***Income from Maryland municipal securities is generally exempt from federal and Maryland state and local income taxes.***

Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

### **What are the main risks of investing in the funds?**

Any of the following could cause a decline in your fund's price or income.

- **Interest rate risk** This risk refers to the decline in bond prices that accompanies a rise in the overall level of interest rates. (Bond prices and interest rates move in opposite directions.) Generally, the longer the maturity of a fund or security, the greater its interest rate risk. This risk is minimal for the money fund.

While a rise in rates is the principal source of interest rate risk for bond funds, falling rates bring the possibility that a bond may be "called," or redeemed before maturity, and that the proceeds may be reinvested in lower-yielding securities.

- **Credit risk** This risk is the chance that any of the funds' holdings will have their credit ratings downgraded or will default (fail to make scheduled interest or principal payments), potentially reducing the fund's income level and share price. This risk is reduced for the money fund because of the highly rated securities in its portfolio.

As of March 15, 2007, the state of Maryland's general obligation debt was rated Aaa by Moody's and AAA by both Standard & Poor's (S&P) and Fitch.

Each fund may invest a significant portion of assets in securities that are not general obligations of the state. These may be issued by local governments or public authorities and are rated according to their particular creditworthiness, which may vary significantly from the state's general obligations.

While generally considered to be of medium quality, securities in the BBB category may be more susceptible to adverse economic or investing conditions, and some BBB securities have speculative characteristics. We may retain a security whose credit quality is downgraded after purchase.

► ***Significant political and economic developments within a state may have direct and indirect repercussions on virtually all municipal bonds issued in the state.***

- **Nondiversified risk** Because they are nondiversified, each fund can invest more of its assets in a smaller number of issuers than diversified funds. Concentrating investments could result in greater potential losses than for funds investing in a broader variety of issues.
- **Geographical risk** A fund investing within a single state is, by definition, less diversified geographically than one investing across many states and, therefore, has greater exposure to adverse economic and political changes within that state.
- **Political risk** This risk is the chance that a significant restructuring of federal income tax rates or even serious discussion on the topic in Congress could cause municipal bond prices to fall. The demand for municipal securities is strongly influenced by the value of tax-exempt income to investors. Lower income tax rates could reduce the advantage of owning municipals.
- **Other risks** Bonds of certain sectors have special risks. For example, the health care industry can be affected by federal or state legislation, electric utilities are subject to governmental regulation, and private activity bonds are not government backed. Prices of municipals may be affected by major changes in cash flows into or out of municipal funds. For example, substantial and sustained redemptions from municipal bond funds could result in lower prices for these securities. In addition, the value of a municipal bond and the advantage of owning a mutual fund investing in municipals, in part, is dependent on the fact that interest payments from the bonds (and exempt-interest dividends paid by the mutual fund) generally are not taxed by the state where the bonds are issued. In May 2007, the United States Supreme Court agreed to hear a case that challenges whether it is permissible for a state to tax interest payments from bonds issued by out-of-state municipal entities while exempting from tax interest payments from bonds issued by the state itself or other in-state municipalities. It is not known what the Supreme Court will decide nor when the Supreme Court will render an opinion. However, if the court finds that differential treatment of interest income from in-state and out-of-state bonds is impermissible, the value of bonds held by the fund could decline and the tax advantage of owning a mutual fund investing in municipal bonds could be diminished.

Fund investments in the commonwealth of Puerto Rico and its public corporations (as well as the U.S. territories of Guam and the Virgin Islands) require careful assessment of certain risk factors, including reliance on substantial federal assistance and favorable tax programs that have recently become subject to phaseout by Congress.

- **Derivatives risk (bond funds)** To the extent the funds use futures, swaps, and other derivatives, they are exposed to additional volatility and potential losses.
- **Risks of the money fund** An investment in the money market fund is not insured or guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. For example, a sharp and unexpected rise in interest rates in an unusually short time or the default of a portfolio security could cause the fund's NAV to fall below \$1.00. However, the fund has maintained a constant share price since its inception, and the fund manager will make every effort to continue to meet this objective.

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***The income level of the funds will fluctuate with changing market conditions and interest rate levels. The bond funds' share prices will also fluctuate; when you sell your shares, you may lose money. An investment in each fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.***

### **How can I tell which fund is most appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. The funds can be used to generate income or to diversify a stock portfolio. The higher your tax bracket, the more likely tax-exempt securities are appropriate. If you will need your principal in a relatively short time or want to minimize share price volatility, the short-term tax-free bond fund may be a good choice. However, if you are investing for higher tax-free income and can tolerate more share price volatility, you might consider the longer-term bond fund. If you are investing for tax-free income with principal stability and liquidity, you should consider the money market fund.

The funds are inappropriate for tax-deferred accounts, such as IRAs.

- ▶ ***The fund or funds you select should not represent your complete investment program or be used for short-term trading purposes.***



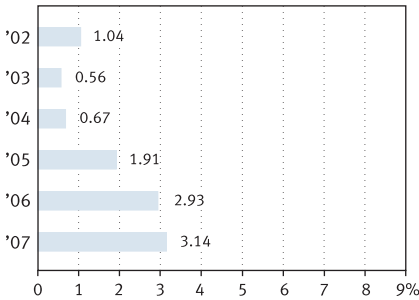
**How has each fund performed in the past?**

The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Past fund returns (before and after taxes) are not necessarily an indication of future performance.

The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

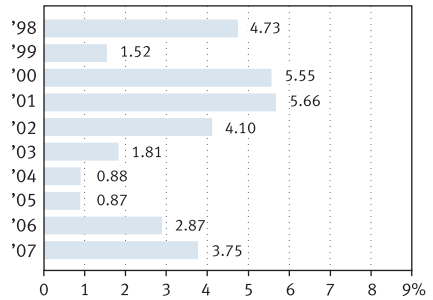
In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor’s situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund’s other returns because the loss generates a tax benefit that is factored into the result.

**Maryland Tax-Free Money Fund**  
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/07	0.81%
Worst Quarter	9/30/03	0.10%

**Maryland Short-Term Tax-Free Bond Fund**  
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	3/31/01	2.13%
Worst Quarter	6/30/04	-1.20%

## Maryland Tax-Free Bond Fund

Calendar Year Returns

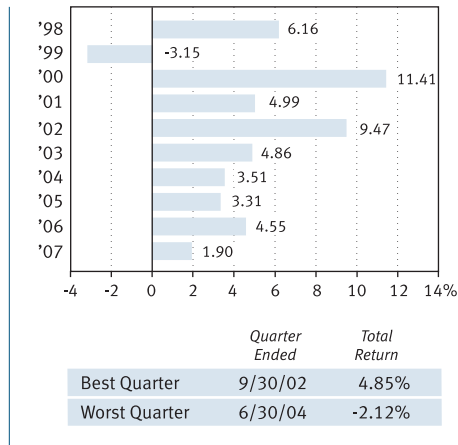


Table 1 Average Annual Total Returns

	Periods ended 12/31/07			
	1 year	5 years	Shorter of 10 years or since inception	Inception date
<b>Tax-Free Money Fund</b>	3.14%	1.84%	1.75%	3/30/01
<i>Lipper Other States Tax-Exempt Money Market Funds Average</i>	3.05	1.79	2.20	
<b>Short-Term Tax-Free Bond Fund</b>				
<i>Returns before taxes</i>	3.75	2.03	3.16	1/29/93
<i>Returns after taxes on distributions</i>	3.75	2.03	3.16	
<i>Returns after taxes on distributions and sale of fund shares</i>	3.54	2.10	3.15	
<i>Lehman Brothers 3-Year State General Obligation Municipal Bond Index</i>	4.98	2.65	3.94	
<i>Lipper Short Municipal Debt Funds Average</i>	3.11	2.13	3.05	
<b>Tax-Free Bond Fund</b>				
<i>Returns before taxes</i>	1.90	3.62	4.63	3/31/87
<i>Returns after taxes on distributions</i>	1.83	3.59	4.61	
<i>Returns after taxes on distributions and sale of fund shares</i>	2.84	3.74	4.65	
<i>Lehman Brothers Municipal Bond Index</i>	3.36	4.30	5.18	
<i>Lipper Maryland Municipal Debt Funds Average</i>	0.84	3.05	3.99	

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and

capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

Money funds are not required to show after-tax returns.

Lehman Brothers 3-Year State General Obligation Municipal Bond Index is an unmanaged index that tracks debt instruments.

Lehman Brothers Municipal Bond Index is an unmanaged index that tracks municipal debt instruments.

## What fees and expenses will I pay?

The shares that are offered in this profile are 100% no load. There are no fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds. There are no 12b-1 fees.

**Table 2 Fees and Expenses of the Funds\***

<i>Fund</i>	<i>Annual fund operating expenses (expenses that are deducted from fund assets)</i>		
	<i>Management fee</i>	<i>Other expenses</i>	<i>Total annual fund operating expenses</i>
Tax-Free Money	0.41%	0.14%	<b>0.55%</b>
Short-Term Tax-Free Bond	0.41	0.15	<b>0.56</b>
Tax-Free Bond	0.41	0.06	<b>0.47</b>

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund. Accounts with less than a \$2,000 balance (with certain exceptions) are subject to a \$10 fee.

**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table shows how much you would pay if operating expenses remain the same, you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

<i>Fund</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>10 years</i>
Tax-Free Money	\$56	\$176	\$307	\$689
Short-Term Tax-Free Bond	57	179	313	701
Tax-Free Bond	48	151	263	591

## Who manages the funds?

The funds are managed by T. Rowe Price Associates, Inc. (T. Rowe Price). Founded in 1937, T. Rowe Price and its affiliates manage investments for individual and institutional accounts. The company offers a comprehensive array of stock, bond, and money market funds directly to the investing public.

**Tax-Free Money Fund** Joseph K. Lynagh manages the fund day to day and has been chairman of its Investment Advisory Committee since its inception. He joined T. Rowe Price in 1991 and has been involved in the investment process since 1994.

**Short-Term Tax-Free Bond Fund** Charles B. Hill manages the fund day to day and has been chairman of its Investment Advisory Committee since 1996. He joined T. Rowe Price in 1991 and has been managing investments since 1986.

**Tax-Free Bond Fund** Hugh D. McGuirk manages the fund day to day and has been chairman of its Investment Advisory Committee since 2000. He has been a member of the fund's advisory committee since 1995 and has been involved in the municipal bond management process at T. Rowe Price since 1993.

## How can I purchase shares?

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$2,500 (\$1,000 for gifts or transfers to minors). The minimum subsequent investment is \$100 (\$50 for gifts or transfers to minors or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

## How can I sell shares?

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

## When will I receive income and capital gain distributions?

Each fund distributes income monthly and net capital gains, if any, at year-end. Normally there are no capital gain distributions for money market funds. Although most income will not be subject to federal income tax, short-term gains are taxable at ordinary income rates and long-term gains are taxable at the current capital gains rate. Income from certain "private activity" bonds may be taxable for those investors subject to the alternative minimum tax (AMT). Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check.

**What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.

T. Rowe Price Associates, Inc.  
100 East Pratt Street  
Baltimore, MD 21202  
[troweprice.com](http://troweprice.com)



T. ROWE PRICE

# California Tax-Free Money Fund

# California Tax-Free Bond Fund

A money market fund and a long-term bond fund seeking income exempt from federal and California state income taxes.



*This profile summarizes key information about the funds that is included in the funds' prospectus. The funds' prospectus includes additional information about the funds, including a more detailed description of the risks associated with investing in each fund that you may want to consider before you invest. You may obtain the prospectus and other information about the funds at no cost by calling 1-800-638-5660 or by visiting our Web site at [troweprice.com](http://troweprice.com).*

# T. Rowe Price California Tax-Free Income Trust

## California Tax-Free Money Fund – PCTXX

## California Tax-Free Bond Fund – PRXCX

### What is each fund's objective?

**Money Fund** seeks to provide preservation of capital, liquidity, and, consistent with these objectives, the highest level of income exempt from federal and California state income taxes.

**Bond Fund** seeks to provide, consistent with prudent portfolio management, the highest level of income exempt from federal and California state income taxes by investing primarily in investment-grade California municipal bonds.

### What is each fund's principal investment strategy?

**Money Fund** will invest at least 65% of total assets in California municipal securities, and at least 80% of the fund's income is expected to be exempt from federal and California state income taxes. All securities held by the fund will mature in 13 months or less, and the fund's weighted average maturity will not exceed 90 days. While the fund's yield will fluctuate with changes in interest rates, its share price is managed to remain stable at \$1.00. The fund buys securities rated within the two highest short-term rating categories assigned by established rating agencies or, if unrated, deemed to be of comparable quality by T. Rowe Price. All securities purchased by the fund will present minimal credit risk in the opinion of T. Rowe Price. The fund may invest in bonds whose income must be included in the calculation of alternative minimum tax.

**Bond Fund** will invest so that, under normal market conditions, at least 80% of its net assets are invested in bonds that pay interest exempt from federal and California state income taxes, and at least 80% of the fund's income is exempt from federal and California state income taxes. The fund's weighted average maturity is expected to exceed 10 years. The fund will generally purchase investment-grade securities, which means their ratings are within the four highest credit categories (AAA, AA, A, BBB, or equivalent) as determined by at least one nationally recognized credit rating agency or, if unrated, deemed to be of comparable quality by T. Rowe Price. The fund may occasionally purchase below investment-grade securities (including those with the lowest or no rating), but no such purchase will be made if it would cause the fund's noninvestment-grade bonds to exceed 10% of its total assets. The fund may invest in bonds whose income must be included in the calculation of alternative minimum tax.

In selecting securities for the money fund, the fund manager may examine relationships among yields of various types and maturities of money market securities in the context of the outlook for interest rates. Similarly, investment decisions for the bond fund reflect the manager's outlook for interest rates and

the economy, as well as the prices and yields of various securities. This approach is designed to help the manager capture appreciation opportunities when rates are falling and reduce the impact of falling prices when rates are rising. For example, if we expect rates to fall, we may buy longer-term securities within each fund's maturity range to provide higher yield (and, in the case of the bond fund, greater appreciation) potential. Conversely, shorter-term maturities may be favored if rates are expected to rise. And if our economic outlook is positive, we may take advantage of the bond fund's 10% "basket" for noninvestment-grade bonds. From time to time, each fund may invest a significant portion of its assets in sectors with special risks, such as hospital, electric utility, or private activity bonds. The funds may sell holdings for a variety of reasons, such as to adjust a portfolio's average maturity, duration, or credit quality or to shift assets into higher-yielding securities.

Each fund sometimes invests in obligations of the commonwealth of Puerto Rico and its public corporations (as well as the U.S. territories of Guam and the Virgin Islands) that are exempt from federal and California state income taxes. These securities are generally purchased when they offer a comparably attractive combination of risk and return.

Due to seasonal variations in the supply of suitable California securities, each fund may invest in municipals whose interest is exempt from federal but not California state income taxes. Every effort will be made to minimize such investments, but they could compose up to 10% of each fund's annual income.

While most assets will be invested in municipal securities, other securities may also be purchased, including derivatives such as futures and swaps, in keeping with fund objectives.

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by a fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

- ▶ ***Income from California municipal securities is generally exempt from federal and California state income taxes.***



Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

### **What are the main risks of investing in the funds?**

Any of the following could cause a decline in your fund's share price or income.

- **Interest rate risk** This risk refers to the decline in bond prices that accompanies a rise in the overall level of interest rates. (Bond prices and interest rates move in opposite directions.) Generally, the longer the maturity of a fund or security, the greater its interest rate risk.

While a rise in rates is the principal source of interest rate risk for bond funds, falling rates bring the possibility that a bond may be "called," or redeemed before maturity, and that the proceeds may be reinvested in lower-yielding securities.

- **Credit risk** This risk is the chance that any of the fund's holdings will have their credit ratings downgraded or will default (fail to make scheduled interest or principal payments), potentially reducing the fund's income level and share price. This risk is reduced for the money fund because of the highly rated securities in its portfolio.

As of March 15, 2007, the state of California was rated A1 by Moody's, A+ by Standard & Poor's (S&P), and A+ by Fitch. All three ratings carry a stable outlook.

Each fund may invest a significant portion of assets in securities that are not general obligations of the state. These may be issued by local governments or public authorities and are rated according to their particular creditworthiness, which may vary significantly from the state's general obligations.

Due to a variety of factors, many local California municipals, as well as bonds issued by the state, have experienced rating volatility, with downgrades during 2001-2003 and upgrades between 2004 and 2006.

While generally considered to be of medium quality, securities in the BBB category may be more susceptible to adverse economic or investing conditions, and some BBB securities have speculative characteristics. We may retain a security whose credit quality is downgraded after purchase.

- ▶ ***Significant political and economic developments within a state may have direct and indirect repercussions on virtually all municipal bonds issued in the state.***

- **Geographical risk** A fund investing within a single state is, by definition, less diversified geographically than one investing across many states and, therefore, has greater exposure to adverse economic and political changes within that state.
- **Political risk** This risk is the chance that a significant restructuring of federal income tax rates or even serious discussion on the topic in Congress could cause municipal bond prices to fall. The demand for municipal securities is strongly influenced by the value of tax-exempt income to investors. Lower income tax rates could reduce the advantage of owning municipals.
- **Other risks** Bonds of certain sectors have special risks. For example, the health care industry can be affected by federal or state legislation, electric utilities are subject to governmental regulation, and private activity bonds are not government backed. Prices of municipals may be affected by major changes in cash flows into or out of municipal funds. For example, substantial and sustained redemptions from municipal bond funds could result in lower prices for these securities. In addition, the value of a municipal bond and the advantage of owning a mutual fund investing in municipals, in part, is dependent on the fact that interest payments from the bonds (and exempt-interest dividends paid by the mutual fund) generally are not taxed by the state where the bonds are issued. In May 2007, the United States Supreme Court agreed to hear a case that challenges whether it is permissible for a state to tax interest payments from bonds issued by out-of-state municipal entities while exempting from tax interest payments from bonds issued by the state itself or other in-state municipalities. It is not known what the Supreme Court will decide nor when the Supreme Court will render an opinion. However, if the court finds that differential treatment of interest income from in-state and out-of-state bonds is impermissible, the value of bonds held by the fund could decline and the tax advantage of owning a mutual fund investing in municipal bonds could be diminished.

Fund investments in the commonwealth of Puerto Rico and its public corporations (as well as the U.S. territories of Guam and the Virgin Islands) require careful assessment of certain risk factors, including reliance on substantial federal assistance and favorable tax programs that have recently become subject to phaseout by Congress.

- **Derivatives risk (bond fund)** To the extent the fund uses futures, swaps, and other derivatives, it is exposed to additional volatility and potential losses.
- **Risks of the money fund** An investment in the money market fund is not insured or guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. For example, a sharp and unexpected rise in interest rates in an unusually short time or the default of a portfolio security could cause the fund's NAV to fall below \$1.00. However, the fund has main-

tained a constant share price since its inception, and the fund manager will make every effort to continue to meet this objective.

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***The income level of the funds will fluctuate with changing market conditions and interest rate levels. The bond fund's share price will also fluctuate; when you sell your shares, you may lose money. An investment in each fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.***

### **How can I tell which fund is more appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. The funds can be used to generate income or to diversify a stock portfolio. The higher your tax bracket, the more likely tax-exempt securities are appropriate. If you are investing for higher tax-free income and can accept the possibility of price declines in an effort to achieve income exempt from federal and California state income taxes, the bond fund could be an appropriate part of your overall investment strategy. If you are investing for tax-free income with principal stability and liquidity, you should consider the money market fund.

The funds are inappropriate for tax-deferred accounts, such as IRAs.

- ▶ ***The fund or funds you select should not represent your complete investment program or be used for short-term trading purposes.***

### **How has each fund performed in the past?**

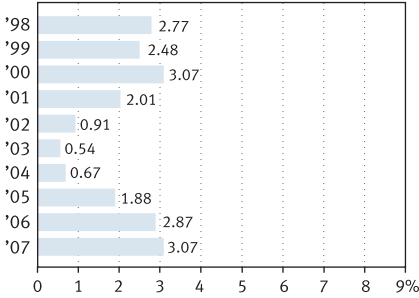
The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Past fund returns (before and after taxes) are not necessarily an indication of future performance.

The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor's situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund's other returns because the loss generates a tax benefit that is factored into the result.

**California Tax-Free Money Fund**

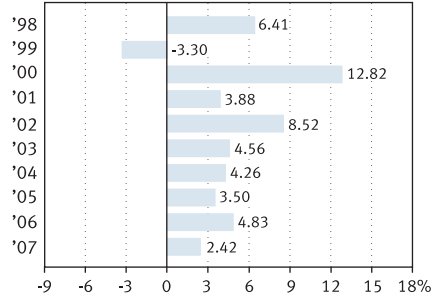
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/00	0.84%
Worst Quarter	9/30/03	0.09%

**California Tax-Free Bond Fund**

Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	9/30/02	5.41%
Worst Quarter	6/30/04	-2.24%

**Table 1 Average Annual Total Returns**

	Periods ended 12/31/07		
	1 year	5 years	10 years
<b>Money Fund</b>	3.07%	1.80%	2.02%
<i>Lipper California Tax-Exempt Money Market Funds Average</i>	3.05	1.78	2.03
<b>Bond Fund</b>			
<i>Returns before taxes</i>	2.42	3.91	4.72
<i>Returns after taxes on distributions</i>	2.42	3.90	4.70
<i>Returns after taxes on distributions and sale of fund shares</i>	3.10	3.98	4.71
<i>Lehman Brothers Municipal Bond Index</i>	3.36	4.30	5.18
<i>Lipper California Municipal Debt Funds Average</i>	0.42	3.61	4.26

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

Money funds are not required to show after-tax returns.

Lehman Brothers Municipal Bond Index is an unmanaged index that tracks municipal debt instruments.

## What fees and expenses will I pay?

The shares that are offered in this profile are 100% no load. There are no fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds. There are no 12b-1 fees.

**Table 2 Fees and Expenses of the Funds\***

Fund	Annual fund operating expenses (expenses that are deducted from fund assets)				
	Management fee	Other expenses	Total annual fund operating expenses	Fee waiver/expense reimbursement	Net expenses
Money	0.41%	0.19%	0.60%	0.05% <sup>a</sup>	0.55% <sup>a</sup>
Bond	0.41	0.10	0.51	—	—

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund. Accounts with less than a \$2,000 balance (with certain exceptions) are subject to a \$10 fee.

<sup>a</sup> Effective July 1, 2007, T. Rowe Price contractually obligated itself to waive any fees and bear any expenses through June 30, 2009, to the extent such fees or expenses would cause the ratio of expenses to average net assets to exceed 0.55%. Subject to shareholder approval, fees waived or expenses paid or assumed under this agreement are subject to reimbursement to T. Rowe Price whenever the fund's expense ratio is below 0.55%; however, no reimbursement will be made more than three years after any waiver or payment, or if it would result in the expense ratio exceeding 0.55%. Any amounts reimbursed have the effect of increasing fees otherwise paid by the fund. The fund operated under previous expense limitations for which T. Rowe Price may be reimbursed.

**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table shows how much you would pay if operating expenses remain the same, the expense limitation currently in place is not renewed (if applicable), you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

Fund	1 year	3 years	5 years	10 years
Money	\$56	\$180	\$323	\$738
Bond	52	164	285	640

## Who manages the funds?

The funds are managed by T. Rowe Price Associates, Inc. (T. Rowe Price). Founded in 1937, T. Rowe Price and its affiliates manage investments for individual and institutional accounts. The company offers a comprehensive array of stock, bond, and money market funds directly to the investing public.

**Money Fund** Joseph K. Lynagh manages the fund day to day and has been chairman of its Investment Advisory Committee since 2000. He joined T. Rowe Price in 1991 and has been involved in the investment process since 1994.

**Bond Fund** Konstantine B. Mallas manages the fund day to day and has been chairman of its Investment Advisory Committee since 2003. He joined T. Rowe Price in 1987 and has been managing investments since 1994.

### **How can I purchase shares?**

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$2,500 (\$1,000 for gifts or transfers to minors). The minimum subsequent investment is \$100 (\$50 for gifts or transfers to minors or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

### **How can I sell shares?**

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

### **When will I receive income and capital gain distributions?**

Each fund distributes income monthly and net capital gains, if any, at year-end. Normally there are no capital gain distributions for money market funds. Although most income will not be subject to federal income tax, short-term gains are taxable at ordinary income rates and long-term gains are taxable at the current capital gains rate. Income from certain “private activity” bonds may be taxable for those investors subject to the alternative minimum tax (AMT). Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check.

### **What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.

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T. ROWE PRICE

# New York Tax-Free Money Fund

# New York Tax-Free Bond Fund

A money market fund and a long-term bond fund seeking income exempt from federal, New York State, and New York City income taxes.



*This profile summarizes key information about the funds that is included in the funds' prospectus. The funds' prospectus includes additional information about the funds, including a more detailed description of the risks associated with investing in each fund that you may want to consider before you invest. You may obtain the prospectus and other information about the funds at no cost by calling 1-800-638-5660 or by visiting our Web site at [troweprice.com](http://troweprice.com).*



# T. Rowe Price State Tax-Free Income Trust

## New York Tax-Free Money Fund – NYTXX

## New York Tax-Free Bond Fund – PRNYX

### What is each fund's objective?

**Money Fund** seeks to provide preservation of capital, liquidity, and, consistent with these objectives, the highest level of income exempt from federal, New York State, and New York City income taxes.

**Bond Fund** seeks to provide, consistent with prudent portfolio management, the highest level of income exempt from federal, New York State, and New York City income taxes by investing primarily in investment-grade New York municipal bonds.

### What is each fund's principal investment strategy?

**Money Fund** will invest at least 65% of total assets in New York municipal securities, and at least 80% of the fund's income is expected to be exempt from federal, New York State, and New York City income taxes. All securities held by the fund will mature in 13 months or less, and the fund's weighted average maturity will not exceed 90 days. While the fund's yield will fluctuate with changes in interest rates, its share price is managed to remain stable at \$1.00. The fund buys securities rated within the two highest short-term rating categories assigned by established rating agencies or, if unrated, deemed to be of comparable quality by T. Rowe Price. All securities purchased by the fund will present minimal credit risk in the opinion of T. Rowe Price. The fund may invest in bonds whose income must be included in the calculation of alternative minimum tax.

**Bond Fund** will invest so that, under normal market conditions, at least 80% of its net assets are invested in bonds that pay interest exempt from federal, New York State, and New York City income taxes, and at least 80% of the fund's income is exempt from federal, New York State, and New York City income taxes. The fund's weighted average maturity is expected to exceed 10 years. The fund will generally purchase investment-grade securities, which means their ratings are within the four highest credit categories (AAA, AA, A, BBB, or equivalent) as determined by at least one nationally recognized credit rating agency or, if unrated, deemed to be of comparable quality by T. Rowe Price. The fund may occasionally purchase below investment-grade securities (including those with the lowest or no rating), but no such purchase will be made if it would cause the fund's noninvestment-grade bonds to exceed 10% of its total assets. The fund may invest in bonds whose income must be included in the calculation of alternative minimum tax.

In selecting securities for the money fund, the fund manager may examine relationships among yields of various types and maturities of money market securities in the context of the outlook for interest rates. Similarly, investment decisions for the bond fund reflect the manager's outlook for interest rates and the economy, as well as the prices and yields of various securities. This approach is designed to help the manager capture appreciation opportunities when rates are falling and reduce the impact of falling prices when rates are rising. For example, if we expect rates to fall, we may buy longer-term securities within each fund's maturity range to provide higher yield (and, in the case of the bond fund, greater appreciation) potential. Conversely, shorter-term maturities may be favored if rates are expected to rise. And if our economic outlook is positive, we may take advantage of the bond fund's 10% "basket" for noninvestment-grade bonds. From time to time, a fund may invest a significant portion of its assets in sectors with special risks, such as hospital, electric utility, or private activity bonds. The funds may sell holdings for a variety of reasons, such as to adjust a portfolio's average maturity, duration, or credit quality or to shift assets into higher-yielding securities.

Each fund sometimes invests in obligations of the commonwealth of Puerto Rico and its public corporations (as well as the U.S. territories of Guam and the Virgin Islands) that are exempt from federal, New York State, and New York City income taxes. These securities are generally purchased when they offer a comparably attractive combination of risk and return.

Due to seasonal variations in the supply of suitable New York securities, each fund may invest in municipals whose interest is exempt from federal but not New York State income taxes. Every effort will be made to minimize such investments, but they could compose up to 10% of each fund's annual income.

While most assets will be invested in municipal securities, other securities may also be purchased, including derivatives such as futures and swaps, in keeping with fund objectives.

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by a fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

- ▶ ***Income from New York municipal securities is generally exempt from federal, New York State, and New York City income taxes.***

Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

### **What are the main risks of investing in the funds?**

Any of the following could cause a decline in your fund's share price or income.

- **Interest rate risk** This risk refers to the decline in bond prices that accompanies a rise in the overall level of interest rates. (Bond prices and interest rates move in opposite directions.) Generally, the longer the maturity of a fund or security, the greater its interest rate risk.

While a rise in rates is the principal source of interest rate risk for bond funds, falling rates bring the possibility that a bond may be "called," or redeemed before maturity, and that the proceeds may be reinvested in lower-yielding securities.

- **Credit risk** This risk is the chance that any of the funds' holdings will have their credit ratings downgraded or will default (fail to make scheduled interest or principal payments), potentially reducing the fund's income level and share price. This risk is reduced for the money fund because of the highly rated securities in its portfolio.

As of March 15, 2007, the state of New York was rated Aa3 by Moody's, AA by Standard & Poor's (S&P), and AA- by Fitch.

Each fund may invest a significant portion of assets in securities that are not general obligations of the state. These may be issued by local governments or public authorities and are rated according to their particular creditworthiness, which may vary significantly from the state's general obligations.

While generally considered to be of medium quality, securities in the BBB category may be more susceptible to adverse economic or investing conditions, and some BBB securities have speculative characteristics. We may retain a security whose credit quality is downgraded after purchase.

- ▶ ***Significant political and economic developments within a state may have direct and indirect repercussions on virtually all municipal bonds issued in the state.***

- **Nondiversified risk** Because they are nondiversified, each fund can invest more of its assets in a smaller number of issuers than diversified funds. Concentrating investments could result in greater potential losses than for funds investing in a broader variety of issues.
- **Geographical risk** A fund investing within a single state is, by definition, less diversified geographically than one investing across many states and, therefore, has greater exposure to adverse economic and political changes within that state.
- **Political risk** This risk is the chance that a significant restructuring of federal income tax rates or even serious discussion on the topic in Congress could cause municipal bond prices to fall. The demand for municipal securities is strongly influenced by the value of tax-exempt income to investors. Lower income tax rates could reduce the advantage of owning municipals.
- **Other risks** Bonds of certain sectors have special risks. For example, the health care industry can be affected by federal or state legislation, electric utilities are subject to governmental regulation, and private activity bonds are not government backed. Prices of municipals may be affected by major changes in cash flows into or out of municipal funds. For example, substantial and sustained redemptions from municipal bond funds could result in lower prices for these securities. In addition, the value of a municipal bond and the advantage of owning a mutual fund investing in municipals, in part, is dependent on the fact that interest payments from the bonds (and exempt-interest dividends paid by the mutual fund) generally are not taxed by the state where the bonds are issued. In May 2007, the United States Supreme Court agreed to hear a case that challenges whether it is permissible for a state to tax interest payments from bonds issued by out-of-state municipal entities while exempting from tax interest payments from bonds issued by the state itself or other in-state municipalities. It is not known what the Supreme Court will decide nor when the Supreme Court will render an opinion. However, if the court finds that differential treatment of interest income from in-state and out-of-state bonds is impermissible, the value of bonds held by the fund could decline and the tax advantage of owning a mutual fund investing in municipal bonds could be diminished.

Fund investments in the commonwealth of Puerto Rico and its public corporations (as well as the U.S. territories of Guam and the Virgin Islands) require careful assessment of certain risk factors, including reliance on substantial federal assistance and favorable tax programs that have recently become subject to phaseout by Congress.

- **Derivatives risk (bond fund)** To the extent the fund uses futures, swaps, and other derivatives, it is exposed to additional volatility and potential losses.
- **Risks of the money fund** An investment in the money market fund is not insured or guaranteed by the FDIC or any other government agency. Although the fund

seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. For example, a sharp and unexpected rise in interest rates in an unusually short time or the default of a portfolio security could cause the fund's NAV to fall below \$1.00. However, the fund has maintained a constant share price since its inception, and the fund manager will make every effort to continue to meet this objective.

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***The income level of the funds will fluctuate with changing market conditions and interest rate levels. The bond fund's share price will also fluctuate; when you sell your shares, you may lose money. An investment in the fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.***

### **How can I tell which fund is more appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. The funds can be used to generate income or to diversify a stock portfolio. The higher your tax bracket, the more likely tax-exempt securities are appropriate. If you are investing for higher tax-free income and can accept the possibility of price declines in an effort to achieve income exempt from federal, New York State, and New York City income taxes, the bond fund could be an appropriate part of your overall investment strategy. If you are investing for tax-free income with principal stability and liquidity, you should consider the money market fund.

The funds are inappropriate for tax-deferred accounts, such as IRAs.

- ▶ ***The fund or funds you select should not represent your complete investment program or be used for short-term trading purposes.***

### **How has each fund performed in the past?**

The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Past fund returns (before and after taxes) are not necessarily an indication of future performance.

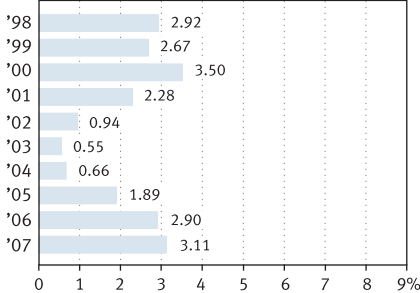
The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor's situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-

deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund's other returns because the loss generates a tax benefit that is factored into the result.

**New York Tax-Free Money Fund**

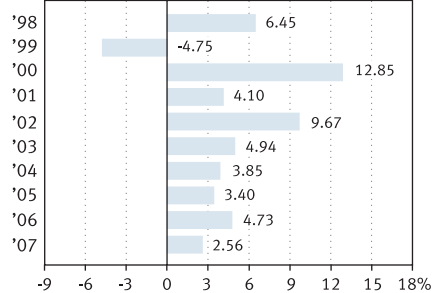
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/00	0.91%
Worst Quarter	3/31/04	0.10%

**New York Tax-Free Bond Fund**

Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/00	4.99%
Worst Quarter	6/30/99	-2.43%

**Table 1 Average Annual Total Returns**

	Periods ended 12/31/07		
	1 year	5 years	10 years
<b>Money Fund</b>	3.11%	1.82%	2.14%
<i>Lipper New York Tax-Exempt Money Market Funds Average</i>	3.09	1.77	2.11
<b>Bond Fund</b>			
<i>Returns before taxes</i>	2.56	3.89	4.69
<i>Returns after taxes on distributions</i>	2.55	3.89	4.65
<i>Returns after taxes on distributions and sale of fund shares</i>	3.17	3.95	4.65
<i>Lehman Brothers Municipal Bond Index</i>	3.36	4.30	5.18
<i>Lipper New York Municipal Debt Funds Average</i>	1.50	3.55	4.23

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

Money funds are not required to show after-tax returns.

Lehman Brothers Municipal Bond Index is an unmanaged index that tracks municipal debt instruments.

## What fees and expenses will I pay?

The shares that are offered in this profile are 100% no load. There are no fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds. There are no 12b-1 fees.

**Table 2 Fees and Expenses of the Funds\***

<i>Fund</i>	<i>Annual fund operating expenses (expenses that are deducted from fund assets)</i>				
	<i>Management fee</i>	<i>Other expenses</i>	<i>Total annual fund operating expenses</i>	<i>Fee waiver/expense reimbursement</i>	<i>Net expenses</i>
Money	0.41%	0.17%	0.58%	0.03% <sup>a</sup>	0.55% <sup>a</sup>
Bond	0.41	0.12	0.53	—	—

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund. Accounts with less than a \$2,000 balance (with certain exceptions) are subject to a \$10 fee.

<sup>a</sup> Effective July 1, 2007, T. Rowe Price contractually obligated itself to waive any fees and bear any expenses through June 30, 2009, to the extent such fees or expenses would cause the ratio of expenses to average net assets to exceed 0.55%. Subject to shareholder approval, fees waived or expenses paid or assumed under this agreement are subject to reimbursement to T. Rowe Price whenever the fund's expense ratio is below 0.55%; however, no reimbursement will be made more than three years after any waiver or payment, or if it would result in the expense ratio exceeding 0.55%. Any amounts reimbursed have the effect of increasing fees otherwise paid by the fund. The fund operated under previous expense limitations for which T. Rowe Price may be reimbursed.

**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table shows how much you would pay if operating expenses remain the same, the expense limitation currently in place is not renewed (if applicable), you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

<i>Fund</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>10 years</i>
Money	\$56	\$179	\$317	\$719
Bond	54	170	296	665

## Who manages the funds?

The funds are managed by T. Rowe Price Associates, Inc. (T. Rowe Price). Founded in 1937, T. Rowe Price and its affiliates manage investments for individual and institutional accounts. The company offers a comprehensive array of stock, bond, and money market funds directly to the investing public.

**Money Fund** Joseph K. Lynagh manages the fund day to day and has been chairman of its Investment Advisory Committee since 2000. He joined T. Rowe Price in 1991 and has been involved in the investment process since 1994.

**Bond Fund** Konstantine B. Mallas manages the fund day to day and has been chairman of its Investment Advisory Committee since 2000. He joined T. Rowe Price in 1987 and has been involved in the tax-exempt bond management process since 1991.

### **How can I purchase shares?**

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$2,500 (\$1,000 for gifts or transfers to minors). The minimum subsequent investment is \$100 (\$50 for gifts or transfers to minors or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

### **How can I sell shares?**

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

### **When will I receive income and capital gain distributions?**

Each fund distributes income monthly and net capital gains, if any, at year-end. Normally there are no capital gain distributions for money market funds. Although most income will not be subject to federal income tax, short-term gains are taxable at ordinary income rates and long-term gains are taxable at the current capital gains rate. Income from certain "private activity" bonds may be taxable for those investors subject to the alternative minimum tax (AMT). Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check.

### **What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.



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T. ROWE PRICE

# Summit Cash Reserves Fund

## Summit GNMA Fund

A money market fund and a government mortgage fund for investors seeking income.



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## T. Rowe Price Summit Funds, Inc.

### T. Rowe Price Summit Cash Reserves Fund – TSCXX

### T. Rowe Price Summit GNMA Fund – PRSUX

#### What is each fund's objective?

**Cash Reserves Fund** seeks preservation of capital and liquidity and, consistent with these, the highest possible current income.

**GNMA Fund** seeks a high level of income and maximum credit protection by investing at least 80% of net assets in Government National Mortgage Association (GNMA) securities backed by the full faith and credit of the U.S. government.

#### What is each fund's principal investment strategy?

**Cash Reserves Fund** is a money market fund managed to provide a stable share price of \$1.00 that invests in high-quality, U.S. dollar-denominated money market securities of U.S. and foreign issuers. All securities held by the fund will mature in 13 months or less. The fund's average weighted maturity will not exceed 90 days, and its yield will fluctuate with changes in short-term interest rates. In selecting securities, fund managers may examine the relationships among yields on various types and maturities of money market securities in the context of their outlook for interest rates. For example, commercial paper often offers a yield advantage over Treasury bills. If rates are expected to fall, longer maturities, which typically have higher yields than shorter maturities, may be purchased to try to preserve the fund's income level. Conversely, shorter maturities may be favored if rates are expected to rise.

**GNMA Fund** We will normally invest at least 80% of net assets in mortgage-backed securities issued by the GNMA, an agency of the Department of Housing and Urban Development. These securities represent "pools" of mortgage loans that are guaranteed by either the Federal Housing Administration or the Veterans Administration. Mortgage lenders pool individual home mortgages to back a certificate or bond, which is then sold to investors. Interest and principal payments from the underlying mortgages are passed through to investors.

GNMA guarantees the timely payment of interest and principal on its securities, a guarantee backed by the U.S. Treasury. GNMA securities generally offer higher yields than Treasuries of similar maturity for reasons explained in the next section. The GNMA guarantee does not apply to the price of GNMA securities or the fund's share price, both of which will fluctuate with market conditions.

Up to 20% of net assets can be invested in other types of high-quality securities (AAA or AA), which are not guaranteed by the U.S. government, such as privately issued mortgage securities and corporate bonds. The fund may also purchase

derivatives. The fund's effective maturity will vary and will be influenced by the general level of interest rates and principal prepayments of GNMA and other mortgage-backed securities.

In selecting securities, fund managers may weigh the characteristics of various types of mortgage securities and examine yield relationships in the context of their outlook for interest rates and the economy. For example, if rates are expected to fall, the manager may purchase mortgage securities expected to have below-average prepayment rates and may also purchase Treasury notes or bonds, which may appreciate in that environment.

**Table 1 Differences Between Funds**

<b>Fund</b>	<b>Credit-quality categories</b>	<b>Income</b>	<b>Expected share price fluctuation</b>	<b>Expected average maturity</b>
Cash Reserves	Two highest short term	Lower	Stable	90 days or less
GNMA	Two highest	Higher	Higher	Varies

Each fund may sell holdings for a variety of reasons, such as to adjust a portfolio's average maturity or credit quality or to shift assets into higher-yielding securities or different sectors.

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by a fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

## **What are the main risks of investing in the funds?**

### **Cash Reserves Fund**

Since money market funds are managed to maintain a constant \$1.00 share price, they should have little risk of *principal loss*. However, there is no assurance that the fund will avoid principal losses if fund holdings default or are downgraded or if interest rates rise sharply in an unusually short period. In addition, the fund's yield will vary; it is not fixed for a specific period like the

yield on a bank certificate of deposit. This should be an advantage when interest rates are rising but not when rates are falling. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

### **GNMA Fund**

- **Interest rate risk** This is the risk that an increase in interest rates will likely cause the fund's share price to fall, resulting in a loss of principal. Prices fall because the bonds and notes in the fund's portfolio become less attractive to other investors when securities with higher yields become available. Even GNMA's and other securities whose principal and interest payments are guaranteed can decline in price if rates rise. Generally speaking, the longer a bond's maturity, the greater its potential for price declines if rates rise and for price gains if rates fall. If the fund purchases longer-maturity bonds and interest rates rise unexpectedly, the fund's price could decline.
- **Credit risk** This risk is the chance that any of the fund's holdings will have their credit ratings downgraded or will default (fail to make scheduled interest or principal payments), potentially reducing the fund's income level and share price.

The fund's exposure to credit risk is low since it invests primarily in GNMA's, which are backed by the full faith and credit of the U.S. government. The remaining 20% of assets are high quality but not necessarily government-backed.

► ***The fund may continue to hold a security that has been downgraded after purchase.***

- **Prepayment risk and extension risk** A mortgage-backed bond, unlike most other bonds, can be hurt when interest rates fall because homeowners tend to refinance and prepay principal. Receiving increasing prepayments in a falling interest rate environment causes the average maturity of the portfolio to shorten, reducing its potential for price gains. It also requires the fund to reinvest proceeds at lower interest rates, which reduces the portfolio's total return and yield, and may even cause certain bond prices to fall below the level the fund paid for them, resulting in a capital loss. Any of these developments could result in a decrease in the fund's income, share price, or total return.

Extension risk refers to a rise in interest rates that causes a fund's average maturity to lengthen unexpectedly due to a drop in mortgage prepayments. This would increase the fund's sensitivity to rising rates and its potential for price declines.

- **Derivatives risk** Shareholders are also exposed to *derivatives risk*, the potential that the fund's investments (if any) in these complex and volatile instruments could affect the fund's share price. In addition to collateralized mortgage obligations (CMOs) and better-known instruments such as swaps and futures, other derivatives that may be used in limited fashion by the fund include interest-only (IO) and principal-only (PO) securities known as "strips." Some of these instruments can be highly volatile, and their value can fall dramatically in response to rapid or unexpected changes in the mortgage, interest rate, or economic environment.

To the extent the fund invests in when-issued securities and forwards, it may increase its price sensitivity in relation to interest rate movements.

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***The income level of the funds will fluctuate with changing market conditions and interest rate levels. The bond fund's share price will also fluctuate; when you sell your shares, you may lose money. An investment in the funds is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.***

### **How can I tell which fund is more appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. These funds may be appropriate for you if you seek higher yields for the fixed-income portion of your portfolio and can meet the funds' \$25,000 initial purchase requirement. Use Table 1, entitled Differences Between Funds, which summarizes each fund's main characteristics, to help choose a fund (or funds) for your particular needs. For example, only the money fund is designed to provide principal stability, which makes it a good choice for you if the stability and accessibility of your investment are more important than the opportunity for higher income or total return. However, if you are investing for higher income and can tolerate some price fluctuation, you should consider the GNMA Fund.

Each fund can be used in both regular and tax-deferred accounts, such as IRAs.

- ▶ ***The fund or funds you select should not represent your complete investment program or be used for short-term trading purposes.***

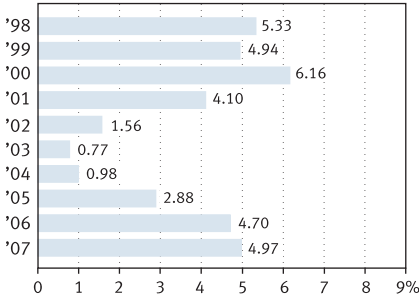
### **How has each fund performed in the past?**

The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Fund past returns (before and after taxes) are not necessarily an indication of future performance.

The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

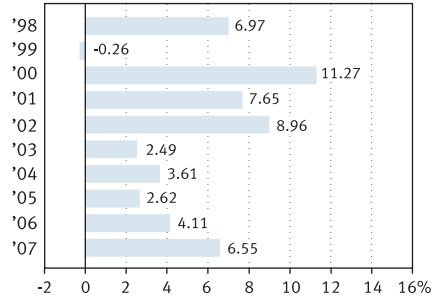
In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor's situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund's other returns because the loss generates a tax benefit that is factored into the result.

**Summit Cash Reserves Fund**  
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/00	1.58%
Worst Quarter	6/30/04	0.16%

**Summit GNMA Fund**  
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	9/30/01	4.48%
Worst Quarter	6/30/04	-1.21%

**Table 2 Average Annual Total Returns**

	<i>Periods ended 12/31/07</i>		
	<i>1 year</i>	<i>5 years</i>	<i>10 years</i>
<b>Cash Reserves Fund</b>	4.97%	2.85%	3.62%
<i>Lipper Money Market Funds Average</i>	4.49	2.40	3.17
<b>GNMA Fund</b>			
<i>Returns before taxes</i>	6.55	3.86	5.34
<i>Returns after taxes on distributions</i>	4.71	2.54	3.43
<i>Returns after taxes on distributions and sale of fund shares</i>	4.22	2.66	3.45
<i>Lehman Brothers U.S. GNMA Index<sup>a</sup></i>	6.98	4.39	5.85
<i>Citigroup GNMA Index</i>	6.99	4.48	5.91
<i>Lipper GNMA Funds Average</i>	6.30	3.52	5.06

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. Market indexes do not include expenses, which are deducted from fund returns, or taxes.

Money funds are not required to show after-tax returns.

<sup>a</sup> The Lehman Brothers U.S. GNMA Index was chosen as the fund's new benchmark because it is a well-recognized and widely used benchmark.

Citigroup GNMA Index is a market capitalization weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA).

Lehman Brothers U.S. GNMA Index is an index that tracks the performance of mortgage-backed pass-through securities of the Government National Mortgage Association (GNMA).

## What fees and expenses will I pay?

The funds are 100% no load. There are no fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds. There are no 12b-1 fees.

Each T. Rowe Price Summit Fund has a fee covering investment management and ordinary, recurring operating expenses. In contrast, most mutual funds have a fixed management fee plus a fee for operating expenses.

**Table 3 Fees and Expenses of the Funds\***

<i>Fund</i>	<i>Annual fund operating expenses (expenses that are deducted from fund assets)</i>		<i>Total annual fund operating expenses</i>
	<i>Management fee</i>	<i>Other expenses</i>	
Cash Reserves	0.45%	—	0.45%
GNMA	0.60	—	0.60

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund.



**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table shows how much you would pay if operating expenses remain the same, you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

<i>Fund</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>10 years</i>
Cash Reserves	\$46	\$144	\$252	\$567
GNMA	61	192	335	750

### Who manages the funds?

The funds are managed by T. Rowe Price Associates, Inc. (T. Rowe Price). Founded in 1937, T. Rowe Price and its affiliates manage investments for individual and institutional accounts. The company offers a comprehensive array of stock, bond, and money market funds directly to the investing public.

**Cash Reserves Fund** James M. McDonald manages the fund day to day and has been chairman of its Investment Advisory Committee since 2002. He joined T. Rowe Price in 1976 as a financial statistician and has been managing investments since 1979.

**GNMA Fund** Connice A. Bavely manages the fund day to day and has been chairman of its Investment Advisory Committee since 2000. She joined T. Rowe Price as a senior portfolio manager in 1998.

Connice A. Bavely will be retiring from T. Rowe Price and stepping down from her responsibilities as chairman of the Investment Advisory Committees in the first quarter of 2008. We have begun the process of planning for Connice's successor to assure a smooth transition of her responsibilities.

***To participants in employer-sponsored retirement plans: The following questions and answers about buying and selling shares and services do not apply to your plan. Please call your plan's toll-free number for additional information. Also note that this profile may include funds not available through your plan.***

### How can I purchase shares?

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$25,000. The minimum subsequent investment is \$1,000 (\$100 for IRAs, gifts or transfers to minors, or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

**How can I sell shares?**

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

**When will I receive income and capital gain distributions?**

Each fund distributes income monthly and net capital gains, if any, at year-end. Normally there are no capital gain distributions for money market funds. For regular accounts, income and short-term gains are taxable at ordinary income rates, and long-term gains are taxable at the capital gains rate. Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check. Distributions paid to IRAs and employer-sponsored retirement plans are automatically reinvested.

**What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.

T. Rowe Price Associates, Inc.  
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[troweprice.com](http://troweprice.com)



T. ROWE PRICE

**Summit Municipal  
Money Market Fund**

**Summit Municipal  
Intermediate Fund**

**Summit Municipal  
Income Fund**

Municipal money market and bond funds for investors seeking tax-exempt income.



*This profile summarizes key information about the funds that is included in the funds' prospectus. The funds' prospectus includes additional information about the funds, including a more detailed description of the risks associated with investing in each fund that you may want to consider before you invest. You may obtain the prospectus and other information about the funds at no cost by calling 1-800-638-5660 or by visiting our Web site at [troweprice.com](http://troweprice.com).*

## T. Rowe Price Summit Municipal Funds, Inc.

**T. Rowe Price Summit Municipal Money Market Fund – TRSXX**

**T. Rowe Price Summit Municipal Intermediate Fund – PRSMX**

**T. Rowe Price Summit Municipal Income Fund – PRINX**

### What is each fund's objective?

**Money Market Fund** seeks preservation of capital and liquidity and, consistent with these, the highest possible current income exempt from federal income taxes.

**Intermediate Fund** seeks the highest level of income exempt from federal income taxes consistent with moderate price fluctuation.

**Income Fund** seeks a high level of income exempt from federal income taxes.

### What is each fund's principal investment strategy?

**Money Market Fund** The fund, which is managed to provide a stable share price of \$1.00, invests in high-quality municipal securities whose income is expected to be exempt from federal income taxes. All securities held by the fund will mature in 13 months or less. The fund's weighted average maturity will not exceed 90 days, and its yield will fluctuate with changes in short-term interest rates.

In selecting securities, the fund manager may examine the relationships among yields on various types and maturities of money market securities in the context of their outlook for interest rates. For example, if we expect rates to fall, longer maturities, which typically have higher yields than shorter maturities, may be purchased to try to preserve the fund's income level. Conversely, shorter maturities may be favored if rates are expected to rise.

**Intermediate Fund** This bond fund will invest primarily in investment-grade tax-exempt securities. There are no maturity limitations on individual securities, but the fund's weighted average effective maturity will normally range between five and 10 years. Targeting effective maturity gives the fund manager additional flexibility. At least 90% of the fund's portfolio will consist of investment-grade tax-exempt securities rated in the four highest credit categories (AAA, AA, A, BBB, or equivalent) by at least one nationally recognized credit rating agency or, if unrated, deemed to be of comparable quality by T. Rowe Price. To enhance income, we may invest up to 10% of the fund's total assets in below investment-grade bonds, known as "junk" bonds in the taxable market, including those with the lowest ratings. The fund's income should be higher than the Money Market Fund's, but its share price will vary.

Within this broad structure, investment decisions reflect the manager's outlook for interest rates and the economy as well as the prices and yields of various securities. For example, if we expect rates to fall, the manager may buy longer-term securities to provide higher yield and appreciation potential. And if, for instance, our economic outlook is positive, the manager may take advantage of the 10% "basket" for noninvestment-grade bonds.

- ▶ ***A significant portion of each fund's assets may be invested in securities subject to the alternative minimum tax.***

**Income Fund** This bond fund will invest at least 65% of total assets in long-term, tax-exempt bonds. The fund will invest at least 80% of its total assets in investment-grade bonds rated from AAA to BBB or equivalent by at least one nationally recognized credit rating agency or, if unrated, deemed to be of comparable quality by T. Rowe Price. To enhance income, we may invest up to 20% of the fund's total assets in noninvestment-grade "junk" bonds. We may buy securities of any maturity, and the weighted average maturity is expected to exceed 15 years but may be less than that when, in the judgment of the portfolio manager, a shorter weighted average maturity is in the best interest of the fund. The fund's income should be higher than the Intermediate Fund's, but its share price should fluctuate more.

The fund manager decides to buy or sell different types of securities based on the same type of criteria that apply to the Intermediate Fund, except that the average maturities in this fund will be longer and the component of noninvestment-grade bonds may go as high as 20%.

**Table 1 Differences Among Funds**

<b>Fund</b>	<b>Credit quality categories</b>	<b>Income</b>	<b>Expected share price fluctuation</b>	<b>Expected average maturity</b>
Money Market	Two highest short term	Lower	Stable	90 days or less
Intermediate	Primarily four highest	Moderate	Moderate	5 to 10 years
Income	Primarily four highest	Highest	Highest	15+ years

The Intermediate and Income Funds may use derivatives to manage exposure to interest rates.

The fund may sell holdings for a variety of reasons, such as to adjust the portfolio's average maturity or credit quality, or to shift assets into higher-yielding securities.

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to

exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by a fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

### What are the main risks of investing in the funds?

**Money Market Fund** Since money market funds are managed to maintain a constant \$1.00 share price, they should have little risk of *principal loss*. However, there is no assurance the fund will avoid principal losses if fund holdings default or are downgraded or interest rates rise sharply in an unusually short period. In addition, the fund's yield will vary; it is not fixed for a specific period like the yield on a bank certificate of deposit. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

**Intermediate and Income Funds** These funds are subject to the usual risks of fixed-income investing:

- **Interest rate risk** This is the decline in bond prices that accompanies a rise in the overall level of interest rates. It is a major source of risk for investors in these two funds. Because shorter-term bond funds are less sensitive to interest rate increases or decreases than longer-term bond funds, price volatility for the Intermediate Fund is expected to be lower than for the Income Fund. However, by targeting effective maturity, the Intermediate Fund could experience greater volatility than if it focused on a stated maturity or maturity range. This is because when interest rates rise sharply, bonds that had been trading to their nearest call date (hence "effective maturity") can suddenly trade to their stated maturity date.
- **Credit risk** This risk is the chance that any of the fund's holdings will have their credit ratings downgraded or will default (fail to make scheduled interest or principal payments), potentially reducing the fund's income level and share price.

Investment-grade (AAA through BBB) securities generally have relatively low financial risk and a relatively high probability of future payment. However, securities rated BBB are more susceptible to adverse economic conditions and may

have speculative characteristics. Securities rated below investment grade (junk or high-yield bonds) should be regarded as speculative because their issuers are more susceptible to financial setbacks and recession than more creditworthy companies. Finally, adverse developments in a particular state could result in price declines for a fund with significant investments in that state.

- **Political risk** This risk is the chance that a significant restructuring of federal income tax rates or even serious discussion on the topic in Congress could cause municipal bond prices to fall. The demand for municipal securities is strongly influenced by the value of tax-exempt income to investors. Lower income tax rates could reduce the advantage of owning municipals. Also, a municipal bond issuer can be adversely affected by changes in regulations. For example, hospital bonds have been hurt by changes in Medicare reimbursement rates, and utility bonds could be harmed by rate regulation.
- **Other risks** Bonds of certain sectors have special risks. For example, the health care industry can be affected by federal or state legislation, electric utilities are subject to governmental regulation, and private activity bonds are not government backed. Prices of municipals may be affected by major changes in cash flows into or out of municipal funds. For example, substantial and sustained redemptions from municipal bond funds could result in lower prices for these securities.
- **Derivatives risk** To the extent the funds use futures, swaps, and other derivatives, they are exposed to additional volatility and potential losses.

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***The income level of the funds will fluctuate with changing market conditions and interest rate levels. The bond funds' share prices will also fluctuate; when you sell your shares, you may lose money. An investment in the funds is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.***

### **How can I tell which fund is most appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. The funds can be used to generate income or to diversify a stock portfolio. The higher your tax bracket, the more likely tax-exempt securities are appropriate. (However, if you are subject to the alternative minimum tax (AMT), you may wish to check a fund's AMT exposure.) If a Summit Municipal Fund's tax-exempt yield is higher than the after-tax yield on a taxable bond or money fund, and you can meet the \$25,000 minimum for initial purchases, the funds could be appropriate for you.



Use Table 1, entitled Differences Among Funds, which summarizes each fund's main characteristics, to help choose a fund (or funds) for your particular needs. For example, only the money fund is designed to provide principal stability, which makes it a good choice for you if the stability and accessibility of your investment are more important than the opportunity for higher income or total return. However, if you are investing for higher income and can tolerate some price fluctuation, you should consider a longer-term bond fund.

The funds are inappropriate for tax-deferred accounts, such as IRAs.

- ▶ ***The fund or funds you select should not represent your complete investment program or be used for short-term trading purposes.***

### **How has each fund performed in the past?**

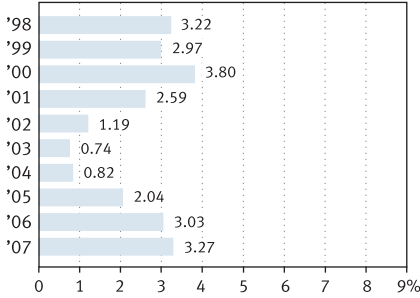
The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Fund past returns (before and after taxes) are not necessarily an indication of future performance.

The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor's situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund's other returns because the loss generates a tax benefit that is factored into the result.

**Summit Municipal Money Market Fund**

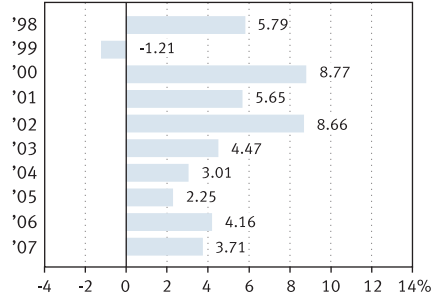
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/00	0.99%
Worst Quarter	3/31/04	0.15%

**Summit Municipal Intermediate Fund**

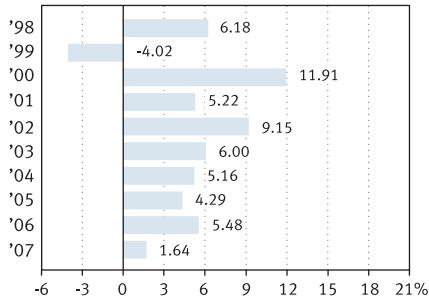
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	9/30/02	3.76%
Worst Quarter	6/30/04	-1.86%

**Summit Municipal Income Fund**

Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/00	4.71%
Worst Quarter	6/30/99	-2.05%

**Table 2 Average Annual Total Returns**

	<i>Periods ended 12/31/07</i>		
	<b>1 year</b>	<b>5 years</b>	<b>10 years</b>
<b>Money Market Fund</b>	3.27%	1.97%	2.36%
<i>Lipper Tax-Exempt Money Market Funds Average</i>	3.00	1.73	2.12
<b>Intermediate Fund</b>			
<i>Returns before taxes</i>	3.71	3.52	4.49
<i>Returns after taxes on distributions</i>	3.71	3.52	4.48
<i>Returns after taxes on distributions and sale of fund shares</i>	3.77	3.55	4.44
<i>Lehman Brothers Municipal Bond 1-15 Year Blend (1-17 Maturity) Index</i>	4.46	3.83	4.88
<i>Lipper Intermediate Municipal Debt Funds Average</i>	3.05	3.00	4.13
<b>Income Fund</b>			
<i>Returns before taxes</i>	1.64	4.50	5.02
<i>Returns after taxes on distributions</i>	1.64	4.50	5.01
<i>Returns after taxes on distributions and sale of fund shares</i>	2.46	4.49	4.97
<i>Lehman Brothers Municipal Bond Index</i>	3.36	4.30	5.18
<i>Lipper General Municipal Debt Funds Average</i>	1.15	3.48	4.08

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

Money funds are not required to show after-tax returns.

Lehman Brothers Municipal Bond 1-15 Year Bond (1-17 Maturity) Index is a sub-index of the Lehman Brothers Municipal Bond Index. It is a rules-based, market value-weighted index of bonds with maturities of one year to 16 years and 11 months engineered for the tax-exempt bond market.

Lehman Brothers Municipal Bond Index is an unmanaged index that tracks municipal debt instruments.

## What fees and expenses will I pay?

The funds are 100% no load. There are no fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds. There are no 12b-1 fees.

Each T. Rowe Price Summit Municipal Fund has a fee covering investment management and ordinary, recurring operating expenses. In contrast, most mutual funds have a fixed management fee plus a fee for operating expenses.

**Table 3 Fees and Expenses of the Funds\***

<i>Fund</i>	<i>Annual fund operating expenses (expenses that are deducted from fund assets)</i>		
	<i>Management fee</i>	<i>Other expenses</i>	<i>Total annual fund operating expenses</i>
Money Market	0.45%	—	0.45%
Intermediate	0.50	—	0.50
Income	0.50	—	0.50

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund.

**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table shows how much you would pay if operating expenses remain the same, you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

<i>Fund</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>10 years</i>
Money Market	\$46	\$144	\$252	\$567
Intermediate	51	160	280	628
Income	51	160	280	628

### Who manages the funds?

The funds are managed by T. Rowe Price Associates, Inc. (T. Rowe Price). Founded in 1937, T. Rowe Price and its affiliates manage investments for individual and institutional accounts. The company offers a comprehensive array of stock, bond, and money market funds directly to the investing public.

**Money Market Fund** Joseph K. Lynagh manages the fund day to day and has been chairman of its Investment Advisory Committee since 2001. He joined T. Rowe Price in 1991 and has been managing investments since 1994.

**Intermediate Fund** Charles B. Hill manages the fund day to day and has been chairman of its Investment Advisory Committee since 1996. He joined T. Rowe Price in 1991 and has been managing investments since 1986.

**Income Fund** Konstantine B. Mallas manages the fund day to day and has been chairman of its Investment Advisory Committee since 1999. He joined T. Rowe Price in 1987 and has been managing investments since 1991.

### How can I purchase shares?

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$2,500 (\$1,000 for IRAs and gifts or transfers to minors). The minimum subsequent investment is \$100 (\$50 for

IRAs, gifts or transfers to minors, or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

**How can I sell shares?**

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

**When will I receive income and capital gain distributions?**

Each fund distributes income monthly and net capital gains, if any, at year-end. Normally there are no capital gain distributions for money market funds. Although most income will not be subject to federal income tax, short-term gains are taxable at ordinary income rates and long-term gains are taxable at the current capital gains rate. Income from certain "private activity" bonds may be taxable for those investors subject to the alternative minimum tax (AMT). Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check.

**What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.

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T. ROWE PRICE

# Retirement Funds

Twelve retirement funds that invest in a combination of T. Rowe Price stock and bond funds in pursuit of different risk and reward goals.



*This profile summarizes key information about the funds that is included in the funds' prospectus. The funds' prospectus includes additional information about the funds, including a more detailed description of the risks associated with investing in each fund that you may want to consider before you invest. You may obtain the prospectus and other information about the funds at no cost by calling 1-800-638-5660 or by visiting our Web site at [troweprice.com](http://troweprice.com).*

## **T. Rowe Price Retirement Funds, Inc.**

- T. Rowe Price Retirement 2005 Fund – TRRFX**
- T. Rowe Price Retirement 2010 Fund – TRRAX**
- T. Rowe Price Retirement 2015 Fund – TRRGX**
- T. Rowe Price Retirement 2020 Fund – TRRBX**
- T. Rowe Price Retirement 2025 Fund – TRRHX**
- T. Rowe Price Retirement 2030 Fund – TRRCX**
- T. Rowe Price Retirement 2035 Fund – TRRJX**
- T. Rowe Price Retirement 2040 Fund – TRRDx**
- T. Rowe Price Retirement 2045 Fund – TRRKX**
- T. Rowe Price Retirement 2050 Fund – TRRMX**
- T. Rowe Price Retirement 2055 Fund – TRRNx**
- T. Rowe Price Retirement Income Fund – TRRIX**

### **What is each fund's objective?**

The objective of each fund (other than the Income Fund) is the highest total return over time consistent with an emphasis on both capital growth and income. The funds pursue their objectives by investing in a diversified portfolio of T. Rowe Price stock and bond funds. Each fund's allocation between T. Rowe Price stock and bond funds will change over time in relation to its target retirement date.

The objective of the Income Fund is the highest total return over time consistent with an emphasis on both capital growth and income. The fund pursues this objective by investing in a diversified portfolio consisting of about 40% stocks and 60% bonds.

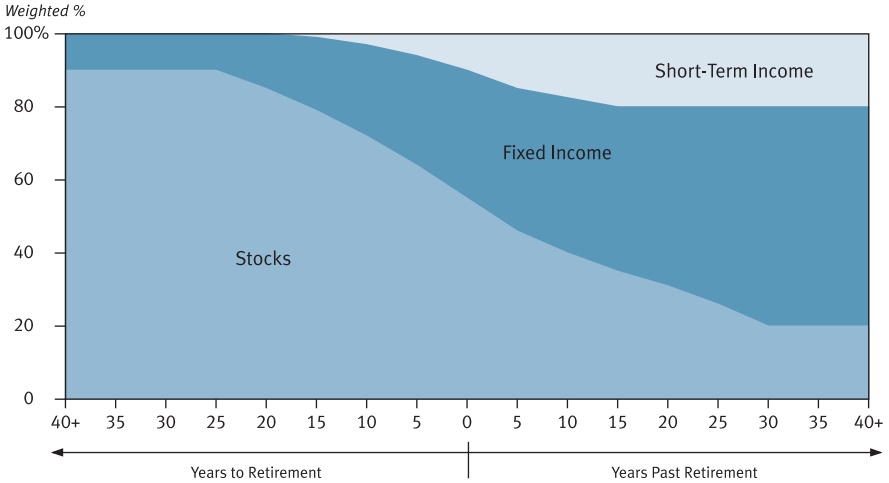
### **What is each fund's principal investment strategy?**

Each fund will seek to achieve its objective by investing in a set of underlying T. Rowe Price mutual funds representing various asset classes and sectors. Each fund (other than the Income Fund) is managed to a specific retirement year (target date) included in its name.

Over time, the allocation to asset classes and funds will change according to a predetermined "glide path" shown in the following chart. (The glide path represents the shifting of asset classes over time and does not apply to the Income Fund.) As the glide path shows, each fund's asset mix becomes more conservative—both prior to and after retirement—as time elapses. This reflects the need for reduced investment risks as retirement approaches and the need for lower volatility of a portfolio, which may be a primary source of income after retiring. Once a fund (other than the Income Fund) reaches its most conservative planned allocation, approximately 30 years after its stated retirement year, its allocation to stocks will remain fixed at approximately 20% of assets. The remainder will be invested in fixed-income securities. The allocations reflected in the glide path are



also referred to as “neutral” allocations because they do not reflect tactical decisions made by T. Rowe Price to overweight or underweight a particular asset class based on its market outlook.



The following tables detail the way each portfolio is expected to be allocated among the various asset classes. The tables also show the sectors within those asset classes to which the portfolios will have exposure, the T. Rowe Price funds that will be used to represent those sectors, and the expected allocations to the funds (individually or by sector). The information in the tables represents the target allocations for the funds as of August 1, 2007. The funds’ shareholder reports set forth their actual allocations between stocks and bonds and to individual T. Rowe Price funds. The bond allocations include all fixed-income asset classes.

**Table 1 2005 Fund**

<i>Asset Class</i>		<i>Sector</i>	<i>Target Allocation</i>	<i>Fund</i>
Short-Term Income	12.00%	Short-Term Income	12.00%	Short-Term Income
Fixed Income	35.50	Domestic Bonds	30.75	New Income
		High-Yield Bonds	4.75	High Yield
Stocks	52.50	Large-Cap	31.25	Equity Index 500
		Large-Cap Growth	3.50	Growth Stock
		Large-Cap Value	0.25	Value
		Mid-Cap	5.25	Mid-Cap Growth Mid-Cap Value
		Mid-Cap/Small-Cap Blend	0.00	Extended Equity Market Index
		Small-Cap	3.75	New Horizons Small-Cap Stock Small-Cap Value
		International	8.50	Emerging Markets Stock International Growth & Income International Stock Overseas Stock

**Table 2 2010 Fund**

<i>Asset Class</i>		<i>Sector</i>	<i>Target Allocation</i>	<i>Fund</i>
Short-Term Income	7.00%	Short-Term Income	7.00%	Short-Term Income
Fixed Income	30.50	Domestic Bonds	25.50	New Income
		High-Yield Bonds	5.00	High Yield
Stocks	62.50	Large-Cap	27.00	Equity Index 500
		Large-Cap Growth	9.25	Growth Stock
		Large-Cap Value	5.50	Value
		Mid-Cap	6.25	Mid-Cap Growth Mid-Cap Value
		Mid-Cap/Small-Cap Blend	0.00	Extended Equity Market Index
		Small-Cap	4.50	New Horizons Small-Cap Stock Small-Cap Value
		International	10.00	Emerging Markets Stock International Growth & Income International Stock Overseas Stock

**Table 3 2015 Fund**

<b>Asset Class</b>		<b>Sector</b>	<b>Target Allocation</b>	<b>Fund</b>
Short-Term Income	4.00%	Short-Term Income	4.00%	Short-Term Income
Fixed Income	25.50	Domestic Bonds	20.25	New Income
		High-Yield Bonds	5.25	High Yield
Stocks	70.50	Large-Cap	24.00	Equity Index 500
		Large-Cap Growth	13.50	Growth Stock
		Large-Cap Value	9.25	Value
		Mid-Cap	7.00	Mid-Cap Growth Mid-Cap Value
		Mid-Cap/Small-Cap Blend	0.00	Extended Equity Market Index
		Small-Cap	5.25	New Horizons Small-Cap Stock Small-Cap Value
		International	11.50	Emerging Markets Stock International Growth & Income International Stock Overseas Stock

**Table 4 2020 Fund**

<b>Asset Class</b>		<b>Sector</b>	<b>Target Allocation</b>	<b>Fund</b>
Short-Term Income	1.50%	Short-Term Income	1.50%	Short-Term Income
Fixed Income	20.50	Domestic Bonds	15.75	New Income
		High-Yield Bonds	4.75	High Yield
Stocks	78.00	Large-Cap	19.50	Equity Index 500
		Large-Cap Growth	18.75	Growth Stock
		Large-Cap Value	13.75	Value
		Mid-Cap	7.75	Mid-Cap Growth Mid-Cap Value
		Mid-Cap/Small-Cap Blend	0.00	Extended Equity Market Index
		Small-Cap	5.50	New Horizons Small-Cap Stock Small-Cap Value
		International	12.75	Emerging Markets Stock International Growth & Income International Stock Overseas Stock

**Table 5 2025 Fund**

<b>Asset Class</b>		<b>Sector</b>	<b>Target Allocation</b>	<b>Fund</b>
Fixed Income	15.50%	Domestic Bonds	11.25%	New Income
		High-Yield Bonds	4.25	High Yield
Stocks	84.50	Large-Cap	16.25	Equity Index 500
		Large-Cap Growth	22.75	Growth Stock
		Large-Cap Value	17.50	Value
		Mid-Cap	8.50	Mid-Cap Growth Mid-Cap Value
		Mid-Cap/Small-Cap Blend	0.00	Extended Equity Market Index
		Small-Cap	6.00	New Horizons Small-Cap Stock Small-Cap Value
		International	13.50	Emerging Markets Stock International Growth & Income International Stock Overseas Stock

**Table 6 2030 Fund**

<b>Asset Class</b>		<b>Sector</b>	<b>Target Allocation</b>	<b>Fund</b>
Fixed Income	10.50%	Domestic Bonds	7.25%	New Income
		High-Yield Bonds	3.25	High Yield
Stocks	89.50	Large-Cap	13.50	Equity Index 500
		Large-Cap Growth	25.75	Growth Stock
		Large-Cap Value	20.25	Value
		Mid-Cap	9.00	Mid-Cap Growth Mid-Cap Value
		Mid-Cap/Small-Cap Blend	0.00	Extended Equity Market Index
		Small-Cap	6.50	New Horizons Small-Cap Stock Small-Cap Value
		International	14.50	Emerging Markets Stock International Growth & Income International Stock Overseas Stock

**Table 7 2035 Fund**

<b>Asset Class</b>		<b>Sector</b>	<b>Target Allocation</b>	<b>Fund</b>
Fixed Income	8.50%	Domestic Bonds	5.75%	New Income
		High-Yield Bonds	2.75	High Yield
Stocks	91.50	Large-Cap	12.75	Equity Index 500
		Large-Cap Growth	26.75	Growth Stock
		Large-Cap Value	21.25	Value
		Mid-Cap	9.25	Mid-Cap Growth Mid-Cap Value
		Mid-Cap/Small-Cap Blend	0.00	Extended Equity Market Index
		Small-Cap	6.50	New Horizons Small-Cap Stock Small-Cap Value
		International	15.00	Emerging Markets Stock International Growth & Income International Stock Overseas Stock

**Table 8 2040 Fund**

<b>Asset Class</b>		<b>Sector</b>	<b>Target Allocation</b>	<b>Fund</b>
Fixed Income	8.50%	Domestic Bonds	5.75%	New Income
		High-Yield Bonds	2.75	High Yield
Stocks	91.50	Large-Cap	12.75	Equity Index 500
		Large-Cap Growth	26.75	Growth Stock
		Large-Cap Value	21.25	Value
		Mid-Cap	9.25	Mid-Cap Growth Mid-Cap Value
		Mid-Cap/Small-Cap Blend	0.00	Extended Equity Market Index
		Small-Cap	6.50	New Horizons Small-Cap Stock Small-Cap Value
		International	15.00	Emerging Markets Stock International Growth & Income International Stock Overseas Stock

**Table 9 2045 Fund**

<b>Asset Class</b>		<b>Sector</b>	<b>Target Allocation</b>	<b>Fund</b>
Fixed Income	8.50%	Domestic Bonds	5.75%	New Income
		High-Yield Bonds	2.75	High Yield
Stocks	91.50	Large-Cap	12.75	Equity Index 500
		Large-Cap Growth	26.75	Growth Stock
		Large-Cap Value	21.25	Value
		Mid-Cap	9.25	Mid-Cap Growth Mid-Cap Value
		Mid-Cap/Small-Cap Blend	0.00	Extended Equity Market Index
		Small-Cap	6.50	New Horizons Small-Cap Stock Small-Cap Value
		International	15.00	Emerging Markets Stock International Growth & Income International Stock Overseas Stock

**Table 10 2050 Fund**

<b>Asset Class</b>		<b>Sector</b>	<b>Target Allocation</b>	<b>Fund</b>
Fixed Income	8.50%	Domestic Bonds	5.75%	New Income
		High-Yield Bonds	2.75	High Yield
Stocks	91.50	Large-Cap	12.75	Equity Index 500
		Large-Cap Growth	26.75	Growth Stock
		Large-Cap Value	21.25	Value
		Mid-Cap	9.25	Mid-Cap Growth Mid-Cap Value
		Mid-Cap/Small-Cap Blend	0.00	Extended Equity Market Index
		Small-Cap	6.50	New Horizons Small-Cap Stock Small-Cap Value
		International	15.00	Emerging Markets Stock International Growth & Income International Stock Overseas Stock

**Table 11 2055 Fund**

<b>Asset Class</b>		<b>Sector</b>	<b>Target Allocation</b>	<b>Fund</b>
Fixed Income	8.50%	Domestic Bonds	5.75%	New Income
		High-Yield Bonds	2.75	High Yield
Stocks	91.50	Large-Cap	12.75	Equity Index 500
		Large-Cap Growth	26.75	Growth Stock
		Large-Cap Value	21.25	Value
		Mid-Cap	9.25	Mid-Cap Growth Mid-Cap Value
		Mid-Cap/Small-Cap Blend	0.00	Extended Equity Market Index
		Small-Cap	6.50	New Horizons Small-Cap Stock Small-Cap Value
		International	15.00	Emerging Markets Stock International Growth & Income International Stock Overseas Stock

**Table 12 Income Fund**

<b>Asset Class</b>		<b>Sector</b>	<b>Target Allocation</b>	<b>Fund</b>
Short-Term Income	30.00%	Short-Term Income	30.00%	Short-Term Income
Fixed Income	28.50	Domestic Bonds	24.00	New Income
		High-Yield Bonds	4.50	High Yield
Stocks	41.50	Large-Cap	28.00	Equity Index 500
		Mid-Cap	4.25	Mid-Cap Growth Mid-Cap Value
		Mid-Cap/Small-Cap Blend	0.00	Extended Equity Market Index
		Small-Cap	3.00	New Horizons Small-Cap Stock Small-Cap Value
		International	6.25	Emerging Markets Stock International Growth & Income International Stock Overseas Stock

The target allocations for the broad asset classes are not expected to vary from the prescribed glide path formula or neutral allocations by more than plus or minus five percentage points. For the Income Fund, the neutral allocations are 30% short-term income, 30% fixed income, and 40% stocks, and the target allocations are also not expected to vary by more than plus or minus five percentage points. Any variance of the target allocation for a broad asset class can be applied to a single fund's target allocation, or to any combination of funds' target allocations, within that broad asset class. When deciding upon allocations within these prescribed limits, the manager may favor fixed-income securities if the economy is

expected to slow sufficiently to hurt corporate profit growth. The opposite may be true when strong economic growth is expected. And when varying exposure among the individual underlying funds, the manager will examine relative values and prospects among growth- and value-oriented stocks, domestic and international stocks, and small- and large-cap stocks, as well as the capacity of the underlying fund to absorb additional cash flow. Investments into the Extended Equity Market Index Fund will generally occur only if the capacity of the underlying fund representing the small- and mid-cap sectors is limited.

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by the fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

Securities may be sold for a variety of reasons, such as to effect a change in asset allocation, secure a gain, limit a loss, or redeploy assets into more promising opportunities.

Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

### **What are the main risks of investing in the funds?**

The performance and risks of each Retirement Fund will directly correspond to the performance and risks of the underlying funds in which it invests. By investing in many underlying funds, the Retirement Funds have partial exposure to the risks of many different areas of the market. The more a Retirement Fund allocates to stock funds, the greater the expected risk. These risks include:

**General equity risk.** As with all funds having equity exposure, the share prices of these funds can fall because of weakness in the broad market, a particular industry, or specific holdings. The market as a whole can decline for many reasons, including adverse political or economic developments here or abroad, changes in investor psychology, or heavy institutional selling. The prospects for an industry or company may deteriorate because of a variety of factors, including



disappointing earnings or changes in the competitive environment. Finally, a fund's investment approach could fall out of favor with the investing public, resulting in a lagging performance versus other types of stock funds.

**Small- and mid-cap stock risks.** To the extent that the Retirement Funds own funds that invest in stocks of small- and mid-cap companies, they may take on greater risk, as stocks of small- and mid-cap companies are usually more volatile than larger-company stocks. Stocks of smaller companies are subject to more abrupt or erratic price movements than larger-company stocks. Small companies often have limited production lines, markets, or financial resources, and their management may lack depth and experience.

**Growth and value approach risks.** There are risks associated with each fund's exposure to funds representing the growth or value investing approach. Even well-established growth stocks can be volatile. Stocks of growth companies may lack dividends that can cushion share prices in a down market. In addition, earnings disappointments often result in sharp price declines. The value approach carries the risk that the market will not recognize a security's intrinsic value for a long time or that a stock judged to be undervalued may be appropriately priced.

**International risks.** Funds that have exposure to investments overseas *generally* carry more risks than funds that invest strictly in U.S. assets. Even investments in countries with highly developed economies are subject to significant risks, including the following:

- **Currency risk.** This refers to a decline in the value of a foreign currency versus the U.S. dollar, which reduces the dollar value of securities denominated in that currency.
- **General.** Investments outside the United States are subject to potentially adverse local, political, and economic developments; nationalization and exchange controls; potentially lower liquidity and higher volatility; and possible problems arising from accounting, disclosure, settlement, and regulatory practices that differ from U.S. standards.
- **Emerging market risk.** To the extent that the Retirement Funds invest in funds that invest in emerging markets, they are subject to greater risk than funds investing only in developed markets. The economic and political structures of developing nations, in most cases, do not compare favorably with the U.S. or other developed countries in terms of wealth and stability, and their financial markets often lack liquidity.

**Fixed-income risks.** To the extent that the Retirement Funds have exposure to funds that invest in the bond or money market, they are subject to the following risks:

- **Interest rate risk.** This risk refers to the decline in bond prices that accompanies a rise in the overall level of interest rates. (Bond prices and interest rates move in opposite directions.) Generally, the longer the maturity of a fund or security, the greater its interest rate risk. While a rise in rates is the principal source of interest rate risk for bond funds, falling rates bring the possibility that a bond may be “called,” or redeemed before maturity, and that the proceeds may be reinvested in lower-yielding securities.
- **Credit risk.** This is the chance that any of a fund’s holdings will have its credit rating downgraded or will default (fail to make scheduled interest or principal payments), potentially reducing the fund’s income level and share price.

Most investment-grade (AAA through BBB) securities should have relatively low financial risk and a relatively high probability of future payment. However, securities rated BBB are more susceptible to adverse economic conditions and may have speculative characteristics. Securities rated below investment grade (junk or high-yield bonds) should be regarded as speculative because their issuers are more susceptible to financial setbacks and recession than more creditworthy companies. High-yield bond issuers include small companies lacking the history or capital to merit investment-grade status, former blue chip companies downgraded because of financial problems, and firms with heavy debt loads. If the fund invests in securities whose issuers develop unexpected credit problems, the fund’s price could decline.

- ▶ ***Each fund’s share price may decline, so when you sell your shares, you may lose money. An investment in each fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.***

### **How can I tell which fund is most appropriate for me?**

Consider your estimated retirement date and risk tolerance. In general, these funds’ investment programs assume a retirement age of 65. It is expected that the investor will choose a fund whose stated date is closest to the date the investor turns 65. Choosing a fund targeting an earlier date represents a more conservative choice; targeting a fund with a later date represents a more aggressive choice. It is important to note that the retirement year of the fund you select should not necessarily represent the specific year you intend to start drawing retirement assets. It should be a guide only.

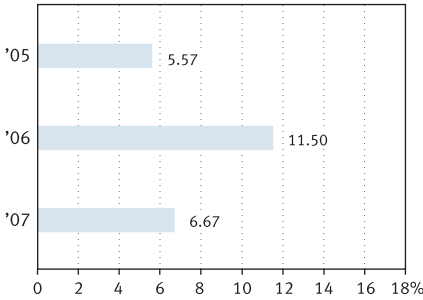
### **How has each fund performed in the past?**

The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Fund past returns (before and after taxes) are not necessarily an indication of future performance.

The fund can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

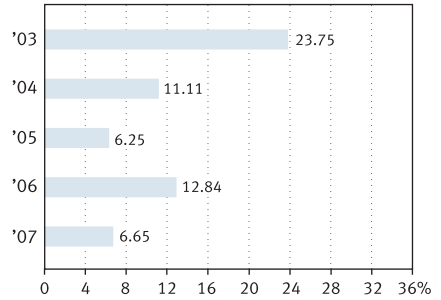
In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor's situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund's other returns because the loss generates a tax benefit that is factored into the result.

**Retirement 2005 Fund**  
Calendar Year Returns



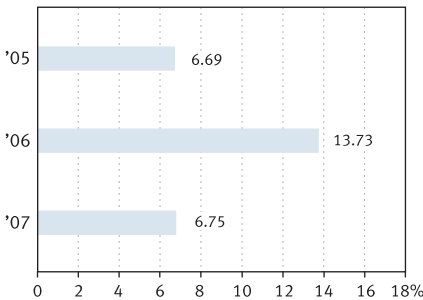
	Quarter Ended	Total Return
Best Quarter	12/31/06	4.94%
Worst Quarter	3/31/05	-1.42%

**Retirement 2010 Fund**  
Calendar Year Returns



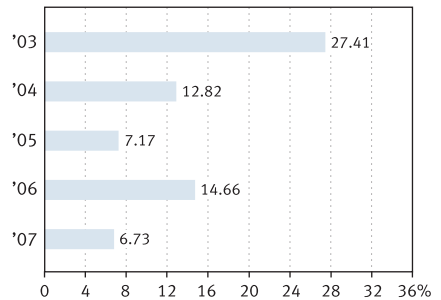
	Quarter Ended	Total Return
Best Quarter	6/30/03	12.61%
Worst Quarter	3/31/03	-2.18%

**Retirement 2015 Fund**  
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/06	6.16%
Worst Quarter	3/31/05	-1.77%

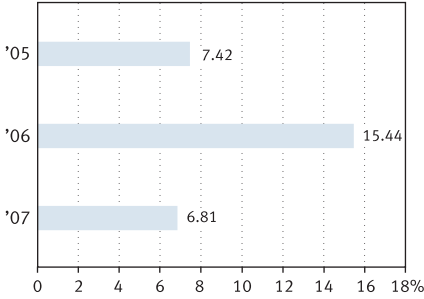
**Retirement 2020 Fund**  
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/03	14.70%
Worst Quarter	3/31/03	-3.09%

**Retirement 2025 Fund**

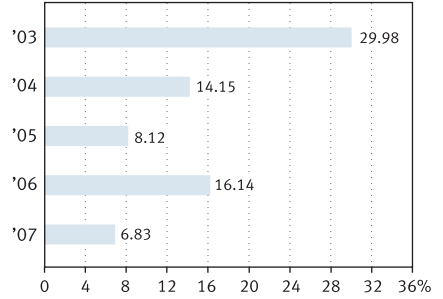
*Calendar Year Returns*



	<i>Quarter Ended</i>	<i>Total Return</i>
Best Quarter	12/31/06	7.04%
Worst Quarter	12/31/07	-2.30%

**Retirement 2030 Fund**

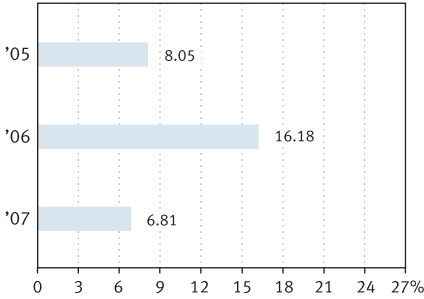
*Calendar Year Returns*



	<i>Quarter Ended</i>	<i>Total Return</i>
Best Quarter	6/30/03	16.36%
Worst Quarter	3/31/03	-4.20%

**Retirement 2035 Fund**

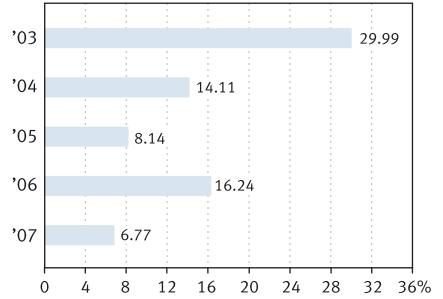
*Calendar Year Returns*



	<i>Quarter Ended</i>	<i>Total Return</i>
Best Quarter	12/31/06	7.40%
Worst Quarter	12/31/07	-2.79%

**Retirement 2040 Fund**

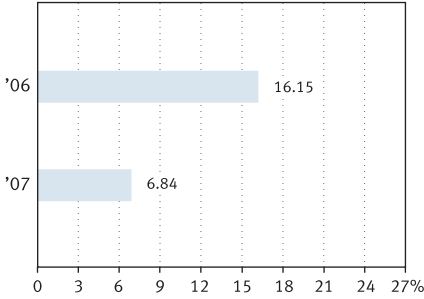
*Calendar Year Returns*



	<i>Quarter Ended</i>	<i>Total Return</i>
Best Quarter	6/30/03	16.42%
Worst Quarter	3/31/03	-4.28%

**Retirement 2045 Fund**

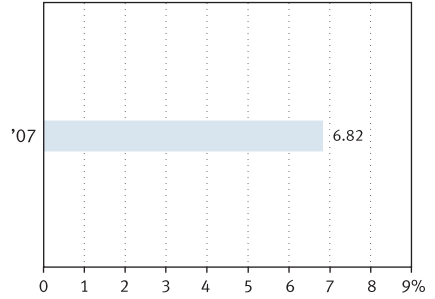
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/06	7.33%
Worst Quarter	12/31/07	-2.83%

**Retirement 2050 Fund**

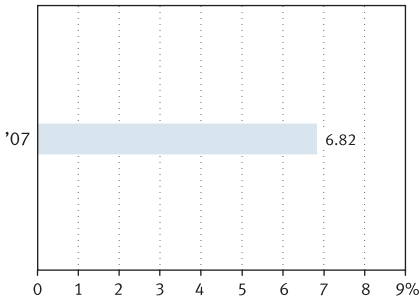
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/07	6.88%
Worst Quarter	12/31/07	-2.80%

**Retirement 2055 Fund**

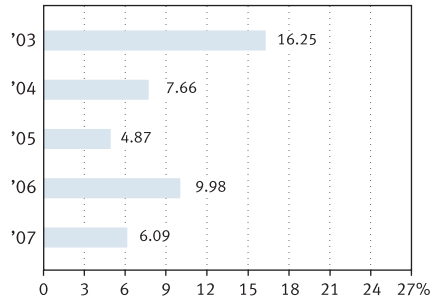
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/07	6.88%
Worst Quarter	12/31/07	-2.80%

**Retirement Income Fund**

Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/03	8.26%
Worst Quarter	3/31/05	-0.91%

**Table 13 Average Annual Total Returns**

	<b>Periods ended 12/31/2007</b>			
	<b>1 year</b>	<b>5 years</b>	<b>Shorter of 10 years or since inception</b>	<b>Inception date</b>
<b>2005 Fund</b>				
<i>Returns before taxes</i>	6.67%	—	8.04%	2/27/04
<i>Returns after taxes on distributions</i>	5.41	—	7.12	
<i>Returns after taxes on distributions and sale of fund shares</i>	4.85	—	6.53	
<i>Dow Jones Target 2005 Index</i>	6.84	—	5.93	
<i>Combined Index Portfolio<sup>a</sup></i>	6.77	—	7.75	
<b>2010 Fund</b>				
<i>Returns before taxes</i>	6.65	11.95	12.61	9/30/02
<i>Returns after taxes on distributions</i>	5.58	11.23	11.86	
<i>Returns after taxes on distributions and sale of fund shares</i>	4.82	10.13	10.71	
<i>Dow Jones Target 2010 Index</i>	7.73	10.16	10.65	
<i>Combined Index Portfolio<sup>b</sup></i>	6.82	11.38	11.98	
<b>2015 Fund</b>				
<i>Returns before taxes</i>	6.75	—	9.32	2/27/04
<i>Returns after taxes on distributions</i>	5.73	—	8.61	
<i>Returns after taxes on distributions and sale of fund shares</i>	4.93	—	7.77	
<i>Dow Jones Target 2015 Index</i>	7.78	—	8.20	
<i>Combined Index Portfolio<sup>c</sup></i>	6.85	—	8.82	
<b>2020 Fund</b>				
<i>Returns before taxes</i>	6.73	13.52	14.40	9/30/02
<i>Returns after taxes on distributions</i>	5.75	12.89	13.73	
<i>Returns after taxes on distributions and sale of fund shares</i>	4.96	11.61	12.39	
<i>Dow Jones Target 2020 Index</i>	8.11	13.83	14.38	
<i>Combined Index Portfolio<sup>d</sup></i>	6.84	12.84	13.53	
<b>2025 Fund</b>				
<i>Returns before taxes</i>	6.81	—	10.33	2/27/04
<i>Returns after taxes on distributions</i>	5.91	—	9.72	
<i>Returns after taxes on distributions and sale of fund shares</i>	5.03	—	8.73	
<i>Dow Jones Target 2025 Index</i>	8.31	—	10.82	
<i>Combined Index Portfolio<sup>e</sup></i>	6.83	—	9.70	

**Table 13 Average Annual Total Returns (Continued)**

	<b>Periods ended 12/31/2007</b>			
	<b>1 year</b>	<b>5 years</b>	<b>Shorter of 10 years or since inception</b>	<b>Inception date</b>
<b>2030 Fund</b>				
<i>Returns before taxes</i>	6.83	14.76	15.69	9/30/02
<i>Returns after taxes on distributions</i>	5.97	14.25	15.14	
<i>Returns after taxes on distributions and sale of fund shares</i>	5.09	12.82	13.65	
<i>Dow Jones Target 2030 Index</i>	8.43	16.74	17.31	
<i>Combined Index Portfolio<sup>f</sup></i>	6.81	14.27	15.03	
<b>2035 Fund</b>				
<i>Returns before taxes</i>	6.81	—	10.73	2/27/04
<i>Returns after taxes on distributions</i>	5.99	—	10.23	
<i>Returns after taxes on distributions and sale of fund shares</i>	5.07	—	9.15	
<i>Dow Jones Target 2035 Index</i>	8.48	—	12.31	
<i>Combined Index Portfolio<sup>g</sup></i>	6.76	—	10.18	
<b>2040 Fund</b>				
<i>Returns before taxes</i>	6.77	14.76	15.75	9/30/02
<i>Returns after taxes on distributions</i>	5.92	14.29	15.23	
<i>Returns after taxes on distributions and sale of fund shares</i>	5.07	12.84	13.72	
<i>Dow Jones Target 2040 Index</i>	8.48	17.68	18.25	
<i>Combined Index Portfolio<sup>g</sup></i>	6.76	14.29	15.04	
<b>2045 Fund</b>				
<i>Returns before taxes</i>	6.84	—	12.62	5/31/05
<i>Returns after taxes on distributions</i>	6.08	—	12.06	
<i>Returns after taxes on distributions and sale of fund shares</i>	5.05	—	10.71	
<i>Dow Jones Target 2045 Index</i>	8.47	—	14.59	
<i>Combined Index Portfolio<sup>g</sup></i>	6.76	—	11.96	
<b>2050 Fund</b>				
<i>Returns before taxes</i>	6.82	—	6.78	12/29/06
<i>Returns after taxes on distributions</i>	6.36	—	6.33	
<i>Returns after taxes on distributions and sale of fund shares</i>	4.68	—	5.60	
<i>Dow Jones Target 2050 Index</i>	8.47	—	8.47	
<i>Combined Index Portfolio<sup>g</sup></i>	6.76	—	6.76	
<b>2055 Fund</b>				
<i>Returns before taxes</i>	6.82	—	6.78	12/29/06
<i>Returns after taxes on distributions</i>	6.36	—	6.33	
<i>Returns after taxes on distributions and sale of fund shares</i>	4.68	—	5.60	
<i>Combined Index Portfolio<sup>g</sup></i>	6.76	—	6.76	

**Table 13 Average Annual Total Returns (Continued)**

	Periods ended 12/31/2007			Inception date
	1 year	5 years	Shorter of 10 years or since inception	
<b>Income Fund</b>				
Returns before taxes	6.09	8.90	9.38	9/30/02
Returns after taxes on distributions	4.60	7.75	8.21	
Returns after taxes on distributions and sale of fund shares	4.15	7.09	7.50	
Dow Jones Moderately Conservative Portfolio Index	7.47	10.06	10.50	
Combined Index Portfolio <sup>h</sup>	6.30	8.31	8.65	

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

- <sup>a</sup> Combined Index Portfolio is an unmanaged portfolio composed of 50.5% stocks (41.7% Dow Jones Wilshire 5000 Composite Index, 8.8% MSCI EAFE Index), 37% bonds (Lehman Brothers U.S. Aggregate Index), 12.5% cash (Citigroup 3-Month Treasury Bill Index).
- <sup>b</sup> Combined Index Portfolio is an unmanaged portfolio composed of 60.5% stocks (50.3% Dow Jones Wilshire 5000 Composite Index, 10.2% MSCI EAFE Index), 32% bonds (Lehman Brothers U.S. Aggregate Index), 7.5% cash (Citigroup 3-Month Treasury Bill Index).
- <sup>c</sup> Combined Index Portfolio is an unmanaged portfolio composed of 68.5% stocks (56.8% Dow Jones Wilshire 5000 Composite Index, 11.7% MSCI EAFE Index), 27.5% bonds (Lehman Brothers U.S. Aggregate Index), 4% cash (Citigroup 3-Month Treasury Bill Index).
- <sup>d</sup> Combined Index Portfolio is an unmanaged portfolio composed of 76.5% stocks (63.45% Dow Jones Wilshire 5000 Composite Index, 13.05% MSCI EAFE Index), 22% bonds (Lehman Brothers U.S. Aggregate Index), 1.5% cash (Citigroup 3-Month Treasury Bill Index).
- <sup>e</sup> Combined Index Portfolio is an unmanaged portfolio composed of 82.5% stocks (68.25% Dow Jones Wilshire 5000 Composite Index, 14.25% MSCI EAFE Index), 17.5% bonds (Lehman Brothers U.S. Aggregate Index).
- <sup>f</sup> Combined Index Portfolio is an unmanaged portfolio composed of 87.5% stocks (72.35% Dow Jones Wilshire 5000 Composite Index, 15.15% MSCI EAFE Index), 12.5% bonds (Lehman Brothers U.S. Aggregate Index).
- <sup>g</sup> Combined Index Portfolio is an unmanaged portfolio composed of 90% stocks (74.35% Dow Jones Wilshire 5000 Composite Index, 15.65% MSCI EAFE Index), 10% bonds (Lehman Brothers U.S. Aggregate Index).
- <sup>h</sup> Combined Index Portfolio is an unmanaged portfolio composed of 30% bonds (Lehman Brothers U.S. Aggregate Index), 40% stocks (33% Dow Jones Wilshire 5000 Composite Index, 7% MSCI EAFE Index), 30% cash (Citigroup 3-Month Treasury Bill Index).

Citigroup 3-Month Treasury Bill Index tracks short-term U.S. government debt instruments.

Dow Jones Moderately Conservative Portfolio Index is an index composed of an underlying blend of U.S. and non-U.S. stock, bond, and cash indexes. It is designed to capture 40% of the risk and return of the Dow Jones 100% Global Portfolio Index, an all-stock index.

Dow Jones Target Date Portfolio Indexes are composed of different allocations of stocks, bonds, and cash. Each month, beginning 35 years prior to the index's stated target date, the amount allocated to stocks gradually decreases and the amount allocated to bonds/cash increases in a predefined manner. The target date in each index's name reflects the year the benchmark's allocation no longer changes. At that time, the index will become the Dow Jones Target Today Index with a portfolio composed of 20% stocks.



Dow Jones Wilshire 5000 Composite Index tracks the performance of the most active stocks in the broad U.S. market.

Lehman Brothers U.S. Aggregate Index tracks domestic investment-grade bonds, including corporate, government, and mortgage-backed securities.

MSCI EAFE Index tracks the stocks of more than 1,000 companies in Europe, Australasia, and the Far East (EAFE).

### What fees and expenses will I pay?

The shares that are offered in this profile are 100% no load. There are no fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds. There are no 12b-1 fees. While the funds themselves impose no fees or charges, they will indirectly bear their pro-rata share of the expenses of the underlying funds. The following table shows the expenses each fund will bear based on the expected allocation to, and the expected average expense ratio of, the underlying (acquired) funds.

**Table 14 Fees and Expenses of the Funds\***

<i>Fund</i>	<i>Management fee</i>	<i>Other expenses<sup>a</sup></i>	<i>Acquired fund fees and expenses</i>	<i>Total annual fund operating expenses</i>
2005	0.00%	0.00%	0.60%	0.60%
2010	0.00	0.00	0.63	0.63
2015	0.00	0.00	0.66	0.66
2020	0.00	0.00	0.69	0.69
2025	0.00	0.00	0.72	0.72
2030	0.00	0.00	0.73	0.73
2035	0.00	0.00	0.74	0.74
2040	0.00	0.00	0.74	0.74
2045	0.00	0.00	0.74	0.74
2050	0.00	0.00	0.74	0.74
2055	0.00	0.00	0.74	0.74
Income	0.00	0.00	0.56	0.56

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund. Accounts with less than a \$2,000 balance (with certain exceptions) are subject to a \$10 fee.

<sup>a</sup> The direct operating expenses of each Retirement Fund are expected to be paid for by the acquired funds in which it invests.

**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table uses the net expenses from Table 14 to show how much you would pay if operating expenses remain the same, you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

<i>Fund</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>10 years</i>
2005	\$61	\$192	\$335	\$750
2010	64	202	351	786
2015	67	211	368	822
2020	70	221	384	859
2025	74	230	401	894
2030	75	233	406	906
2035	76	237	411	918
2040	76	237	411	918
2045	76	237	411	918
2050	76	237	411	918
2055	76	237	411	918
Income	57	179	313	701

### Who manages the funds?

The funds are managed by T. Rowe Price Associates, Inc. (T. Rowe Price). Founded in 1937, T. Rowe Price and its affiliates manage investments for individual and institutional accounts. The company offers a comprehensive array of stock, bond, and money market funds directly to the investing public.

Edmund M. Notzon III has been chairman of the funds' Investment Advisory Committee since 2002 and has been managing investments for T. Rowe Price since 1989. The portfolio manager, Jerome A. Clark, has day-to-day responsibility for managing the funds and works with the committee in developing and executing these funds' investment programs. Mr. Clark joined T. Rowe Price in 1992 and has been managing investments since 1993.

**To participants in employer-sponsored retirement plans: The following questions and answers about buying and selling shares and services do not apply to your plan. Please call your plan's toll-free number for additional information. Also note that this profile may include funds not available through your plan.**

**How can I purchase shares?**

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$2,500 (\$1,000 for IRAs and gifts or transfers to minors). The minimum subsequent investment is \$100 (\$50 for IRAs, gifts or transfers to minors, or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

**How can I sell shares?**

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

**When will I receive income and capital gain distributions?**

- The Income Fund distributes income monthly.
- The 2005, 2010, 2015, 2020, 2025, 2030, 2035, 2040, and 2045 Funds distribute income annually.

**All funds**

The funds distribute net capital gains, if any, at year-end. For regular accounts, income and short-term gains are taxable at ordinary income rates, and long-term gains are taxable at the capital gains rate. Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check. Distributions paid to IRAs and employer-sponsored retirement plans are automatically reinvested.

**What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.

T. Rowe Price Associates, Inc.  
100 East Pratt Street  
Baltimore, MD 21202  
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# T. ROWE PRICE INDEX FUNDS

**Equity Index 500**

**Extended Equity Market Index**

**Total Equity Market Index**

**International Equity Index**

**U.S. Bond Index**

Five funds seeking to match the performance of broad indices of common stocks and bonds.



*This profile summarizes key information about the funds that is included in the funds' prospectus. The funds' prospectus includes additional information about the funds, including a more detailed description of the risks associated with investing in each fund that you may want to consider before you invest. You may obtain the prospectus and other information about the funds at no cost by calling 1-800-638-5660 or by visiting our Web site at [troweprice.com](http://troweprice.com).*

## **T. Rowe Price Index Trust, Inc.**

**T. Rowe Price Equity Index 500 Fund – PREIX**

**T. Rowe Price Extended Equity Market Index Fund – PEXMX**

**T. Rowe Price Total Equity Market Index Fund – POMIX**

## **T. Rowe Price International Index Fund, Inc.**

**T. Rowe Price International Equity Index Fund – PIEQX**

## **T. Rowe Price U.S. Bond Index Fund, Inc. — PBDIX**

### **What is each fund's objective?**

**Equity Index 500 Fund** seeks to match the performance of the Standard & Poor's 500 Stock Index®. The S&P 500 is made up of primarily large-capitalization companies that represent a broad spectrum of the U.S. economy and a substantial part of the U.S. stock market's total capitalization. (Market capitalization is the number of a company's outstanding shares multiplied by the market price per share.)

**Extended Equity Market Index Fund** seeks to match the performance of the U.S. stocks not included in the S&P 500, which are primarily small- and mid-capitalization stocks. We use the S&P Completion Index to represent this universe.

**Total Equity Market Index Fund** seeks to match the performance of the entire U.S. stock market. We use the S&P Total Market Index to represent the market as a whole. Because the largest stocks in the index carry the most weight, large-capitalization stocks make up a substantial majority of the S&P Total Market's value.

**International Equity Index Fund** seeks to provide long-term capital growth. We use the FTSE™ International Limited ("FTSE") Developed ex North America Index, an equity market index based on the market capitalization of over 1,000 predominately large companies listed in Japan, the U.K., and developed countries in Continental Europe and the Pacific Rim.

**U.S. Bond Index Fund** seeks to match the total return performance of the U.S. investment-grade bond market. We use the Lehman Brothers U.S. Aggregate Index, which typically includes more than 6,000 fixed-income securities with an overall intermediate to long average maturity. The maturity range was 6.15 to 7.82 years for the last five years ended December 31, 2006, although it will vary with market conditions.

The inclusion of a stock or bond in the S&P, FTSE™, or the Lehman Brothers indices is not an endorsement by Standard & Poor's, FTSE™, or Lehman Brothers of the stock or bond as an investment, nor are S&P, FTSE™, and Lehman Brothers sponsors of the funds or in any way affiliated with them.

“Standard & Poor’s®”, “S&P®”, “S&P 500®”, “Standard & Poor’s 500”, “500”, “S&P Completion Index”, “S&P Total Market Index”, and “S&P TMI” are marks/trademarks of The McGraw-Hill Companies, Inc., and have been licensed for use by T. Rowe Price. The Product is not sponsored, endorsed, sold or promoted by Standard & Poor’s and Standard & Poor’s makes no representation regarding the advisability of investing in the Product.

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### **What is each fund’s principal investment strategy?**

**Equity Index 500 Fund** invests substantially all of its assets in all of the stocks in the S&P 500 Index. We attempt to maintain holdings of each stock in proportion to its weight in the index. This is known as a *full replication* strategy.

Standard & Poor’s constructs the index by first identifying major industry categories and then allocating a representative sample of the larger and more liquid stocks in those industries to the index. S&P weights each stock according to its total market value. For example, the 50 largest companies in the index may account for over 50% of its value.

**Extended Equity Market Index Fund** uses a *sampling* strategy, investing substantially all of its assets in a group of stocks representative of the S&P Completion Index. The fund does not attempt to fully replicate the index by owning each of the stocks in it. The index includes approximately 4,000 stocks.

**Total Equity Market Index Fund** also uses a *sampling* strategy, investing substantially all of its assets in a broad spectrum of small-, mid-, and large-capitalization stocks representative of the S&P Total Market Index. The index includes approximately 4,500 stocks.

In an attempt to recreate each of the S&P indices, we select stocks in terms of industry, size, and other characteristics. For example, if technology stocks made up 15% of the S&P Completion Index, the Extended Equity Market Index Fund would invest about 15% of its assets in technology stocks with similar characteristics. Several factors are considered in selecting representative stocks, including historical price movement, market capitalization, transaction costs, and others.

**International Equity Index Fund** seeks to match the performance of the FTSE™ Developed ex North America Index by using a *full replication* strategy. This involves investing substantially all of its assets in all of the stocks in the index in proportion to each stock’s weight in the index. The index is constructed by selecting the countries it covers, sorting the market by industry groups, and targeting a significant portion of them for inclusion in the index.

**U.S. Bond Index Fund** uses a *sampling* strategy, investing substantially all fund assets in bonds specifically represented in the Lehman Brothers U.S. Aggregate Index. Within each broad segment of the benchmark, such as government bonds, mortgages, and corporate issues, we will select a set of U.S. dollar-denominated bonds that represents key benchmark traits. The most important of these traits are interest rate sensitivity, credit quality, and sector diversification, although other characteristics will be reflected. The fund's holdings will normally include U.S. government and agency obligations, mortgage- and asset-backed securities, corporate bonds, and U.S. dollar-denominated securities of foreign issuers. Municipal bonds may also be included in the fund.

### All funds

T. Rowe Price compares the composition of all funds to that of the indices. If a misweighting develops, the portfolios are rebalanced in an effort to bring them into line with their respective indices. In addition to stocks, the stock funds may purchase exchange-traded funds, stock index futures, or stock options in an effort to minimize any deviations in performance with their indices.

In addition to its normal investments, the bond fund may purchase collateralized mortgage obligations (CMOs) and certain types of derivatives, provided they have similar characteristics to index securities but potentially offer more attractive prices, yields, or liquidity. Derivatives, such as futures and options, will not exceed 10% of the fund's total assets. This flexibility in investing is intended to help the manager keep the fund's composition in line with the index and minimize deviations in performance between the fund and the index.

**Table 1 Index Funds Comparison Guide**

<b>Fund</b>	<b>Investment emphasis</b>	<b>Principal types of securities</b>
Equity Index 500	S&P 500 stocks	Large-cap
Extended Equity Market Index	Broad market apart from S&P 500 stocks	Small- and mid-cap stocks
Total Equity Market Index	Broad market, including S&P 500 stocks	Blend of small-, mid-, and large-cap stocks
International Equity Index	FTSE™ Developed ex North America Index	Large companies in Japan, the U.K., and developed countries in Continental Europe and the Pacific Rim
U.S. Bond Index	Lehman Brothers U.S. Aggregate Index	U.S. investment-grade bonds

While there is no guarantee, the investment manager expects the correlation between each fund and its index to be at least 0.95. A correlation of 1.00 would mean the returns of the fund and the index almost always move in the same direction (but not necessarily by the same amount). A correlation of 0.00 would mean movements in the fund are unrelated to movements in the index.



Each fund may sell securities to better align its portfolio with the characteristics of its benchmark or satisfy redemption requests. However, the funds are not required to sell specific issues that have been removed from their indices.

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by a fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

## **What are the main risks of investing in the funds?**

### **All funds except U.S. Bond Index Fund**

The funds are designed to track broad segments of the U.S. and foreign stock markets—whether they are rising or falling. Markets as a whole can decline for many reasons, including adverse political or economic developments here or abroad, changes in investor psychology, or heavy institutional selling.

Since each fund is passively managed and seeks to remain fully invested at all times, assets cannot be shifted from one stock or group of stocks to another based on their prospects, or from stocks into bonds or cash equivalents in an attempt to cushion the impact of a market decline. Therefore, actively managed funds may outperform these funds.

**Equity Index 500 Fund** While there is no guarantee, this fund should tend to be less volatile than the other three stock portfolios because of its focus on U.S. larger-cap stocks. The fund emphasizes large-cap stocks, which may at times lag shares of smaller, faster-growing companies. It may also pay a modest dividend that can help offset losses in falling markets.

**Extended Equity Market Index Fund** This fund will be subject to the greater risks associated with small- and mid-cap stocks. Smaller companies often have limited product lines, markets, or financial resources, and may depend on a small group of inexperienced managers. The securities of small companies may have limited marketability and liquidity and are often subject to more abrupt or erratic market

movements than shares of larger companies or the major market averages. The very nature of investing in smaller companies involves greater risk than is customarily associated with large-cap companies.

**Total Equity Market Index Fund** While there is no guarantee, this fund is expected to have a risk level between the other two U.S. funds, and should have higher dividends than the Extended Equity Market Index Fund.

**International Equity Index Fund** Funds that invest overseas generally carry more risk than funds that invest strictly in U.S. assets. Even investments in countries with highly developed economies are subject to significant risks. Some particular risks affecting this fund include the following:

- **Currency risk** This refers to a decline in the value of a foreign currency versus the U.S. dollar, which reduces the dollar value of securities denominated in that currency. The overall impact on a fund's holdings can be significant, unpredictable, and long-lasting, depending on the currencies represented in the portfolio and how each one appreciates or depreciates in relation to the U.S. dollar. Under normal conditions, the fund does not expect to hedge its currency exposure.
- **Other risks of foreign investing** Risks can result from varying stages of economic and political development, differing regulatory environments, trading days, and accounting standards, uncertain tax laws, and higher transaction costs of non-U.S. markets. Investments outside the United States could be subject to governmental actions such as capital or currency controls, nationalization of a company or industry, expropriation of assets, or imposition of high taxes.
  - ▶ ***While certain countries have made progress in economic growth, liberalization, fiscal discipline, and political and social stability, there is no assurance these trends will continue.***

**Tracking error** While all of the index funds are susceptible to some degree of tracking error, the use of sampling for the Extended Equity Market Index and Total Equity Market Index Funds, in particular, will likely result in increased deviation from their respective indices. In addition, for all four index funds, returns are likely to be slightly below those of the indices because the funds have fees and transaction expenses while indices have none. The timing of cash flows and a fund's size can also influence returns. For example, a fund's failure to reach a certain asset size may limit its ability to purchase all the stocks in the index and achieve full replication. Or, a large cash flow into or out of a fund may cause its return to deviate from the index.

**Futures/options risk** To the extent the funds use futures and options, they are exposed to additional volatility and potential losses.

## U.S. Bond Index Fund

This fund is designed to track the performance of investment-grade bonds, regardless of whether they are rising or falling. Because index funds are passively managed and substantially fully invested at all times, assets cannot be shifted from one bond or group of bonds to another based on their prospects in an attempt to cushion the impact of a market decline. Therefore, actively managed funds may outperform index funds. In addition, index funds carry the same overall risks as the indices they are designed to track. The following are the principal risks of the fund:

- **Interest rate risk** Investors should be concerned primarily with this risk because the Lehman Brothers U.S. Aggregate Index has typically had an intermediate to long weighted average maturity. An increase in interest rates will likely cause the fund's share price to fall, resulting in a loss of principal. Prices fall because the bonds and fixed-income securities in the fund's portfolio become less attractive to other investors when securities with higher yields become available. Even GNMA's and other securities whose principal and interest payments are guaranteed can decline in price if rates rise. Generally speaking, the longer a bond's maturity, the greater its potential for price declines if rates rise and for price gains if rates fall. Therefore, this fund carries more interest rate risk than short-term bond funds.
- **Credit risk** This risk is the chance that any of the funds' holdings will have their credit ratings downgraded or will default (fail to make scheduled interest or principal payments), potentially reducing the fund's income level and share price.

Most investment-grade (AAA through BBB) securities should have relatively low financial risk and a relatively high probability of future payment. However, securities rated BBB are more susceptible to adverse economic conditions and may have speculative characteristics. If the fund invests in securities whose issuers develop unexpected credit problems, the fund's price could decline.

- ▶ ***The fund may continue to hold a security that has been downgraded or loses its investment-grade rating after purchase.***
- **Prepayment risk and extension risk** A mortgage-backed bond, unlike most other bonds, can be hurt when interest rates fall because homeowners tend to refinance and prepay principal. Receiving increasing prepayments in a falling interest rate environment causes the average maturity of the portfolio to shorten, reducing its potential for price gains. It also requires the fund to reinvest proceeds at lower interest rates, which reduces the portfolio's total return and yield, and may even cause certain bond prices to fall below the level the fund paid for them, resulting in a capital loss. Any of these developments could result in a decrease in the fund's income, share price, or total return.

Extension risk refers to a rise in interest rates that causes a fund's average maturity to lengthen unexpectedly due to a drop in mortgage prepayments. This would increase the fund's sensitivity to rising rates and its potential for price declines.

- **Derivatives risk** Shareholders are also exposed to *derivatives risk*, the potential that the fund's investments (if any) in these complex and volatile instruments could affect the fund's share price. In addition to including GNMA, FNMA, FHLMC, and non-agency backed mortgages and better-known instruments such as swaps and futures, other derivatives that may be used in limited fashion by the fund include interest-only (IO) and principal-only (PO) securities known as "strips." Some of these instruments can be highly volatile, and their value can fall dramatically in response to rapid or unexpected changes in the mortgage, interest rate, or economic environment.
- **Tracking error** Differences between the composition of the fund and its index, as well as differences in pricing sources, will likely result in tracking error, or the risk that fund performance will not match that of the index. Tracking error will also result because the fund incurs fees and transaction expenses while indices have none. The timing of cash flows and the fund's size can also influence returns.

### All funds

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***Each fund's share price may decline, so when you sell your shares, you may lose money. An investment in the funds is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.***

### How can I tell which fund is most appropriate for me?

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. The segments of the market to which you want exposure and the degree of volatility you can accept in pursuit of income or long-term capital gains can guide you in choosing among the funds.

If you seek a relatively low-cost way of participating in the U.S. equity markets through a passively managed portfolio, the Equity Index 500, Extended Equity Market Index, or Total Equity Market Index Fund could be an appropriate part of your overall investment strategy.

The S&P 500 Index is one of the most widely tracked stock indices in the world. If you want to closely match the performance of the mostly large-cap stocks in this index, with the same level of risk, the Equity Index 500 Fund may be an appropriate choice.

If you seek potentially higher returns, can assume greater risk, and want broad exposure to small- and mid-cap stocks, you may wish to invest in the Extended Equity Market Index Fund.

If your risk profile is between that of the Equity Index 500 Fund and the Extended Equity Market Index Fund, and you would like to participate in the entire U.S. stock market, you may want to consider the Total Equity Market Index Fund.

If you want to diversify your domestic stock portfolio by adding exposure to an index of developed international stock markets and can accept the risks that accompany foreign investments, the International Equity Index Fund could be an appropriate part of your overall investment strategy.

► ***Equity investors should have a long-term investment horizon and be willing to wait out bear markets.***

If you seek a low-cost way to participate in the U.S. investment-grade bond market through a fund that tracks a well-known benchmark, the U.S. Bond Index Fund may be an appropriate investment.

► ***The fund or funds you select should not represent your complete investment program or be used for short-term trading purposes.***

Each fund can be used in both regular and tax-deferred accounts, such as IRAs.

### **How has each fund performed in the past?**

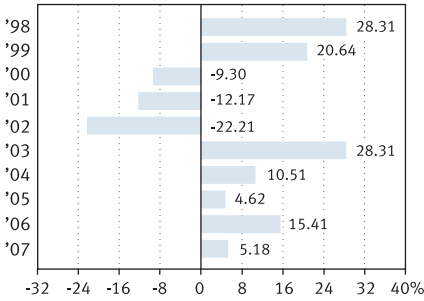
The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Past fund returns (before and after taxes) are not necessarily an indication of future performance.

The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor's situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund's other returns because the loss generates a tax benefit that is factored into the result.

**Equity Index 500 Fund**

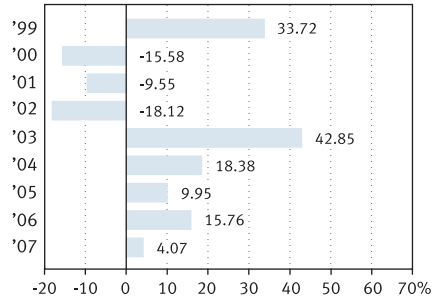
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/98	21.31%
Worst Quarter	9/30/02	-17.23%

**Extended Equity Market Index Fund**

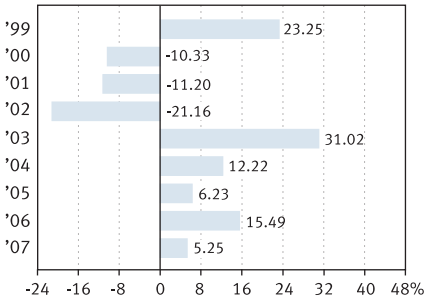
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/99	28.48%
Worst Quarter	9/30/01	-21.01%

**Total Equity Market Index Fund**

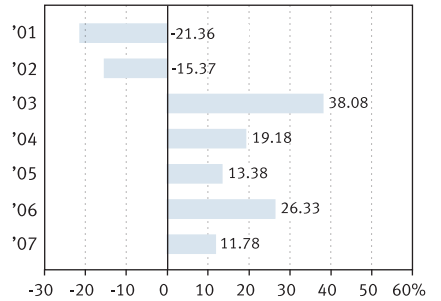
Calendar Year Returns



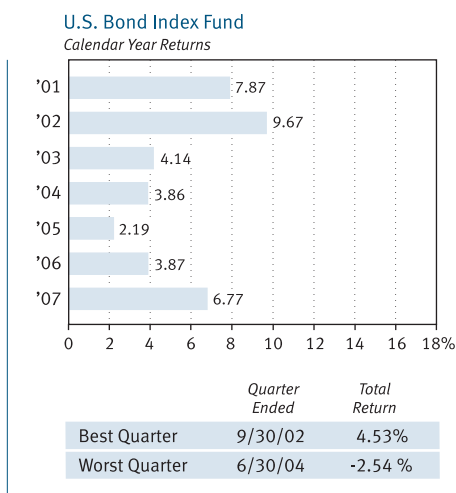
	Quarter Ended	Total Return
Best Quarter	12/31/99	17.85%
Worst Quarter	9/30/02	-16.80%

**International Equity Index Fund**

Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/03	19.77%
Worst Quarter	9/30/02	-19.97%

**Table 2 Average Annual Total Returns**

	Periods ended 12/31/07			
	1 year	5 years	Shorter of 10 years or since inception	Inception date
<b>Equity Index 500 Fund</b>				
Returns before taxes	5.18%	12.48%	5.62%	3/30/90
Returns after taxes on distributions	4.92	12.21	5.24	
Returns after taxes on distributions and sale of fund shares	3.71	10.90	4.73	
S&P 500 Index	5.50	12.83	5.91	
<b>Extended Equity Market Index Fund</b>				
Returns before taxes	4.07	17.50	7.78	1/30/98
Returns after taxes on distributions	2.70	17.01	6.98	
Returns after taxes on distributions and sale of fund shares	3.77	15.33	6.42	
S&P Completion Index <sup>a</sup>	4.50	—	9.77*	
Combined Index Portfolio <sup>b</sup>	4.16	17.85	7.93	
Dow Jones Wilshire 4500 Completion Index	5.77	18.22	8.10	
<b>Total Equity Market Index Fund</b>				
Returns before taxes	5.25	13.68	6.16	1/30/98
Returns after taxes on distributions	4.95	13.44	5.79	
Returns after taxes on distributions and sale of fund shares	3.68	11.97	5.21	
S&P Total Market Index <sup>a</sup>	5.32	—	8.97*	
Combined Index Portfolio <sup>c</sup>	5.46	14.01	6.31	
Dow Jones Wilshire 5000 Composite Index	5.73	14.07	6.34	

**Table 2 Average Annual Total Returns (Continued)**

	<i>Periods ended 12/31/07</i>			
	<i>1 year</i>	<i>5 years</i>	<i>Shorter of 10 years or since inception</i>	<i>Inception date</i>
<b>International Equity Index Fund</b>				
<i>Returns before taxes</i>	11.78	21.38	8.63	11/30/00
<i>Returns after taxes on distributions</i>	11.17	21.04	8.31	
<i>Returns after taxes on distributions and sale of fund shares</i>	8.25	18.98	7.47	
<i>FTSE™ Developed Ex-North America Index</i>	12.85	22.51	9.58	
<b>U.S. Bond Index Fund</b>				
<i>Returns before taxes</i>	6.77	4.15	5.68	11/30/00
<i>Returns after taxes on distributions</i>	4.98	2.90	4.14	
<i>Returns after taxes on distributions and sale of fund shares</i>	4.36	2.94	4.03	
<i>Lehman Brothers U.S. Aggregate Index</i>	6.97	4.42	6.01	

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

<sup>a</sup> The new index is expected to be a better representation of the stocks in which the fund invests.

<sup>b</sup> Combined Index Portfolio is an unmanaged portfolio composed of 100% Dow Jones Wilshire 4500 Completion Index (1/30/98-3/31/07), then 100% S&P Completion Index (from 4/1/07 forward).

<sup>c</sup> Combined Index Portfolio is an unmanaged portfolio composed of 100% Dow Jones Wilshire 5000 Composite Index (1/30/98-3/31/07), then 100% S&P Total Market Index (from 4/1/07 forward).

\* Since 12/31/04.

## What fees and expenses will I pay?

The shares that are offered in this profile are 100% no load. However, the funds charge a redemption fee, payable to the funds, on shares purchased and held 90 days or less. The fee is 2.00% for International Equity Index Fund and 0.50% for the other funds. The purpose of the fee is to discourage short-term trading, which increases transaction costs for the funds.

The Extended Equity Market Index, Total Equity Market Index, International Equity Index, and U.S. Bond Index Funds each have a single fee covering investment management and ordinary recurring operating expenses. In contrast, most mutual funds have a fixed management fee plus a fee for operating expenses.

There are no other fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds. There are no 12b-1 fees.



**Table 3 Fees and Expenses of the Funds\***

<b>Fund</b>	<b>Shareholder fees (fees paid directly from your investment)</b>			<b>Annual fund operating expenses (expenses that are deducted from fund assets)</b>				
	<b>Redemption fee<sup>a</sup></b>	<b>Account maintenance fee<sup>b</sup></b>	<b>Management fee</b>	<b>Other expenses</b>	<b>Acquired fund fees and expenses</b>	<b>Total annual fund operating expenses</b>	<b>Fee waiver/expense reimbursement</b>	<b>Net expenses</b>
Equity Index 500	0.50%	\$10	0.15%	0.22%	—	0.37%	0.02% <sup>c</sup>	<b>0.35%<sup>c</sup></b>
Extended Equity Market Index	0.50	10	0.40 <sup>d</sup>	—	—	<b>0.40<sup>d</sup></b>	—	—
Total Equity Market Index	0.50	10	0.40 <sup>d</sup>	—	—	<b>0.40<sup>d</sup></b>	—	—
International Equity Index	2.00	10	0.50 <sup>d</sup>	—	0.02%	<b>0.52<sup>d</sup></b>	—	—
U.S. Bond Index	0.50	10	0.30 <sup>d</sup>	—	—	<b>0.30<sup>d</sup></b>	—	—

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund.

<sup>a</sup> On shares purchased and held for 90 days or less.

<sup>b</sup> A \$2.50 quarterly fee is charged for accounts with balances less than \$10,000.

<sup>c</sup> Effective May 1, 2006, T. Rowe Price contractually obligated itself to waive its fees and bear any expenses through April 30, 2008, to the extent such fees or expenses would cause the fund's ratio of expenses to average net assets to exceed 0.35%. Fees waived or expenses paid or assumed under this agreement are subject to reimbursement to T. Rowe Price by the fund whenever the fund's expense ratio is below 0.35%. However, no reimbursement will be made after April 30, 2010, or three years after the waiver or payment, whichever is sooner, or if it would result in the expense ratio exceeding 0.35%. Any amounts reimbursed will have the effect of increasing fees otherwise paid by the fund. The fund operated under a previous expense limitation for which T. Rowe Price may be reimbursed.

<sup>d</sup> The management fee includes operating expenses.

**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table shows how much you would pay if operating expenses remain the same, the expense limitation currently in place is not renewed (if applicable), you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

<b>Fund</b>	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>	<b>10 years</b>
Equity Index 500	\$36	\$116	\$205	\$465
Extended Equity Market Index	41	128	224	505
Total Equity Market Index	41	128	224	505
International Equity Index	53	167	291	653
U.S. Bond Index	31	97	169	381

## Who manages the funds?

### All funds except International Equity Index Fund

The funds are managed by T. Rowe Price Associates, Inc. (T. Rowe Price). Founded in 1937, T. Rowe Price and its affiliates manage investments for individual and institutional accounts. The company offers a comprehensive array of stock, bond, and money market funds directly to the investing public.

### Equity Index 500 and Extended Equity Market Index Funds

E. Frederick Bair manages each fund day to day and has been chairman of each fund's Investment Advisory Committee since 2002. He joined T. Rowe Price in 1998 and has been managing investments since 2000.

### Total Equity Market Index Fund

E. Frederick Bair and Ken D. Uematsu manage the fund day to day and are co-chairmen of its Investment Advisory Committee. Mr. Bair joined T. Rowe Price in 1998 and has been managing investments since 2000. Mr. Uematsu joined T. Rowe Price in 1997 and has been managing investments since 2005.

### U.S. Bond Index Fund

Robert M. Larkins manages the fund day to day and was appointed chairman of its Investment Advisory Committee in 2007. Prior to joining T. Rowe Price, Mr. Larkins worked for Dow Chemical Company for four years as a research engineer. He has been managing investments since joining T. Rowe Price in 2003.

### International Equity Index Fund

T. Rowe Price International is responsible for the selection and management of fund portfolio investments. The U.S. office of T. Rowe Price International is located at 100 East Pratt Street, Baltimore, Maryland 21202.

E. Frederick Bair and Neil Smith manage the fund day to day and are co-chairmen of its Investment Advisory Committee. Mr. Bair joined T. Rowe Price in 1998 and has been managing investments since 2000. Mr. Smith joined T. Rowe Price in 1994 and has been managing investments since that time.

***To participants in employer-sponsored retirement plans: The following questions and answers about buying and selling shares and services do not apply to your plan. Please call your plan's toll-free number for additional information. Also note that this profile may include funds not available through your plan.***

## How can I purchase shares?

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$2,500 (\$1,000 for IRAs and gifts or transfers to minors). The minimum subsequent investment is \$100 (\$50 for

IRAs, gifts or transfers to minors, or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

**How can I sell shares?**

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

**When will I receive income and capital gain distributions?**

- The U.S. Bond Index Fund distributes income monthly.
- The Equity Index 500 Fund distributes income quarterly.
- The Extended Equity Market Index, Total Equity Market Index, and International Equity Index Funds distribute income annually.

**All funds**

The funds distribute net capital gains, if any, at year-end. For regular accounts, income and short-term gains are taxable at ordinary income rates, and long-term gains are taxable at the capital gains rate. Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check. Distributions paid to IRAs and employer-sponsored retirement plans are automatically reinvested.

**What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.

T. Rowe Price Associates, Inc.  
100 East Pratt Street  
Baltimore, MD 21202  
[troweprice.com](http://troweprice.com)



T. ROWE PRICE

**Spectrum Growth Fund**

**Spectrum Income Fund**

**Spectrum International Fund**

Three broadly diversified growth, income, and international funds that invest in other T. Rowe Price funds.



*This profile summarizes key information about the funds that is included in the funds' prospectus. The funds' prospectus includes additional information about the funds, including a more detailed description of the risks associated with investing in each fund that you may want to consider before you invest. You may obtain the prospectus and other information about the funds at no cost by calling 1-800-638-5660 or by visiting our Web site at [troweprice.com](http://troweprice.com).*

# T. Rowe Price Spectrum Fund, Inc.

## Spectrum Growth Fund – PRSGX

## Spectrum Income Fund – RPSIX

## Spectrum International Fund – PSILX

### What is each fund's objective?

**Income Fund** seeks a high level of current income with moderate share price fluctuation.

**Growth Fund** seeks long-term capital appreciation and growth of income with current income a secondary objective.

**International Fund** seeks long-term capital appreciation.

### What is each fund's principal investment strategy?

Each fund normally diversifies its assets widely among a set of T. Rowe Price mutual funds representing specific market segments. Each Spectrum Fund seeks to maintain broad exposure to several markets in an attempt to reduce the impact of markets that are declining and to benefit from good performance in particular market segments over time.

**Income Fund** normally invests in domestic and international bond funds, a money market fund, and an income-oriented stock fund.

**Growth Fund** normally invests in domestic and international equity funds and a money market fund.

**International Fund** normally invests in developed and emerging market equity funds, a money market fund, and, from time to time, international bond funds.

Within the ranges shown in Table 1, managers decide how much of each fund's assets to allocate to underlying fund investments based on their outlook for, and on the relative valuations of, the underlying funds and the various markets in which they invest.

Each fund may sell securities for a variety of reasons, such as to secure gains, limit losses, or redeploy assets into more promising opportunities.

**Table 1 Asset Allocation Ranges for Underlying Funds**

<i>Income Fund</i>	<i>Investment Range</i>	<i>Growth Fund</i>	<i>Investment Range</i>	<i>International Fund</i>	<i>Investment Range</i>
Corporate Income	0–10%	Blue Chip Growth	5–20%	Emerging Europe & Mediterranean	0–15%
Emerging Markets Bond	0–10	Emerging Markets Stock	0–10	Emerging Markets Bond	0–15
Equity Income	10–25	Equity Income	5–20	Emerging Markets Stock	0–20
GNMA	5–20	Growth Stock	5–20	European Stock	0–30
High Yield	10–25	International Growth & Income	0–15	International Bond	0–20
International Bond	5–20	International Stock	0–15	International Discovery	0–20
New Income	10–25	Mid-Cap Value	0–15	International Growth & Income	0–35
Short-Term Bond	0–15	New Horizons	10–25	International Stock	0–55
Summit Cash Reserves	0–25	Summit Cash Reserves	0–25	Japan	0–30
U.S. Treasury Long-Term	0–15	Value	5–20	Latin America	0–15
				New Asia	0–20
				Overseas Stock	0–35
				Summit Cash Reserves	0–25

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by a fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

### **What are the main risks of investing in the funds?**

Each Spectrum Fund's broad diversification is designed to cushion severe losses in any one investment sector and moderate the funds' overall price swings. However, the funds' share prices will fluctuate as the prices of the underlying funds

rise or fall with changing market conditions. The Income Fund should experience lower price volatility than the equity-focused funds. Each fund carries some particular risk considerations:

### ***Income Fund***

This fund's share price will typically move in the opposite direction of U.S. interest rates, so a rise in rates, or *interest rate risk*, represents the most important source of risk. Interest rate risk will increase to the extent the fund invests in underlying funds with longer maturity bonds. There is also exposure to *credit risk*: issuers of corporate bonds held by the underlying funds may have their credit ratings downgraded or they may default. Such events could reduce the fund's share price and income level. Credit risk for the fund increases to the extent it invests in high-yield ("junk") bonds, primarily through the High Yield Fund. The fund is exposed to the risks of *international investing* to the extent it invests overseas, primarily through the International Bond and Emerging Markets Bond Funds. For example, weakening foreign currencies versus the U.S. dollar would typically reduce returns from bonds denominated in other currencies. In addition, emerging market bonds are subject to the special political and economic risks of developing or newly industrialized countries. To the extent that the Income Fund invests in stocks through the Equity Income Fund, its share price would be hurt by stock market declines.

### ***Growth Fund***

As with all equity funds, this fund's share price can fall because of weakness in the broad market, a particular industry, or specific holdings. The market as a whole can decline for many reasons, including adverse political or economic developments here or abroad, changes in investor psychology, or heavy institutional selling. The prospects for a particular underlying fund or the industries or companies in which it invests may deteriorate because of a variety of factors, including disappointing earnings or changes in the competitive environment. In addition, our assessment of the growth potential of underlying funds held by the fund may prove incorrect, resulting in losses or poor performance even in a rising market.

In addition to the general stock market risks assumed by the funds held in this portfolio, certain underlying holdings carry additional risks. The fund's investments in small- and mid-cap companies, primarily through the New Horizons and Mid-Cap Value Funds, may experience greater price swings than its investments in funds holding larger stocks. To the extent the fund invests in foreign securities, primarily through the International Stock, International Growth & Income, and Emerging Markets Stock Funds, it is also subject to the risk that it may lose value due to declining foreign currencies or adverse political or economic events overseas.



- ▶ ***Equity investors should have a long-term investment horizon and be willing to wait out bear markets.***

### ***International Fund***

This fund is subject to the general stock and bond market risks noted previously. Because it can invest only up to 35% of assets in foreign bond funds, its performance will primarily be influenced by stock fund risks. Funds that invest overseas generally carry more risk than funds that invest strictly in U.S. assets. These risks include fluctuations in foreign exchange rates that can significantly increase or decrease the dollar value of a foreign investment, boosting or offsetting its local market return. For example, weakening foreign currencies versus the U.S. dollar would typically lower returns for U.S. investors. Investing in foreign markets may also involve higher costs and lower liquidity. Government interference in capital markets, such as capital or currency controls, nationalization of companies or industries, expropriation of assets, or imposition of punitive taxes would have an adverse effect on the fund.

To the extent the fund has investments in emerging market countries, primarily through the Emerging Europe & Mediterranean, Emerging Markets Stock, Latin America, or New Asia Funds, it will be more subject to abrupt and severe price declines. Many of the economic and political structures of these countries do not compare favorably with the U.S. in terms of wealth and stability, and their financial markets may lack liquidity. Therefore, investments in these countries are much riskier than investments in mature markets.

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***Each fund's share price may decline, so when you sell your shares, you may lose money. An investment in the fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.***

### **How can I tell which fund is most appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk.

If you would like a one-stop approach to broad diversification and can accept the possibility of moderate share price declines in an effort to achieve relatively high income, **Income Fund** could be an appropriate part of your overall investment strategy.

If you would like a one-stop approach to broad diversification and can accept the possibility of share price declines in an effort to achieve long-term capital appreciation and some current income, **Growth Fund** could be an appropriate part of your overall investment strategy.

If you would like a one-stop approach to broad international diversification and can accept the possibility of significant share price declines in an effort to achieve long-term capital appreciation, **International Fund** could be an appropriate part of your overall investment strategy.

- ▶ **The fund or funds you select should not represent your complete investment program or be used for short-term trading purposes.**

Each fund can be used in both regular and tax-deferred accounts, such as IRAs.

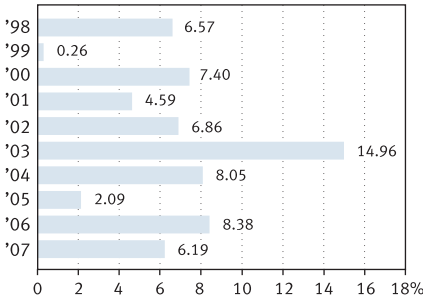
**How has each fund performed in the past?**

The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Past fund returns (before and after taxes) are not necessarily an indication of future performance.

The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

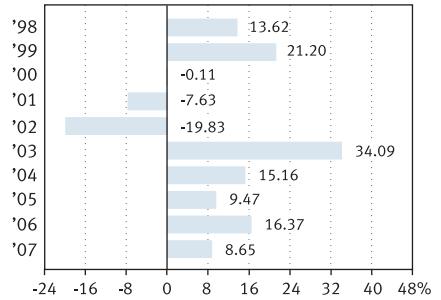
In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor’s situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund’s other returns because the loss generates a tax benefit that is factored into the result.

**Spectrum Income Fund**  
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/03	6.52%
Worst Quarter	6/30/04	-1.23%

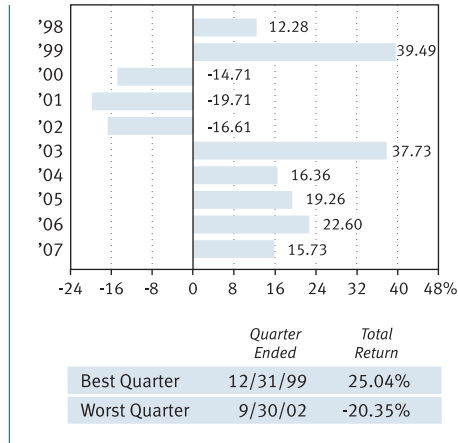
**Spectrum Growth Fund**  
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/03	18.81%
Worst Quarter	9/30/02	-18.40%

**Spectrum International Fund**

Calendar Year Returns



**Table 2 Average Annual Total Returns**

	Periods ended 12/31/07		
	1 year	5 years	10 years
<b>Income Fund</b>			
Returns before taxes	6.19%	7.85%	6.47%
Returns after taxes on distributions	4.22	6.41	4.48
Returns after taxes on distributions and sale of fund shares	4.16	6.08	4.39
Lehman Brothers U.S. Aggregate Index	6.97	4.42	5.97
Lipper General Bond Funds Average	3.27	5.46	4.66
<b>Growth Fund</b>			
Returns before taxes	8.65	16.41	8.09
Returns after taxes on distributions	7.68	15.92	6.92
Returns after taxes on distributions and sale of fund shares	6.54	14.37	6.55
S&P 500 Index	5.50	12.83	5.91
Lipper Multi-Cap Core Funds Index	5.97	14.08	6.46

**Table 2 Average Annual Total Returns (Continued)**

	<b>Periods ended 12/31/07</b>		
	<b>1 year</b>	<b>5 years</b>	<b>10 years</b>
<b>International Fund</b>			
<i>Returns before taxes</i>	15.73	22.08	9.26
<i>Returns after taxes on distributions</i>	14.05	21.25	8.00
<i>Returns after taxes on distributions and sale of fund shares</i>	10.96	19.32	7.49
<i>Combined Index (90% MSCI EAFE Index/10% J.P. Morgan Non-U.S. Dollar Government Bond Index)</i>	11.66	20.61	8.87
<i>Lipper International Multi-Cap Core Funds Average</i>	12.18	20.77	9.09

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

Lehman Brothers U.S. Aggregate Index tracks domestic investment-grade bonds, including corporate, government, and mortgage-backed securities.

S&P 500 Index tracks the stocks of 500 U.S. companies.

MSCI EAFE Index tracks the stocks of more than 1,000 companies in Europe, Australasia, and the Far East (EAFE).

J.P. Morgan Non-U.S. Dollar Government Bond Index tracks government bonds in 12 international markets.

### **What fees and expenses will I pay?**

The shares that are offered in this profile are 100% no load. The Spectrum International Fund imposes a 2.00% redemption fee, payable to the fund, on shares purchased and held less than 90 days. There are no fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds.

There are no 12b-1 fees. While the funds themselves impose no fees or charges, they will indirectly bear their pro-rata share of the expenses of the underlying funds. The following table shows the expenses each fund will bear based on the expected allocation to, and the expected average expense ratio of, the underlying (acquired) funds.

**Table 3 Fees and Expenses of the Funds\***

<i>Fund</i>	<i>Redemption fee<sup>a</sup></i>	<i>Management fee</i>	<i>Other expenses<sup>b</sup></i>	<i>Acquired fund fees and expenses</i>	<i>Total annual fund operating expenses</i>
Income	—	0.00%	0.00%	0.70%	<b>0.70%</b>
Growth	—	0.00	0.00	0.81	<b>0.81</b>
International	2.00%	0.00	0.00	0.97	<b>0.97</b>

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund. Accounts with less than a \$2,000 balance (with certain exceptions) are subject to a \$10 fee.

<sup>a</sup> On shares purchased and held for 90 days or less.

<sup>b</sup> The expenses of each Spectrum Fund are expected to be borne by the underlying funds in which they invest.

**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table uses the net expenses to show how much you would pay if operating expenses remain the same, you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

<i>Fund</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>10 years</i>
Income	\$72	\$224	\$390	\$ 871
Growth	83	259	450	1,002
International	99	309	536	1,190

### Who manages the funds?

T. Rowe Price serves as investment manager for the Spectrum Growth and Spectrum Income Funds as well as all of the underlying domestic funds.

T. Rowe Price International serves as investment manager for the Spectrum International Fund. T. Rowe Price International or an affiliate serves as the investment manager for all of the underlying international funds. Each manager is responsible for the selection and management of fund portfolio investments.

T. Rowe Price and T. Rowe Price International are wholly owned subsidiaries of T. Rowe Price Group, Inc. Their U.S. offices are located at 100 East Pratt Street, Baltimore, Maryland 21202.

### Spectrum Income and Spectrum Growth Funds

Edmund M. Notzon III manages the funds day to day and has been chairman of their Investment Advisory Committee since 1998. He has been managing investments since joining T. Rowe Price in 1989.

## **Spectrum International Fund**

David J.L. Warren manages the fund day to day and has been chairman of its Investment Advisory Committee since 2004. He joined T. Rowe Price International in 1983 and has 23 years of experience in equity research, fixed-income research, and portfolio management.

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### **How can I purchase shares?**

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$2,500 (\$1,000 for IRAs and gifts or transfers to minors). The minimum subsequent investment is \$100 (\$50 for IRAs, gifts or transfers to minors, or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

### **How can I sell shares?**

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

### **When will I receive income and capital gain distributions?**

Spectrum Income Fund distributes income monthly and net capital gains, if any, at year-end. Spectrum Growth and Spectrum International Funds distribute income and net capital gains, if any, at year-end. For regular accounts, income and short-term gains are taxable at ordinary income rates, and long-term gains are taxable at the capital gains rate. Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check. Distributions paid to IRAs and employer-sponsored retirement plans are automatically reinvested.

### **What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.

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[troweprice.com](http://troweprice.com)



T. ROWE PRICE

**Personal Strategy Income Fund**  
**Personal Strategy Balanced Fund**  
**Personal Strategy Growth Fund**

Three funds with different mixes of stocks, bonds, and money market securities and different risk and reward potential.



*This profile summarizes key information about the funds that is included in the funds' prospectus. The funds' prospectus includes additional information about the funds, including a more detailed description of the risks associated with investing in each fund that you may want to consider before you invest. You may obtain the prospectus and other information about the funds at no cost by calling 1-800-638-5660 or by visiting our Web site at [troweprice.com](http://troweprice.com).*



## T. Rowe Price Personal Strategy Funds, Inc.

**T. Rowe Price Personal Strategy Income Fund – PRSIX**

**T. Rowe Price Personal Strategy Balanced Fund – TRPBX**

**T. Rowe Price Personal Strategy Growth Fund – TRSGX**

### What is each fund's objective?

**Income Fund** seeks the highest total return over time consistent with a primary emphasis on income and a secondary emphasis on capital growth. The fund pursues this objective by investing in a diversified portfolio typically consisting of about 40% stocks, 40% bonds, and 20% money market securities.

**Balanced Fund** seeks the highest total return over time consistent with an emphasis on both capital growth and income. The fund pursues this objective by investing in a diversified portfolio typically consisting of about 60% stocks, 30% bonds, and 10% money market securities.

**Growth Fund** seeks the highest total return over time consistent with a primary emphasis on capital growth and a secondary emphasis on income. The fund pursues this objective by investing in a diversified portfolio typically consisting of about 80% stocks and 20% bonds and money market securities.

- ▶ *Generally, the greater the portion of stocks in the fund, the higher the fund's potential return over time and the greater the risk of price declines.*

### What is each fund's principal investment strategy?

Under normal conditions and based on our outlook for the economy and the financial markets, allocations for each fund can vary by 10 percentage points above or below the benchmarks shown in the table on the next page. Domestic stocks are drawn from the overall U.S. market. International stocks are selected primarily from large companies in developed markets but may also include investments in developing markets. Bonds, which can include foreign issues, are primarily investment grade (four highest credit ratings) and are chosen across the entire government, corporate, and mortgage-backed bond market. Maturities reflect the manager's outlook for interest rates.

When deciding upon allocations within these prescribed limits, managers may favor fixed-income securities if the economy is expected to slow sufficiently to hurt corporate profit growth. When strong economic growth is expected, managers may favor stocks. And when selecting particular stocks, managers will examine relative values and prospects among growth- and value-oriented stocks, domestic and international stocks, and small- to large-cap stocks. This process draws heavily upon T. Rowe Price's proprietary stock research expertise. While

each fund maintains a well-diversified portfolio, its manager may at a particular time shade stock selection toward markets or market sectors that appear to offer attractive value and appreciation potential.

Much the same security selection process applies to bonds. For example, when deciding on whether to adjust allocations to high-yield (junk) bonds, managers will weigh such factors as the outlook for the economy and corporate earnings and the yield advantage lower-rated bonds offer over investment-grade bonds.

**Table 1 Differences Among Funds**

<b>Fund</b>	<b>Benchmark allocations</b>	<b>Ranges</b>	<b>Relative income level</b>	<b>Risk/reward relative to each other</b>
Income	40% Stocks	30 - 50%	Higher - distributes quarterly	Lower
	40% Bonds	30 - 50		
	20% Money markets	10 - 30		
Balanced	60% Stocks	50 - 70	Moderate - distributes quarterly	More than Income, less than Growth
	30% Bonds	20 - 40		
	10% Money markets	0 - 20		
Growth	80% Stocks	70 - 90	Lower - distributes annually	Higher
	20% Bonds and money markets	10 - 30		

In keeping with each fund's objective, it may also invest in other securities, including futures, options, and swaps.

Securities may be sold for a variety of reasons, such as to effect a change in asset allocation, secure a gain, limit a loss, or redeploy assets into more promising opportunities.

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by a fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

## What are the main risks of investing in the funds?

Each fund's program of investing in stocks, bonds, and money market securities exposes it to a variety of risks. Each of these is proportional to the percentage of assets the fund has in these securities. The risks include:

- **Risks of stock investing** Stock prices can fall because of weakness in the broad market, a particular industry, or specific holdings. The market as a whole can decline for many reasons, including adverse political or economic developments here or abroad, changes in investor psychology, or heavy institutional selling. The prospects for an industry or company may deteriorate because of a variety of factors, including disappointing earnings or changes in the competitive environment. In addition, our assessment of companies held in the fund may prove incorrect, resulting in losses or poor performance even in a rising market. Finally, a fund's investment approach could fall out of favor with the investing public, resulting in lagging performance as compared with other types of funds.
- **Risks of bond investing** Bonds have two main sources of risk. *Interest rate risk* is the decline in bond prices that usually accompanies a rise in interest rates. Longer-maturity bonds typically suffer greater declines than those with shorter maturities. If the funds purchase longer-maturity bonds and interest rates rise unexpectedly, their share prices could decline. Mortgage securities can react somewhat differently from regular bonds to interest rate changes. Falling rates can cause losses of principal due to increased mortgage prepayments. Rising rates can lead to decreased prepayments and greater volatility. *Credit risk* is the chance that any fund holding could have its credit rating downgraded or that a bond issuer will default (fail to make timely payments of interest or principal), potentially reducing the fund's income level and share price.

While each fund expects to invest primarily in investment-grade bonds, they may also hold high-yield (junk) bonds, including those with the lowest rating. Investment-grade bonds are those rated from the highest (AAA) to medium (BBB) quality, and high-yield bonds are rated BB and lower. The latter are speculative since their issuers are more vulnerable to financial setbacks and recession than more creditworthy companies, but BBB rated bonds may have speculative elements as well. High-yield bond issuers include small companies lacking the history or capital to merit investment-grade status, former blue chip companies downgraded because of financial problems, and firms with heavy debt loads.

- **Risks of foreign securities** To the extent each fund invests in foreign stocks and bonds, it is also subject to the special risks associated with such investments, whether denominated in U.S. dollars or foreign currencies. These risks include potentially adverse political and economic developments overseas, greater volatility, less liquidity, and the possibility that foreign currencies will decline against the dollar, lowering the value of securities denominated in those currencies. To the extent that the funds invest in emerging markets, they are subject to greater

risk than funds investing only in developed markets. The economic and political structures of developing nations, in most cases, do not compare favorably with the U.S. or other developed countries in terms of wealth and stability, and their financial markets often lack liquidity.

- **Derivatives risk** To the extent each fund uses futures, swaps, and other derivatives, it is exposed to additional volatility and potential losses.

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***Each fund's share price may decline, so when you sell your shares, you may lose money. An investment in each fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.***

### **How can I tell which fund is most appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk; see the table entitled Differences Among Funds to help you choose a fund for your particular needs. Your time horizon should play a major role in the choice of investments. A fundamental investment principle is that if you have a longer horizon, say 15 years, you can pursue a more aggressive program than if it is shorter, perhaps five years. Also, you may seek a more aggressive approach at an earlier stage of life but a more balanced or conservative approach as you age and your circumstances change.

**Income Fund** is designed for investors seeking a relatively conservative approach to capital growth as well as current income. The fund could be appropriate for an investor with an intermediate time horizon.

**Balanced Fund** is intended for those seeking a middle-of-the-road approach that emphasizes stocks for potential capital appreciation but also produces significant income to temper volatility. The fund should be appropriate for intermediate- to long-term investment goals.

**Growth Fund** is designed for more aggressive investors with a long-term horizon who want significant exposure to stocks and can withstand inevitable setbacks in an effort to achieve potential long-term growth.

Each fund can be used in both regular and tax-deferred accounts, such as IRAs.

- ▶ ***The fund or funds you select should not represent your complete investment program or be used for short-term trading purposes.***

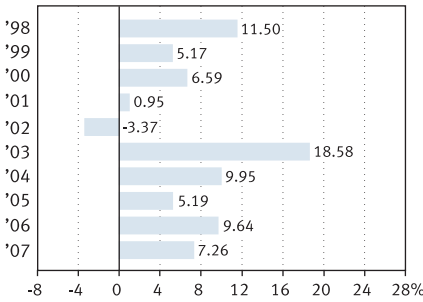
**How has each fund performed in the past?**

The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Past fund returns (before and after taxes) are not necessarily an indication of future performance.

The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

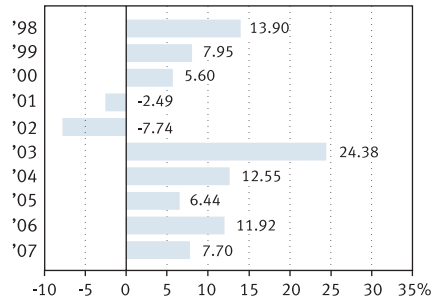
In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor’s situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund’s other returns because the loss generates a tax benefit that is factored into the result.

**Personal Strategy Income Fund**  
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/03	9.20%
Worst Quarter	9/30/02	-5.97%

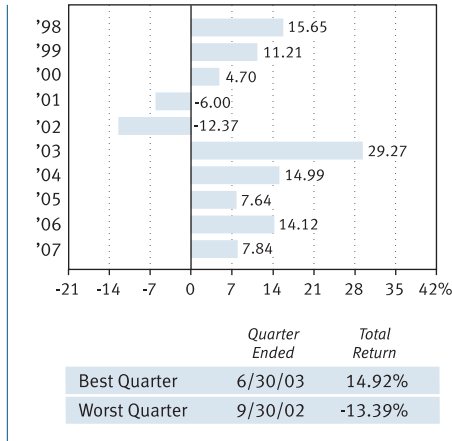
**Personal Strategy Balanced Fund**  
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/03	12.20%
Worst Quarter	9/30/02	-9.72%

**Personal Strategy Growth Fund**

*Calendar Year Returns*



**Table 2 Average Annual Total Returns**

	<i>Periods ended 12/31/07</i>		
	<i>1 year</i>	<i>5 years</i>	<i>10 years</i>
<b>Income Fund</b>			
<i>Returns before taxes</i>	7.26%	10.03%	6.99%
<i>Returns after taxes on distributions</i>	5.40	8.90	5.57
<i>Returns after taxes on distributions and sale of fund shares</i>	5.73	8.22	5.28
<i>Lehman Brothers U.S. Aggregate Index</i>	6.97	4.42	5.97
<i>Combined Index Portfolio<sup>a</sup></i>	6.53	8.47	6.14
<i>Lipper Income Funds Index</i>	5.63	8.53	5.67
<b>Balanced Fund</b>			
<i>Returns before taxes</i>	7.70	12.43	7.69
<i>Returns after taxes on distributions</i>	5.49	11.37	6.36
<i>Returns after taxes on distributions and sale of fund shares</i>	6.88	10.52	6.05
<i>Merril Lynch-Wilshire Capital Market Index</i>	4.46	9.96	5.98
<i>Combined Index Portfolio<sup>b</sup></i>	6.67	10.78	6.54
<i>Lipper Mixed-Asset Target Allocation Growth Funds Index</i>	6.53	11.45	6.62

**Table 2 Average Annual Total Returns (Continued)**

	Periods ended 12/31/07		
	1 year	5 years	10 years
<b>Growth Fund</b>			
<i>Returns before taxes</i>	7.84	14.51	8.13
<i>Returns after taxes on distributions</i>	5.91	13.79	7.19
<i>Returns after taxes on distributions and sale of fund shares</i>	7.13	12.64	6.74
<i>Merrill Lynch-Wilshire Capital Market Index</i>	4.46	9.96	5.98
<i>Combined Index Portfolio<sup>c</sup></i>	6.83	13.12	6.85
<i>Lipper Flexible Portfolio Funds Index</i>	9.57	12.10	5.94

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

<sup>a</sup> Combined Index Portfolio is an unmanaged portfolio composed of 40% stocks (34% Dow Jones Wilshire 5000 Composite Index, 6% MSCI EAFE Index), 40% bonds (Lehman Brothers U.S. Aggregate Index), and 20% money market securities (Citigroup 3-Month Treasury Bill Index).

<sup>b</sup> Combined Index Portfolio is an unmanaged portfolio composed of 40% stocks, 40% bonds, and 20% money market securities. Stocks are represented by the Dow Jones Wilshire 5000 Composite Index and the MSCI EAFE Index. The percentage of the fund represented by each index will vary over time to reflect the fund's changing allocation between U.S. and non-U.S. stocks. Bonds are represented by the Lehman Brothers U.S. Aggregate Index and money market securities by the Citigroup 3-Month Treasury Bill Index.

<sup>c</sup> Combined Index Portfolio is an unmanaged portfolio composed of 80% stocks (68% Dow Jones Wilshire 5000 Composite Index, 12% MSCI EAFE Index) and 20% bonds (Lehman Brothers U.S. Aggregate Index).

Citigroup 3-Month Treasury Bill Index tracks short-term U.S. government debt instruments.

Lehman Brothers U.S. Aggregate Index tracks domestic investment-grade bonds, including corporate, government, and mortgage-backed securities.

Merrill Lynch-Wilshire Capital Market Index is a market capitalization-weighted index composed of the Dow Jones Wilshire 5000 Composite Index (domestic stocks), the Merrill Lynch U.S. High Yield Master Cash Pay Only Index (below investment-grade bonds), and the Merrill Lynch U.S. Domestic Master Index (investment-grade bonds, including U.S. Treasury, government agency, corporate, and mortgage pass-through securities).

MSCI EAFE Index tracks the stocks of more than 1,000 companies in Europe, Australasia, and the Far East (EAFE).

Dow Jones Wilshire 5000 Composite Index tracks the performance of the most active stocks in the broad U.S. market.

## What fees and expenses will I pay?

The shares that are offered in this profile are 100% no load. There are no fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds. There are no 12b-1 fees.

**Table 3 Fees and Expenses of the Funds\***

<i>Fund</i>	<i>Annual fund operating expenses (expenses that are deducted from fund assets)</i>					<i>Net expenses</i>
	<i>Management fee</i>	<i>Other expenses</i>	<i>Acquired fund fees and expenses</i>	<i>Total annual fund operating expenses</i>	<i>Fee waiver/reimbursement</i>	
Income	0.45%	0.29%	0.03% <sup>a</sup>	0.77%	0.03% <sup>bc</sup>	0.74% <sup>bc</sup>
Balanced	0.55	0.24	0.02 <sup>a</sup>	0.81	0.02 <sup>bc</sup>	0.79 <sup>bc</sup>
Growth	0.60	0.25	0.01 <sup>a</sup>	0.86	0.01 <sup>bc</sup>	0.85 <sup>bc</sup>

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund. Accounts with less than a \$2,000 balance (with certain exceptions) are subject to a \$10 fee.

<sup>a</sup> The fund indirectly bears its share of the expenses paid by acquired funds in which it invests; such indirect expenses are not paid from the fund's assets but are reflected in the return realized by the fund on its investment in the acquired funds.

<sup>b</sup> Actual expenses paid by the funds were 0.71% (Income), 0.77% (Balanced), and 0.84% (Growth) due to a credit received from investing in the T. Rowe Price Institutional High Yield Fund. This credit totaled 0.03% (Income), 0.02% (Balanced), and 0.01% (Growth) in fiscal year 2007 but will vary with the amount invested in Institutional High Yield Fund.

<sup>c</sup> Effective October 1, 2006, T. Rowe Price contractually obligated itself to waive any fees and bear any expenses through September 30, 2008, to the extent such fees or expenses would cause the funds' ratios of expenses to average net assets to exceed 0.80% (Income), 0.90% (Balanced), or 1.00% (Growth). Fees waived or expenses paid or assumed under this agreement are subject to reimbursement to T. Rowe Price whenever the funds' expense ratios are below the applicable limits; however, no reimbursement will be made after September 30, 2010, or three years after any waiver or payment whichever is sooner, or if it would result in the expense ratio exceeding the applicable limits. Any amounts reimbursed will have the effect of increasing fees otherwise paid by the funds. The funds operated under previous expense limitations for which T. Rowe Price may be reimbursed.

**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table shows how much you would pay if operating expenses remain the same, the expense limitation currently in place is not renewed (if applicable), you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

<i>Fund</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>10 years</i>
Income	\$76	\$237	\$411	\$ 918
Balanced	81	252	439	978
Growth	87	271	471	1,049

### Who manages the funds?

The funds are managed by T. Rowe Price Associates, Inc. (T. Rowe Price). Founded in 1937, T. Rowe Price and its affiliates manage investments for individual and institutional accounts. The company offers a comprehensive array of stock, bond, and money market funds directly to the investing public.



Edmund M. Notzon III manages each fund day to day and has been chairman of their Investment Advisory Committee since 1998. He has been managing investments since joining T. Rowe Price in 1989.

***To participants in employer-sponsored retirement plans: The following questions and answers about buying and selling shares and services do not apply to your plan. Please call your plan's toll-free number for additional information. Also note that this profile may include funds not available through your plan.***

### **How can I purchase shares?**

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$2,500 (\$1,000 for IRAs and gifts or transfers to minors). The minimum subsequent investment is \$100 (\$50 for IRAs, gifts or transfers to minors, or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

### **How can I sell shares?**

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

### **When will I receive income and capital gain distributions?**

The Balanced and Income Funds distribute income quarterly and net capital gains, if any, at year-end. The Growth Fund distributes income annually and net capital gains, if any, at year-end. For regular accounts, income and short-term gains are taxable at ordinary income rates, and long-term gains are taxable at the capital gains rate. Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check. Distributions paid to IRAs and employer-sponsored retirement plans are automatically reinvested.

### **What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.

T. Rowe Price Associates,  
Inc.  
100 East Pratt Street  
Baltimore, MD 21202



T. ROWE PRICE

**Tax-Efficient  
Balanced Fund**

**Tax-Efficient  
Growth Fund**

**Tax-Efficient  
Multi-Cap Growth Fund**

Two stock funds and a balanced fund seeking attractive after-tax total returns.



*This profile summarizes key information about the funds that is included in the funds' prospectus. The funds' prospectus includes additional information about the funds, including a more detailed description of the risks associated with investing in each fund that you may want to consider before you invest. You may obtain the prospectus and other information about the funds at no cost by calling 1-800-638-5660 or by visiting our Web site at [troweprice.com](http://troweprice.com).*

## T. Rowe Price Tax-Efficient Funds, Inc.

**T. Rowe Price Tax-Efficient Balanced Fund – PRTEX**

**T. Rowe Price Tax-Efficient Growth Fund – PTEGX**

**T. Rowe Price Tax-Efficient Multi-Cap Growth Fund – PREFX**

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### OBJECTIVE, STRATEGY, RISKS, AND EXPENSES

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#### What is each fund's objective?

**Balanced Fund** seeks to provide attractive long-term total returns on an after-tax basis with a balanced portfolio of stocks and municipal bonds.

**Growth Fund** seeks to provide long-term capital growth on an after-tax basis.

**Multi-Cap Growth Fund** seeks to maximize after-tax growth of capital through investments primarily in common stocks.

#### What is each fund's principal investment strategy?

**Balanced Fund** invests a minimum of 50% of total assets in municipal bonds (measured at the end of each fiscal quarter), and the balance in large-capitalization stocks selected mainly from the 1,000 largest U.S. companies as measured by their capitalizations.

**Growth Fund** invests in large-capitalization stocks selected mainly from the 1,000 largest U.S. companies as measured by their capitalizations.

**Multi-Cap Growth Fund** invests primarily in stocks of mid-cap and small-cap companies but has the flexibility to purchase some larger companies. We define mid-cap companies as those whose market capitalization falls within the range of companies in the Russell Midcap Growth Index at the time of purchase. The market capitalization range for the Russell Midcap Growth Index was \$462 million to \$20,730 million as of February 28, 2007. The market capitalization of the companies in the fund's portfolio and the Russell Midcap Growth Index will change over time, and the fund will not automatically sell or cease to purchase stock of a company it already owns just because the company's market capitalization grows or falls outside of the index's range. The fund expects to invest a significant portion of its assets in technology companies.

- **Stock selection process (all funds)** Stock selection for all three funds is based on a combination of fundamental, bottom-up analysis and top-down quantitative strategies in an effort to identify companies with superior long-term appreciation prospects. We generally use a growth approach, looking for companies with one or more of the following characteristics: a demonstrated ability to consistently increase revenues, earnings, and cash flow; capable management; attractive business niches; and a sustainable competitive advantage. Valuation measures, such

as a company's price/earnings ratio relative to the market and its own growth rate, are also considered. We will typically limit holdings of high-yielding stocks, but the payment of dividends—even above-average dividends—does not disqualify a stock from consideration. Most holdings in the Multi-Cap Growth Fund are expected to have relatively low dividend yields.

In pursuing its investment objective, each fund's management has the discretion to purchase some securities that do not meet its normal investment criteria, as described above, when it perceives an unusual opportunity for gain. These special situations might arise when the fund's management believes a security could increase in value for a variety of reasons, including a change in management, an extraordinary corporate event, or a temporary imbalance in the supply of or demand for the securities.

- **Bond selection process (Balanced Fund)** The bond portion of this fund will consist primarily of long-term municipals with maturities generally exceeding 10 years. The weighted average maturity of the bond portion of the fund is expected to exceed 10 years. A minimum of 90% of the fund's bond component will be invested in municipals with investment-grade ratings (AAA, AA, A, BBB, or equivalent) as determined by at least one nationally recognized credit rating agency or, if unrated, deemed to be of comparable quality by T. Rowe Price. A maximum of 10% of the bond component may be invested in noninvestment-grade (junk) bonds to take advantage of their relatively high tax-exempt income and potential for price appreciation. Bond selection reflects the manager's outlook for interest rates and the economy as well as the prices and yields of various securities. For example, if we expect rates to fall, managers may buy longer-term securities to secure higher income and appreciation potential. Conversely, shorter-term maturities may be favored if rates are expected to rise.
- **Sales of securities (all funds)** In an effort to achieve each fund's goal of minimizing taxable distributions, we will strive to avoid realizing capital gains by limiting sales of existing holdings. However, gains may be realized when we believe the risk of holding a security outweighs tax considerations or to meet redemption orders. When gains are taken, we will attempt to offset them with losses from other securities.
- **Other investments (all funds)** While most assets will be invested in U.S. common stocks and, for the Balanced Fund, municipal securities, other securities may also be purchased, including foreign stocks, futures, and options, in keeping with fund objectives.

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and

this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by a fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

### **What are the main risks of investing in the funds?**

The Multi-Cap Growth Fund is expected to represent the highest risk of the three funds because it entails the risks that accompany small- and mid-cap company investing, in addition to the general risks of the stock market. While the Growth Fund is also exposed to the risks of stock investing, the fund is principally invested in less volatile, larger companies. The Balanced Fund's mix of stocks and bonds should make it less risky than the Growth Fund and Multi-Cap Growth Fund because of its larger income component and the generally lower volatility of bonds, although it is also exposed to risks associated with bonds. In addition, stock and bond prices often move in different directions, which could also reduce the fund's price volatility. However, the fund's balance between stocks and bonds may also mean it will not fully participate in rallies in either asset class.

- **Risks of stock investing**

The stock market as a whole can decline for many reasons, including adverse political or economic developments here or abroad, changes in investor psychology, or heavy institutional selling. The prospects for an industry or company may deteriorate because of a variety of factors, including disappointing earnings or changes in the competitive environment. In addition, our assessment of companies held in the funds may prove incorrect, resulting in losses or poor performance even in a rising market.

Growth stocks can be volatile for several reasons. Since growth companies usually reinvest a high proportion of their earnings in their own businesses, they may lack the dividends often associated with value stocks that could cushion their decline in a falling market. Also, since investors buy growth stocks because of their expected superior earnings growth, earnings disappointments often result in sharp price declines.

The stocks of mid-cap companies entail greater risk and are usually more volatile than the shares of large companies. Investing in small companies also involves greater risk than is customarily associated with larger companies. Stocks of small companies are subject to more abrupt or erratic price movements than larger-company stocks. Small companies often have limited product lines, markets, or financial resources, and their managements may lack depth and experience. Such companies seldom pay significant dividends that could cushion returns in a falling market.

Technology stocks are particularly volatile and subject to greater price swings, up and down, than the broad market. It is possible that companies whose products and services first appear promising may not succeed over the long term; they may succumb to intense competition or could quickly become obsolete in a rapidly developing marketplace. Earnings projections for developing companies that are not met can result in sharp price declines. This is true even in a generally rising stock market environment.

Foreign stock holdings may lose value because of declining foreign currencies or adverse political or economic events overseas. Investments in futures and options, if any, are subject to additional volatility and potential losses.

► ***Equity investors should have a long-term investment horizon and be willing to wait out bear markets.***

● **Risks of bond investing (Balanced Fund)**

Like all bonds, municipal bonds have two main sources of risk: interest rate and credit risk. *Interest rate risk* is the decline in bond prices that usually accompanies a rise in interest rates. Longer-maturity bonds typically suffer greater declines than those with shorter-term maturities. *Credit risk* is the chance that any fund holding could have its credit rating downgraded, or that a bond issuer will default (fail to make timely payments of interest or principal), potentially reducing the fund's income level and share price. To the extent that we invest in junk bonds, credit risk will be higher since their issuers are more vulnerable to financial setbacks and recession than more creditworthy companies.

Municipal bonds are also subject to the possibility that tax reform or lower overall taxes may reduce their value or that individual issuers will be unable to meet their obligations due to problems in that state or locality.

In addition, the value of a municipal bond and the advantage of owning a mutual fund investing in municipals, in part, is dependent on the fact that interest payments from the bonds (and exempt-interest dividends paid by the mutual fund) generally are not taxed by the state where the bonds are issued. In May 2007, the United States Supreme Court agreed to hear a case that challenges whether it is permissible for a state to tax interest payments from bonds issued

by out-of-state municipal entities while exempting from tax interest payments from bonds issued by the state itself or other in-state municipalities. It is not known what the Supreme Court will decide nor when the Supreme Court will render an opinion. However, if the court finds that differential treatment of interest income from in-state and out-of-state bonds is impermissible, the value of bonds held by the fund could decline and the tax advantage of owning a mutual fund investing in municipal bonds could be diminished.

### **All funds**

There is no guarantee the funds' attempts to manage their portfolios in a tax-efficient manner will be successful.

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***Each fund's share price may decline, so when you sell your shares, you may lose money. An investment in each fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.***

### **How can I tell which fund is most appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. If you prefer a moderately conservative approach to tax-efficient investing, the Balanced Fund may be more appropriate for you. If your time horizon is long and you can accept the greater risk of share price declines that accompanies an all-stock portfolio, you may want to consider the Growth Fund or Multi-Cap Growth Fund. The Multi-Cap Growth Fund may be an appropriate part of your overall investment strategy if you can accept the greater risk of investing in mid-cap, small-cap, and technology companies in an effort to achieve superior capital appreciation. With all of these funds, the higher your tax bracket, the more likely the funds will be appropriate. These funds should not represent your complete investment program or be used for short-term trading purposes.

Keep in mind that since income provided by the Balanced Fund's holdings of municipal bonds is already exempt from federal income taxes, that fund is less suitable than the Growth Fund and Multi-Cap Growth Fund for tax-free or tax-deferred retirement accounts, such as IRAs.

### **How has each fund performed in the past?**

The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how performance compares with that of a comparable market index. Past fund returns (before and after taxes) are not necessarily an indication of future performance.

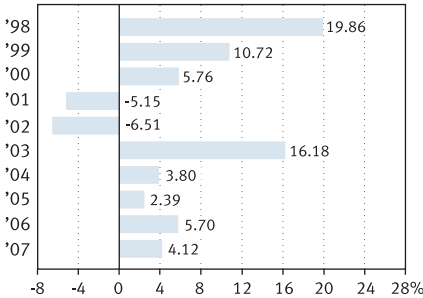
The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.



In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor's situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund's other returns because the loss generates a tax benefit that is factored into the result.

**Tax-Efficient Balanced Fund**

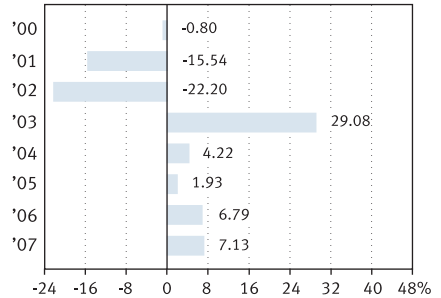
*Calendar Year Returns*



	Quarter Ended	Total Return
Best Quarter	12/31/98	12.56%
Worst Quarter	3/31/01	-7.33%

**Tax-Efficient Growth Fund**

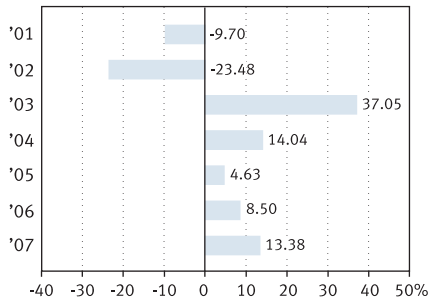
*Calendar Year Returns*



	Quarter Ended	Total Return
Best Quarter	6/30/03	15.92%
Worst Quarter	3/31/01	-16.07%

**Tax-Efficient Multi-Cap Growth Fund**

*Calendar Year Returns*



	Quarter Ended	Total Return
Best Quarter	12/31/01	24.72%
Worst Quarter	9/30/01	-25.21%

**Table 1 Average Annual Total Returns**

	<b>Periods ended 12/31/07</b>			
	<b>1 year</b>	<b>5 years</b>	<b>Shorter of 10 years or since inception</b>	<b>Inception date</b>
<b>Balanced Fund</b>				
<i>Returns before taxes</i>	4.12%	6.32%	5.40%	6/30/97
<i>Returns after taxes on distributions</i>	4.06	6.28	5.31	
<i>Returns after taxes on distributions and sale of fund shares</i>	3.34	5.70	4.92	
<i>Combined Index Portfolio (52% Lehman Brothers Municipal Bond Index and 48% S&amp;P 500 Index)</i>	4.51	8.43	5.86	
<i>Lipper Balanced Funds Index</i>	6.53	10.33	6.14	
<b>Growth Fund</b>				
<i>Returns before taxes</i>	7.13	9.42	1.72	7/30/99
<i>Returns after taxes on distributions</i>	7.06	9.38	1.70	
<i>Returns after taxes on distributions and sale of fund shares</i>	4.73	8.20	1.47	
<i>S&amp;P 500 Index</i>	5.50	12.83	2.86	
<i>Lipper Large-Cap Growth Funds Index</i>	14.97	12.06	-0.42*	
<b>Multi-Cap Growth Fund</b>				
<i>Returns before taxes</i>	13.38	15.00	4.81	12/29/00
<i>Returns after taxes on distributions</i>	13.38	15.00	4.81	
<i>Returns after taxes on distributions and sale of fund shares</i>	8.69	13.21	4.17	
<i>Russell Midcap Growth Index</i>	11.43	17.90	4.05	
<i>Lipper Mid-Cap Growth Funds Index</i>	21.41	17.93	3.68	

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

\* Since 7/31/99.

Lehman Brothers Municipal Bond Index is an unmanaged index that tracks municipal debt instruments.

S&P 500 Index tracks the stocks of 500 U.S. companies.

Russell Midcap Growth Index measures the performance of those Russell mid-cap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth Index.

## What fees and expenses will I pay?

The shares that are offered in this profile are 100% no load. However, the funds charge a 1.00% redemption fee, payable to the funds, on shares purchased and held for less than 365 days. There are no other fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds. There are no 12b-1 fees.

**Table 2 Fees and Expenses of the Funds\***

Fund	Shareholder fees (fees paid directly from your investment)		Annual fund operating expenses (expenses that are deducted from fund assets)			
	Redemption fee <sup>a</sup>	Management fee	Other expenses	Total annual fund operating expenses	Fee waiver/expense reimbursement	Net expenses
Balanced	1.00%	0.51%	0.56%	1.07%	—	—
Growth	1.00	0.61	0.43	1.04	—	—
Multi-Cap Growth	1.00	0.66	0.63	1.29	0.04% <sup>b</sup>	1.25% <sup>b</sup>

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund. Accounts with less than a \$2,000 balance (with certain exceptions) are subject to a \$10 fee.

<sup>a</sup> On shares purchased and held for less than 365 days.

<sup>b</sup> Effective July 1, 2006, T. Rowe Price contractually obligated itself to waive any fees and bear any expenses through June 30, 2008, to the extent such fees or expenses would cause the fund's ratio of expenses to average net assets to exceed 1.25%. Fees waived or expenses paid or assumed under this agreement are subject to reimbursement to T. Rowe Price whenever the fund's expense ratio is below 1.25%. However, no reimbursement will be made after June 30, 2010, or three years after the waiver or payment, whichever is sooner, or if it would result in the expense ratio exceeding 1.25%. Any amounts reimbursed have the effect of increasing fees otherwise paid by the fund. The fund operated under a previous expense limitation for which T. Rowe Price may be reimbursed.

**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table shows how much you would pay if operating expenses remain the same, the expense limitation currently in place is not renewed (if applicable), you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

Fund	1 year	3 years	5 years	10 years
Balanced	\$109	\$340	\$590	\$1,306
Growth	106	331	574	1,271
Multi-Cap Growth	127	404	702	1,552

## Who manages the funds?

The funds are managed by T. Rowe Price Associates, Inc. (T. Rowe Price). Founded in 1937, T. Rowe Price and its affiliates manage investments for individual and institutional accounts. The company offers a comprehensive array of stock, bond, and money market funds directly to the investing public.

**Balanced Fund** Donald J. Peters and Hugh D. McGuirk manage the fund day to day and are co-chairmen of its Investment Advisory Committee. Mr. Peters was appointed chairman of the committee in 1997. Mr. McGuirk became co-chair in 2000. Mr. Peters has been managing investments since joining T. Rowe Price in 1993. Mr. McGuirk, who has been involved in the municipal bond management process at T. Rowe Price since 1993, has been managing investments since 1997.

**Growth and Multi-Cap Growth Funds** Donald J. Peters manages the funds day to day and has been chairman of their Investment Advisory Committees since the funds' inception. He has been managing investments since joining T. Rowe Price in 1993.

## How can I purchase shares?

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$2,500 (\$1,000 for IRAs and gifts or transfers to minors). The minimum subsequent investment is \$100 (\$50 for IRAs, gifts or transfers to minors, or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

## How can I sell shares?

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

## When will I receive income and capital gain distributions?

The Balanced Fund distributes net capital gains (if any) and income on the taxable portion of the fund's portfolio (if any) at year-end. Income on the tax-exempt portion of the fund's portfolio is distributed quarterly. Although a significant portion of the fund's income will not be subject to federal income tax, short-term gains are taxable at ordinary income rates, and long-term gains are taxable at the capital gains rate. Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check.

The Growth and Multi-Cap Growth Funds distribute income and net capital gains, if any, at year-end. For regular accounts, income and short-term gains are taxable at ordinary income rates, and long-term gains are taxable at the capital

gains rate. Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check. Distributions paid to IRAs and employer-sponsored retirement plans are automatically reinvested.

**What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.

T. Rowe Price Associates, Inc.  
100 East Pratt Street  
Baltimore, MD 21202  
[troweprice.com](http://troweprice.com)



T. ROWE PRICE

# International Funds — Equity Portfolios

A choice of global, international, and regional stock funds for investors seeking long-term capital growth by diversifying beyond U.S. borders.



*This profile summarizes key information about the funds that is included in the funds' prospectus. The funds' prospectus includes additional information about the funds, including a more detailed description of the risks associated with investing in each fund that you may want to consider before you invest. You may obtain the prospectus and other information about the funds at no cost by calling 1-800-638-5660 or by visiting our Web site at [troweprice.com](http://troweprice.com).*

## T. Rowe Price International Funds, Inc.

T. Rowe Price Africa & Middle East Fund – TRAMX

T. Rowe Price Emerging Europe & Mediterranean Fund – TREMX

T. Rowe Price Emerging Markets Stock Fund – PRMSX

T. Rowe Price European Stock Fund – PRESX

T. Rowe Price Global Stock Fund – PRGSX

T. Rowe Price International Discovery Fund – PRIDX

T. Rowe Price International Growth & Income Fund – TRIGX

T. Rowe Price International Stock Fund – PRITX

T. Rowe Price Japan Fund – PRJPX

T. Rowe Price Latin America Fund – PRLAX

T. Rowe Price New Asia Fund – PRASX

T. Rowe Price Overseas Stock Fund – TROSX

**What are each fund's objectives and principal investment strategies?**

### **Worldwide funds:**

#### **Emerging Markets Stock Fund**

*Objective:* The fund seeks long-term growth of capital through investments primarily in the common stocks of companies located (or with primary operations) in emerging markets.

*Strategy:* The fund expects to make substantially all of its investments (normally at least 80% of net assets) in emerging markets in Latin America, Asia, Europe, Africa, and the Middle East. Stock selection reflects a growth style. An emerging market includes any country defined as emerging or developing by the International Bank for Reconstruction and Development (World Bank), the International Finance Corporation, or the United Nations.

Countries in which the fund may invest are listed below and others will be added as opportunities develop:

- *Asia:* China, Hong Kong, India, Indonesia, Malaysia, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, and Vietnam.
- *Latin America:* Argentina, Belize, Brazil, Chile, Colombia, Mexico, Panama, Peru, and Venezuela.
- *Europe:* Croatia, Czech Republic, Estonia, Greece, Hungary, Kazakhstan, Latvia, Lithuania, Poland, Romania, Russia, Slovakia, Slovenia, Turkey, and Ukraine.
- *Africa and the Middle East:* Botswana, Egypt, Israel, Jordan, Mauritius, Morocco, Nigeria, South Africa, Tunisia, and Zimbabwe.

#### **Global Stock Fund**

*Objective:* The fund seeks long-term growth of capital through investments primarily in the common stocks of established companies throughout the world, including the U.S.

*Strategy:* We will diversify broadly by investing in a variety of industries in developed and, to a lesser extent, emerging markets. Normally, the fund will invest in at least five countries, one of which will be the U.S. Stock selection reflects a growth style. While we can purchase stocks without regard to a company's market capitalization (shares outstanding multiplied by share price), investments will generally be in large and medium-sized companies. The percentage of assets invested in U.S. and foreign stocks will normally be at least 80% of net assets and will vary over time according to the manager's outlook.

### **International Discovery Fund**

*Objective:* The fund seeks long-term growth of capital through investments primarily in the common stocks of rapidly growing, small- to medium-sized companies outside the U.S.

*Strategy:* The fund expects to invest substantially all of its assets outside the U.S. and to diversify broadly among developed and emerging countries throughout the world. Stock selection reflects a growth style. The fund will emphasize small- to medium-sized companies. Depending on conditions, the fund's portfolio should be composed of investments in at least 10 countries and 100 different companies. Normally, at least 80% of the fund's net assets will be invested in stocks.

### **International Growth & Income Fund**

*Objective:* The fund seeks long-term growth of capital and reasonable income through investments primarily in the common stocks of well-established, dividend-paying, non-U.S. companies.

*Strategy:* We expect to invest substantially all of the fund's assets outside the U.S. and to diversify broadly, primarily among the world's developed countries. The fund will invest primarily (at least 65% of total assets) in the stocks of large, dividend-paying, well-established companies that have favorable prospects for capital appreciation, as determined by T. Rowe Price International, Inc. (T. Rowe Price International). Investments in emerging markets will be modest and limited to more mature developing countries. Our investing style is value-oriented, although we also look for earnings growth potential and catalysts for value to be realized. Country and sector allocations are driven primarily by stock selection and secondarily by our assessment of top-down, fundamental prospects.

### **International Stock Fund**

*Objective:* The fund seeks long-term growth of capital through investments primarily in the common stocks of established, non-U.S. companies.

*Strategy:* The fund expects to invest substantially all of its assets in stocks outside the U.S. and to diversify broadly among developed and emerging countries throughout the world. Stock selection reflects a growth style. We may purchase



the stocks of companies of any size, but our focus will typically be on large and, to a lesser extent, medium-sized companies. Normally, at least 80% of the fund's net assets will be invested in stocks.

### **Overseas Stock Fund**

*Objective:* The fund seeks long-term growth of capital through investments in the common stocks of non-U.S. companies.

*Strategy:* The fund expects to invest substantially all of its assets outside the U.S. and to diversify broadly among developed and, to a lesser extent, emerging countries throughout the world. Country and sector allocation is primarily the result of stock selection, although circumstances of a particular country or sector can affect allocation. The fund will invest primarily (at least 65% of total assets) in the stocks of large companies that have attractive prospects for capital appreciation, as determined by T. Rowe Price International. The fund seeks to select stocks with a favorable combination of company fundamentals and valuation. We generally favor companies with one or more of the following characteristics: attractive business niche, technological leadership or proprietary advantages, seasoned management, healthy balance sheet, and potential to grow dividends or conduct share repurchases. Normally, at least 80% of the fund's net assets will be invested in non-U.S. stocks.

### **Regional or country funds:**

#### **Africa & Middle East Fund**

*Objective:* The fund seeks long-term growth of capital by investing primarily in the common stocks of companies located or with primary operations in Africa and the Middle East.

*Strategy:* The fund expects to make substantially all of its investments (normally at least 80% of net assets) in African and the Middle Eastern companies. The fund may invest in common stocks in the countries listed below, as well as others as their markets develop:

- *Primary Emphasis:* Bahrain, Egypt, Jordan, Kenya, Lebanon, Morocco, Nigeria, Oman, Qatar, South Africa, and United Arab Emirates.
- *Others:* Algeria, Botswana, Ghana, Kuwait, Mauritius, Namibia, Tunisia, and Zimbabwe.

The fund is registered as “nondiversified,” meaning it may invest a greater portion of assets in a single company and own more of the company's voting securities than is permissible for a “diversified” fund. Depending on conditions, the fund's portfolio should be composed of investments in about 30 to 40 different companies although the exact number could vary substantially depending on market conditions. The fund may make substantial investments (at times more than 25% of total assets) in the telephone or banking companies of various Middle Eastern and African countries. Stock selection reflects a growth style.

### **Emerging Europe & Mediterranean Fund**

*Objective:* The fund seeks long-term growth of capital through investments primarily in the common stocks of companies in the emerging market countries of Europe and the Mediterranean region.

*Strategy:* The fund expects to make substantially all of its investments (normally at least 80% of net assets) in the emerging markets of Europe, including Eastern Europe and the former Soviet Union, and the Mediterranean region, including the Middle East and North Africa. The fund may invest in common stocks in the countries listed below, as well as others as their markets develop:

- *Primary Emphasis:* Croatia, Czech Republic, Egypt, Estonia, Greece, Hungary, Israel, Poland, Russia, and Turkey.
- *Others:* Bulgaria, Jordan, Kazakhstan, Latvia, Lebanon, Lithuania, Morocco, Oman, Romania, Slovakia, Slovenia, Tunisia, and Ukraine.

The fund may purchase the stocks of companies of any size, but our focus will typically be on large and, to a lesser extent, medium-sized companies in these regions. The fund is registered as “nondiversified,” meaning it may invest a greater portion of assets in a single company and own more of the company’s voting securities than is permissible for a “diversified” fund. Stock selection reflects a growth style.

### **European Stock Fund**

*Objective:* The fund seeks long-term growth of capital through investments primarily in the common stocks of European companies. Current income is a secondary objective.

*Strategy:* Normally, at least five countries will be represented in the portfolio. Stock selection reflects a growth style. The fund expects to make substantially all of its investments (normally at least 80% of net assets) in stocks of companies located in the countries listed below, as well as others as their markets develop:

- *Primary Emphasis:* Austria, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom.
- *Others:* Belgium, Czech Republic, Estonia, Greece, Hungary, Israel, Kazakhstan, Poland, Russia, and Turkey.

### **Japan Fund**

*Objective:* The fund seeks long-term growth of capital through investments in common stocks of companies located (or with primary operations) in Japan.

*Strategy:* The fund expects to make substantially all of its investments (normally at least 80% of net assets) across a wide range of Japanese industries and companies. Stock selection reflects a growth style.

### **Latin America Fund**

*Objective:* The fund seeks long-term growth of capital through investments primarily in the common stocks of companies located (or with primary operations) in Latin America.

*Strategy:* The fund expects to make substantially all of its investments (normally at least 80% of net assets) in Latin American companies. At least four countries should be represented at any time. Investments may be made in the countries below, as well as others as their markets develop:

- *Primary Emphasis:* Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.
- *Others:* Belize, Ecuador, and Guatemala.

Stock selection reflects a growth style. We may make substantial investments (at times more than 25% of total assets) in the telephone companies of various Latin American countries. These utilities play a critical role in a country's economic development. The fund is registered as "nondiversified," meaning it may invest a greater portion of assets in a single company and own more of the company's voting securities than is permissible for a "diversified" fund.

### **New Asia Fund**

*Objective:* The fund seeks long-term growth of capital through investments in companies located (or with primary operations) in Asia (excluding Japan).

*Strategy:* The fund expects to make substantially all of its investments (normally at least 80% of net assets) in the countries listed below, as well as others as their markets develop:

- *Primary Emphasis:* China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand.
- *Others:* Pakistan and Vietnam.

Stock selection reflects a growth style. The fund is registered as "nondiversified," meaning it may invest a greater portion of assets in a single company and own more of the company's voting securities than is permissible for a "diversified" fund.

### **All funds (excluding International Growth & Income Fund):**

The funds use a growth investing approach in their individual investment strategies.

### **Growth Investing**

T. Rowe Price International employs a global team of investment analysts dedicated to in-depth fundamental research in an effort to identify established companies capable of achieving and sustaining above-average, long-term earnings growth. We seek to purchase stocks of such companies at reasonable prices in

relation to present or anticipated earnings, cash flow, or book value, and valuation factors often influence our allocations among large-, mid-, or small-cap shares.

While we invest with an awareness of the global economic backdrop and our outlook for industry sectors and individual countries, bottom-up stock selection is the focus of our decision-making. Country allocation is driven largely by stock selection, though we may limit investments in markets that appear to have poor overall prospects.

In selecting stocks, we generally favor companies with one or more of the following characteristics:

- leading market position;
- attractive business niche;
- strong franchise or monopoly;
- technological leadership or proprietary advantages;
- seasoned management;
- earnings growth and cash flow sufficient to support growing dividends; and
- healthy balance sheet with relatively low debt.

## All funds

**Table 1 International Funds Comparison Guide**

<i><b>Fund</b></i>	<i><b>Geographic focus</b></i>	<i><b>Company emphasis</b></i>	<i><b>Expected risk relative to one another</b></i>
Africa & Middle East	Africa & Middle East	All sizes	Highest
Emerging Europe & Mediterranean	Europe and the Mediterranean region	All sizes	Highest
Emerging Markets Stock	Worldwide (excluding U.S.)	All sizes	Highest
European Stock	Europe (including Eastern Europe)	All sizes	Moderate
Global Stock	Worldwide (including U.S.)	All sizes	Moderate
International Discovery	Worldwide (excluding U.S.)	Small- to medium-sized	Higher
International Growth & Income	Worldwide (excluding U.S.)	Large, well-established	Moderate
International Stock	Worldwide (excluding U.S.)	Large, well-established	Moderate
Japan	Japan	All sizes	Higher
Latin America	Latin America	All sizes	Highest
New Asia	Far East and Pacific Basin (excluding Japan)	All sizes	Highest
Overseas Stock	Worldwide (excluding U.S.)	Large, well-established	Moderate

In addition to their investments in common stocks (which will normally compose 80% of fund net assets), the funds may also purchase other securities, including futures and options, in keeping with each fund's objectives.

Each fund may sell securities for a variety of reasons, such as to secure gains, limit losses, or redeploy assets into more promising opportunities.

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the investment restriction. However, purchases by the fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

Further information about each fund's investments, including a review of market conditions and fund strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of these documents, call 1-800-638-5660. These documents are also available at [troweprice.com](http://troweprice.com).

### **What are the main risks of investing in the funds?**

The risk profile of the funds varies with the investment style they pursue, their geographic focus, and whether they invest in developed markets, emerging markets, or both. Even investments in countries with highly developed economies are subject to significant risks.

Funds that invest overseas generally carry more risk than funds that invest strictly in U.S. assets. Some particular risks affecting these funds include the following:

- **Currency risk** This refers to a decline in the value of a foreign currency versus the U.S. dollar, which reduces the dollar value of securities denominated in that currency. The overall impact on a fund's holdings can be significant, unpredictable, and long-lasting, depending on the currencies represented in the portfolio and how each one appreciates or depreciates in relation to the U.S. dollar and whether currency positions are hedged. Under normal conditions, the funds do not engage in extensive foreign currency hedging programs. Further, exchange rate movements are volatile, and it is not possible to effectively hedge the currency risks of many developing countries.
- **Geographic risk** (*Japan and regional funds*) Funds that are less diversified across geographic regions, countries, industries, or individual companies are generally

riskier than more diversified funds. For example, investors in the Japan Fund are fully exposed to that country's economic cycles, stock market valuations, and currency exchange rates, which could increase its risks compared with a more diversified fund. The economies and financial markets of certain regions—such as Latin America, Asia, and Europe and the Mediterranean region—can be interdependent and may all decline at the same time.

- **Emerging market risk** (*Africa & Middle East, Emerging Europe & Mediterranean, Emerging Markets Stock, Latin America, New Asia; other funds to a lesser degree, except Japan*) Investments in emerging markets, which include Africa, parts of Europe and much of Asia, the Middle East, and Central and South America are subject to the risk of abrupt and severe price declines. The economic and political structures of developing nations, in most cases, do not compare favorably with the U.S. or other developed countries in terms of wealth and stability, and their financial markets are not as liquid. These economies are less developed and can be overly reliant on particular industries and more vulnerable to the ebb and flow of international trade, trade barriers, and other protectionist or retaliatory measures. Certain countries have legacies and/or periodic episodes of hyperinflation and currency devaluations. Governments in many emerging market countries participate to a significant degree in their economies and securities markets. Investments in countries or regions that have recently begun moving away from central planning and state-owned industries toward free markets should be regarded as speculative. While some countries have made progress in economic growth, liberalization, fiscal discipline, and political and social stability, there is no assurance these trends will continue. Some countries have histories of instability and upheaval that could cause their governments to act in a detrimental or hostile manner toward private enterprise or foreign investment. Significant risks, such as war and terrorism, currently affect some emerging countries.

The volatility of emerging markets may be heightened by the actions of a few major investors. For example, substantial increases or decreases in cash flows of mutual funds investing in these markets could significantly affect local stock prices and, therefore, fund share prices. These factors make investing in such countries significantly riskier than in other countries and any one of them could cause a fund's share price to decline.

- **Other risks of foreign investing** Risks can result from varying stages of economic and political development, differing regulatory environments, trading days, and accounting standards, uncertain tax laws, and higher transaction costs of non-U.S. markets. Investments outside the United States could be subject to governmental actions such as capital or currency controls, nationalization of a company or industry, expropriation of assets, or imposition of high taxes. Trading in the underlying securities of the funds may take place in various foreign markets

on certain days when the funds are not open for business and do not calculate net asset values. For example, the Africa & Middle East Fund invests in securities that trade in various foreign markets that are open on Sundays. As a result, net asset values may be significantly affected on days when shareholders cannot make transactions.

- **Small- and medium-sized company risk** (*International Discovery; others to a lesser degree*) To the extent each fund invests in small- and mid-capitalization stocks, it is likely to be more volatile than a fund that invests only in large companies. Small and medium-sized companies are generally riskier because they may have limited product lines, capital, and managerial resources. Their securities may trade less frequently and with greater price swings.
- **Nondiversified status** (*Africa & Middle East, Emerging Europe & Mediterranean, Latin America, and New Asia*) There is additional risk with each fund that is non-diversified and thus can invest more of its assets in a smaller number of companies. For example, poor performance by a single large holding of a fund would adversely affect fund performance more than if the fund were invested in a larger number of companies.
- **Futures/options risk** To the extent each fund uses futures and options, it is exposed to additional volatility and potential losses.

As with all stock funds, each fund's share price can fall because of weakness in one or more of its primary equity markets, a particular industry, or specific holdings. Stock markets can decline for many reasons, including adverse political or economic developments, changes in investor psychology, or heavy institutional selling. The prospects for an industry or company may deteriorate because of a variety of factors, including disappointing earnings or changes in the competitive environment. In addition, our assessment of companies held in a fund may prove incorrect, resulting in losses or poor performance, even in rising markets.

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***Each fund's share price may decline, so when you sell your shares, you may lose money. An investment in the fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.***

### **How can I tell which fund is most appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. Your decision should take into account whether you have any other foreign stock investments. If not, you may wish to invest in a widely diversified fund to gain the broadest exposure to global opportunities. A diversified emerging markets fund may be an appropriate part of your portfolio if you are

supplementing existing holdings primarily in developed foreign markets. If you seek to supplement a diversified portfolio with a concentrated investment, a regional or single-country fund may be appropriate.

Each fund can be used in both regular and tax-deferred accounts, such as IRAs.

- ▶ ***The fund or funds you select should not represent your complete investment program or be used for short-term trading purposes.***

### **How has each fund performed in the past?**

The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Fund past returns (before and after taxes) are not necessarily an indication of future performance.

The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

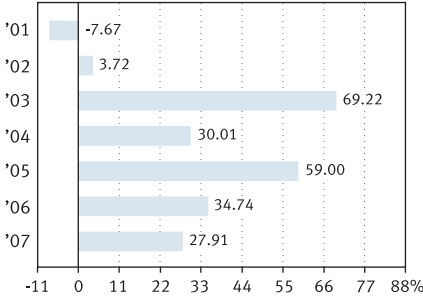
In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by the shareholder may influence returns. Actual after-tax returns depend on each investor's situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-deferred account, such as a 401(k) or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the fund's other returns because the loss generates a tax benefit that is factored into the result.

The Africa & Middle East Fund commenced operations on September 4, 2007, and thus did not have a full calendar year of performance history as of December 31, 2007. Performance history will be presented when each fund completes a full calendar year of operations.



**Emerging Europe & Mediterranean Fund**

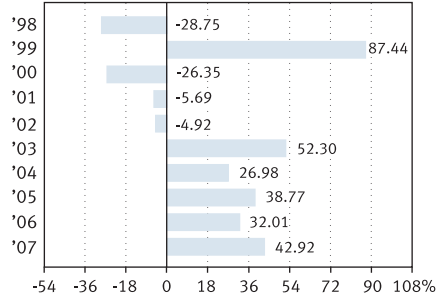
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/01	36.33%
Worst Quarter	9/30/01	-22.66%

**Emerging Markets Stock Fund**

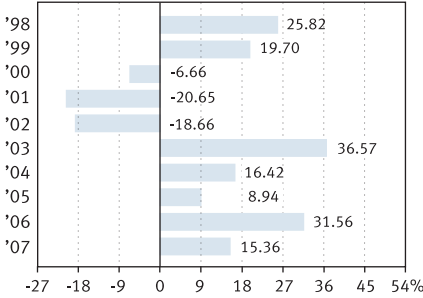
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/99	44.10%
Worst Quarter	9/30/98	-25.20%

**European Stock Fund**

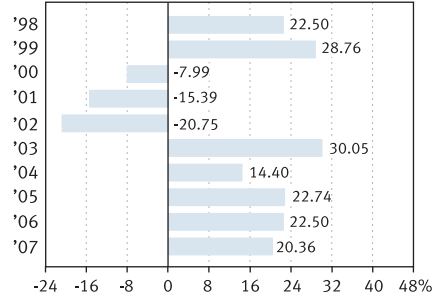
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/03	22.21%
Worst Quarter	9/30/02	-22.89%

**Global Stock Fund**

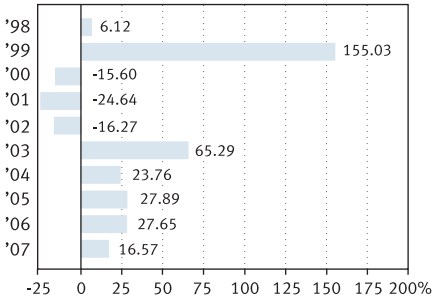
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/98	21.36%
Worst Quarter	9/30/02	-18.56%

**International Discovery Fund**

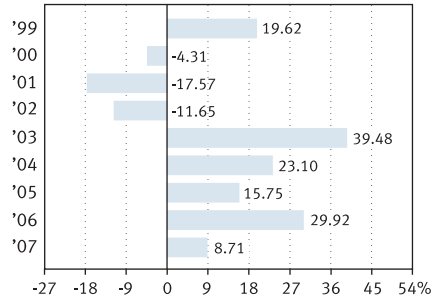
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/99	57.19%
Worst Quarter	9/30/01	-19.26%

**International Growth & Income Fund**

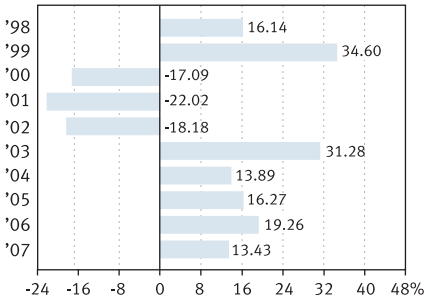
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/03	21.04%
Worst Quarter	9/30/02	-19.23%

**International Stock Fund**

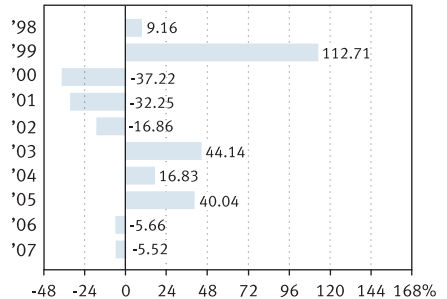
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/99	24.70%
Worst Quarter	9/30/02	-21.64%

**Japan Fund**

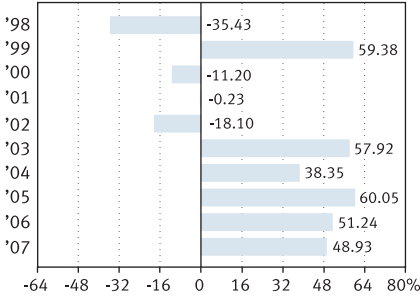
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/98	25.17%
Worst Quarter	12/31/00	-22.58%

**Latin America Fund**

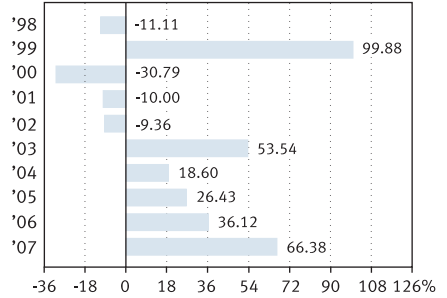
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/99	41.32%
Worst Quarter	9/30/98	-29.13%

**New Asia Fund**

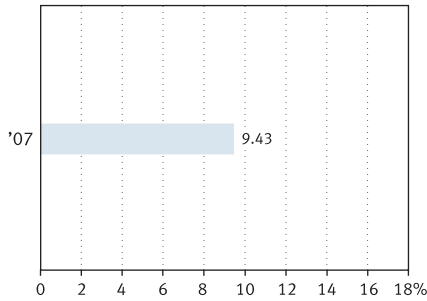
Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/99	42.04%
Worst Quarter	6/30/98	-24.62%

**Overseas Stock Fund**

Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/07	5.96%
Worst Quarter	12/31/07	-2.03%

**Table 2 Average Annual Total Returns**

	<i>Periods ended 12/31/07</i>			
	<b>1 year</b>	<b>5 years</b>	<b>Shorter of 10 years or since inception</b>	<b>Inception date</b>
<b>Emerging Europe &amp; Mediterranean Fund</b>				
<i>Returns before taxes</i>	27.91%	43.23%	22.41%	8/31/00
<i>Returns after taxes on distributions</i>	25.88	42.78	22.11	
<i>Returns after taxes on distributions and sale of fund shares</i>	20.42	39.56	20.40	
<i>MSCI Emerging Markets Europe and Middle East Index</i>	31.62	39.59	18.27	
<b>Emerging Markets Stock Fund</b>				
<i>Returns before taxes</i>	42.92	38.32	16.14	3/31/95
<i>Returns after taxes on distributions</i>	41.25	37.91	16.05	
<i>Returns after taxes on distributions and sale of fund shares</i>	29.77	34.94	14.85	
<i>MSCI Emerging Markets Index</i>	39.78	37.46	14.53	
<i>Lipper Emerging Markets Funds Average</i>	36.43	35.60	14.13	
<b>European Stock Fund</b>				
<i>Returns before taxes</i>	15.36	21.33	9.08	2/28/90
<i>Returns after taxes on distributions</i>	12.01	19.28	7.39	
<i>Returns after taxes on distributions and sale of fund shares</i>	12.64	18.37	7.34	
<i>MSCI Europe Index</i>	14.39	23.33	9.96	
<i>Lipper European Region Funds Average</i>	11.61	23.68	11.42	
<b>Global Stock Fund</b>				
<i>Returns before taxes</i>	20.36	21.91	10.11	12/29/95
<i>Returns after taxes on distributions</i>	18.07	21.12	9.40	
<i>Returns after taxes on distributions and sale of fund shares</i>	14.11	19.18	8.65	
<i>MSCI All Country World Index</i>	12.18	18.80	7.94	
<i>Lipper Global Large-Cap Growth Funds Average</i>	13.47	17.18	7.36	
<b>International Discovery Fund</b>				
<i>Returns before taxes</i>	16.57	31.23	18.82	12/30/88
<i>Returns after taxes on distributions</i>	13.98	30.27	17.22	
<i>Returns after taxes on distributions and sale of fund shares</i>	12.85	28.00	16.23	
<i>MSCI EAFE Small-Cap Index<sup>a</sup></i>	-0.35	23.98	9.84	
<i>S&amp;P/Citigroup Extended Market Index (EMI) World ex U.S.</i>	7.32	27.40	12.54	
<i>Lipper International Small/Mid-Cap Growth Funds Average</i>	11.17	27.90	15.60	

**Table 2 Average Annual Total Returns (Continued)**

	<i>Periods ended 12/31/07</i>			
	<i>1 year</i>	<i>5 years</i>	<i>Shorter of 10 years or since inception</i>	<i>Inception date</i>
<b>International Growth &amp; Income Fund</b>				
<i>Returns before taxes</i>	8.71	22.93	10.07	12/21/98
<i>Returns after taxes on distributions</i>	7.23	22.27	9.19	
<i>Returns after taxes on distributions and sale of fund shares</i>	6.82	20.28	8.45	
<i>MSCI EAFE Index</i>	11.63	22.08	8.29	
<i>Lipper International Multi-Cap Value Funds Average</i>	8.70	21.46	9.59 <sup>b</sup>	
<b>International Stock Fund</b>				
<i>Returns before taxes</i>	13.43	18.65	6.88	5/9/80
<i>Returns after taxes on distributions</i>	10.63	17.82	5.94	
<i>Returns after taxes on distributions and sale of fund shares</i>	10.68	16.35	5.66	
<i>MSCI All Country World Index ex-U.S.<sup>c</sup></i>	17.12	24.52	10.09	
<i>MSCI EAFE Index</i>	11.63	22.08	9.04	
<i>Lipper International Large-Cap Growth Funds Average</i>	14.30	18.82	6.58	
<b>Japan Fund</b>				
<i>Returns before taxes</i>	-5.52	16.02	5.61	12/30/91
<i>Returns after taxes on distributions</i>	-5.41	16.05	5.24	
<i>Returns after taxes on distributions and sale of fund shares</i>	-3.48	14.21	4.73	
<i>Topix Index</i>	-5.19	14.51	4.96	
<i>MSCI Japan Index</i>	-4.14	15.12	4.64	
<i>Lipper Japanese Funds Average</i>	-9.54	12.55	4.35	
<b>Latin America Fund</b>				
<i>Returns before taxes</i>	48.93	51.10	19.38	12/29/93
<i>Returns after taxes on distributions</i>	47.67	50.95	19.15	
<i>Returns after taxes on distributions and sale of fund shares</i>	32.65	47.03	17.70	
<i>MSCI EM Latin America Index</i>	50.67	51.13	18.01	
<i>Lipper Latin American Funds Average</i>	46.09	48.42	17.60	
<b>New Asia Fund</b>				
<i>Returns before taxes</i>	66.38	39.13	17.99	9/28/90
<i>Returns after taxes on distributions</i>	63.95	38.23	17.61	
<i>Returns after taxes on distributions and sale of fund shares</i>	45.55	35.44	16.43	
<i>MSCI All Country Asia ex Japan Index</i>	40.52	31.98	13.26	
<i>Lipper Pacific Region ex Japan Funds Average</i>	37.67	30.16	14.25	

**Table 2 Average Annual Total Returns (Continued)**

	<b>Periods ended 12/31/07</b>			
	<b>Shorter of 10 years</b>			<b>Inception date</b>
	<b>1 year</b>	<b>5 years</b>	<b>or since inception</b>	
<b>Overseas Stock Fund</b>				
<i>Returns before taxes</i>	9.43	—	9.35	12/28/06
<i>Returns after taxes on distributions</i>	9.41	—	9.33	
<i>Returns after taxes on distributions and sale of fund shares</i>	6.57	—	8.12	
<i>MSCI EAFE Index</i>	11.63	22.08	11.58	
<i>Lipper International Multi-Cap Value Funds Average</i>	8.70	21.46	8.70	

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

<sup>a</sup> Principal return only.

<sup>b</sup> Since 12/31/98.

<sup>c</sup> The new benchmark more closely matches the portfolio's blend of holdings in developed and emerging markets, while the MSCI EAFE Index is focused exclusively on developed market companies.

MSCI Emerging Markets Europe and Middle East Index is a market capitalization weighted index consisting of more than 100 securities in seven world markets.

MSCI Emerging Markets Index is a market capitalization weighted index of over 850 stocks traded in 22 world markets.

MSCI Europe Index is a market capitalization weighted index of approximately 500 stocks traded in 15 European markets.

MSCI All Country World Index tracks the equity market performance of global developed and emerging markets.

MSCI All Country World Index ex-U.S. measures equity market performance of developed and emerging countries, excluding the U.S.

MSCI EAFE Small-Cap Index is a market capitalization weighted index of almost 1,000 small-cap stocks in 21 world markets.

MSCI EAFE Index tracks the stocks of more than 1,000 companies in Europe, Australasia, and the Far East (EAFE).

S&P/Citigroup Extended Market Index (EMI) World ex U.S. is a small-capitalization subindex of the Citigroup Broad Market Index (BMI). While the BMI measures the performance of the entire universe of securities, the EMI covers the small-cap stock universe.

Topix Index is a market capitalization weighted index of about 1,300 of the larger companies on the Tokyo Stock Exchange.

MSCI Japan Index is an unmanaged index of approximately 300 foreign stock prices and reflects the common stock prices of the index companies translated into U.S. dollars, assuming reinvestment of all dividends paid by the index stocks net of any applicable foreign taxes.

MSCI EM Latin America Index is a market capitalization weighted index of approximately 140 stocks traded in seven Latin American markets.

MSCI All Country Asia ex Japan Index tracks the stocks of developed and emerging countries in Asia, excluding Japan.

## What fees and expenses will I pay?

The shares that are offered in this profile are 100% no load. The funds impose a 2% redemption fee, payable to the funds, on shares purchased and held for 90 days or less. There are no other fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds. There are no 12b-1 fees. The expenses shown for the Africa & Middle East Fund and the Overseas Stock Fund are estimated.

**Table 3 Fees and Expenses of the Funds\***

Fund	Shareholder fees (fees paid directly from your investment)			Annual fund operating expenses (expenses that are deducted from fund assets)			
	Redemption fee <sup>a</sup>	Management fee	Other expenses	Acquired fund fees and expenses	Total annual fund operating expenses	Fee waiver/expense reimbursement	Net expenses
Africa & Middle East	2.00%	1.06%	0.69% <sup>b</sup>	—	1.75% <sup>c</sup>	—	—
Emerging Europe & Mediterranean	2.00	1.06	0.20	—	1.26	—	—
Emerging Markets Stock	2.00	1.06	0.19	0.01% <sup>d</sup>	1.26	—	—
European Stock	2.00	0.81	0.22	—	1.03	—	—
Global Stock	2.00	0.66	0.35	—	1.01	0.01%	1.00% <sup>e</sup>
International Discovery	2.00	1.06	0.18	—	1.24	—	—
International Growth & Income	2.00	0.66	0.25	—	0.91	—	—
International Stock	2.00	0.66	0.21	—	0.87	—	—
Japan	2.00	0.81	0.20	—	1.01	—	—
Latin America	2.00	1.06	0.18	—	1.24	—	—
New Asia	2.00	0.81	0.24	—	1.05	—	—
Overseas Stock	2.00	0.66	0.49 <sup>b</sup>	—	1.15 <sup>f</sup>	—	—

\* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund. Accounts with less than a \$2,000 balance (with certain exceptions) are subject to a \$10 fee.

<sup>a</sup> On shares purchased and held for 90 days or less.

<sup>b</sup> Other expenses are estimated.

<sup>c</sup> To limit the fund's expenses during its initial period of operations, T. Rowe Price International contractually obligated itself to waive its fees and bear any expenses through February 28, 2010, that would cause the fund's ratio of expenses to average net assets to exceed 1.75%. Fees waived or expenses paid or assumed under this agreement are subject to reimbursement to T. Rowe Price International by the fund whenever the fund's expense ratio is below 1.75%. However, no reimbursement will be made more than three years after the waiver or payment, or if it would result in the expense ratio exceeding 1.75%. Any amounts reimbursed will have the effect of increasing fees otherwise paid by the fund.

- <sup>d</sup> The fund indirectly bears its share of the expenses paid by acquired funds in which it invests; such indirect expenses are not paid from the fund's assets but are reflected in the return realized by the fund on its investment in the acquired funds.
- <sup>e</sup> Effective October 1, 2005, T. Rowe Price International has contractually obligated itself to waive fees and bear any expenses through February 29, 2008, that would cause the ratio of expenses to average net assets to exceed 1.00%. Fees waived or expenses paid or assumed under this agreement are subject to reimbursement to T. Rowe Price International by the fund whenever the fund's expense ratio is below 1.00%. However, no reimbursement will be made after February 28, 2010, or three years after the waiver or payment, whichever is sooner, or if it would result in the expense ratio exceeding 1.00%. The fund operated under a previous expense limitation for which T. Rowe Price International may be reimbursed.
- <sup>f</sup> To limit the fund's expenses during its initial period of operations, T. Rowe Price International contractually obligated itself to waive its fees and bear any expenses through February 28, 2009, that would cause the fund's ratio of expenses to average net assets to exceed 1.15%. Fees waived or expenses paid or assumed under this agreement are subject to reimbursement to T. Rowe Price International by the fund whenever the fund's expense ratio is below 1.15%. However, no reimbursement will be made more than three years after the waiver or payment, or if it would result in the expense ratio exceeding 1.15%. Any amounts reimbursed will have the effect of increasing fees otherwise paid by the fund.

**Example.** The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table shows how much you would pay if operating expenses remain the same, the expense limitations currently in place are not renewed (if applicable), you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

<i>Fund</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>10 years</i>
Africa & Middle East	\$178	\$551	—	—
Emerging Europe & Mediterranean	128	400	\$692	\$1,523
Emerging Markets Stock	128	400	692	1,523
European Stock	105	328	569	1,259
Global Stock	102	320	557	1,235
International Discovery	126	393	681	1,500
International Growth & Income	93	290	504	1,120
International Stock	89	278	482	1,073
Japan	103	322	558	1,236
Latin America	126	393	681	1,500
New Asia	107	334	579	1,283
Overseas Stock	117	365	—	—

### Who manages the funds?

T. Rowe Price International (or T. Rowe Price Global Investment Services Limited) is responsible for the selection and management of fund portfolio investments. T. Rowe Price International has entered into a subadvisory agreement with Global Investment Services for the management of the Japan Fund and the Japanese investments of the International Discovery Fund. T. Rowe Price International and Global Investment Services are wholly owned subsidiaries of



T. Rowe Price Group, Inc. The U.S. offices of T. Rowe Price International and Global Investment Services are located at 100 East Pratt Street, Baltimore, Maryland 21202.

T. Rowe Price International has established an Investment Advisory Committee with respect to each fund. The committee chairman has day-to-day responsibility for managing the portfolio and works with the committee in developing and executing the fund's investment program. The members of each advisory committee are listed below.

**Africa & Middle East Fund** Christopher D. Alderson, Chairman, Ulle Adamson, S. Leigh Robertson, and Joseph Rohm. Mr. Alderson has been chairman of the committee since its inception. He joined T. Rowe Price International in 1988 and has been managing investments since 1986.

**Global Stock Fund** Robert N. Gensler, Chairman, Christopher D. Alderson, R. Scott Berg, M. Campbell Gunn, Michael W. Holton, Kris H. Jenner, Charles M. Ober, Robert W. Smith, and Dean Tenerelli. Mr. Gensler was appointed chairman of the committee in 2005. He joined T. Rowe Price Associates in 1993 as an investment analyst and has been managing investments since 1996. He joined T. Rowe Price International in 2005.

**International Growth & Income Fund** Raymond A. Mills, Ph.D., Chairman, M. Kamran Baig, Mark C.J. Bickford-Smith, John D. Linehan, Dean Tenerelli, and David J.L. Warren. Mr. Mills was appointed chairman of the committee in 2005. He joined T. Rowe Price Associates in 1997 and has been managing investments since 1998. He joined T. Rowe Price International in 2000.

**International Stock Fund** Robert W. Smith, Chairman, has day-to-day responsibility for managing the fund and developing and executing the fund's investment program. Mr. Smith was appointed chairman of the committee in 2007. He joined T. Rowe Price Associates in 1992 and has been managing investments since 1987.

**Overseas Stock Fund** Raymond A. Mills, Ph.D., Chairman, M. Kamran Baig, Mark C.J. Bickford-Smith, John D. Linehan, Dean Tenerelli, and David J.L. Warren. Mr. Mills has been chairman of the committee since its inception. He joined T. Rowe Price Associates in 1997 and has been managing investments since 1998. He joined T. Rowe Price International in 2000.

For the following funds, the individuals listed below have day-to-day responsibility for managing the portfolio and developing and executing its investment program.

**Emerging Europe & Mediterranean Fund** S. Leigh Robertson.

**Emerging Markets Stock Fund** Christopher D. Alderson, Frances Dydasco, Mark J.T. Edwards, and Gonzalo Pangaro.

**European Stock Fund** Dean Tenerelli.

**International Discovery Fund** M. Campbell Gunn, Ahn Lu, and Justin Thomson.

**Japan Fund** M. Campbell Gunn.

**Latin America Fund** Gonzalo Pangaro.

**New Asia Fund** Frances Dydasco.

### ***Portfolio Management***

<b>Name</b>	<b>Year Joined T. Rowe Price International</b>	<b>Years of Experience</b>	<b>Type of Experience</b>
Christopher D. Alderson	1988	21	Portfolio Management; Research
Mark C.J. Bickford-Smith	1983	22	Portfolio Management; Research
Frances Dydasco	1996	18	Portfolio Management; Research
Mark J.T. Edwards	1987	22	Portfolio Management
Robert N. Gensler	2005*	20	Portfolio Management; Research
M. Campbell Gunn	2002	28	Portfolio Management; Research
Ahn Lu	2001	11	Equity Research
Raymond A. Mills, Ph.D.	2000*	9	Portfolio Management; Research
Gonzalo Pangaro	1998	16	Portfolio Management; Research
S. Leigh Robertson	2002	5	Portfolio Management; Research
Dean Tenerelli	2000	14	Portfolio Management; Research
Justin Thomson	1998	16	Portfolio Management; Research

\* Joined T. Rowe Price Associates in 1993 and 1997, respectively.

***To participants in employer-sponsored retirement plans: The following questions and answers about buying and selling shares and services do not apply to your plan. Please call your plan's toll-free number for additional information. Also note that this profile may include funds not available through your plan.***

### **How can I purchase shares?**

Fill out the New Account Form and return it with your check in the postpaid envelope. The minimum initial purchase is \$2,500 (\$1,000 for IRAs and gifts or transfers to minors). The minimum subsequent investment is \$100 (\$50 for IRAs, gifts or transfers to minors, or Automatic Asset Builder). You can also open an account by bank wire, by exchanging from another T. Rowe Price fund, or by transferring assets from another financial institution.

**How can I sell shares?**

You may redeem or sell any portion of your account on any business day. Simply write to us or call. You can also access your account at any time via Tele\*Access<sup>SM</sup> or our Web site. We offer convenient exchange among our entire family of domestic and international funds. Restrictions may apply in special circumstances, and some redemption requests need a signature guarantee.

**When will I receive income and capital gain distributions?**

Each fund distributes income annually and net capital gains, if any, at year-end. For regular accounts, income and short-term gains are taxable at ordinary income rates, and long-term gains are taxable at the capital gains rate. Distributions are reinvested automatically in additional shares unless you choose another option, such as receiving a check. Distributions paid to IRAs and employer-sponsored retirement plans are automatically reinvested.

**What services are available?**

A wide range, including, but not limited to:

- retirement plans for individuals and large and small businesses;
- automated information and transaction services by telephone or computer;
- electronic transfers between fund and bank accounts;
- automatic investing and automatic exchange; and
- brokerage services, including cash management features.

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