

May 1, 2009

T. ROWE PRICE

# Mid-Cap Growth Portfolio

A stock fund seeking long-term capital appreciation by investing in medium-sized growth companies.



*The Securities and Exchange Commission has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.*

## Table of Contents

1	<b>ABOUT THE FUND</b>	
	Objective, Strategy, Risks, and Expenses	1
	Other Information About the Fund	4
2	<b>T. ROWE PRICE ACCOUNT INFORMATION</b>	
	Pricing Shares and Receiving Sale Proceeds	6
	Rights Reserved by the Funds	9
	Dividends and Other Distributions	9
3	<b>MORE ABOUT THE FUND</b>	
	Organization and Management	10
	Understanding Performance Information	12
	Investment Policies and Practices	12
	Disclosure of Fund Portfolio Information	16
	Financial Highlights	16

Founded in 1937 by the late Thomas Rowe Price, Jr., T. Rowe Price Associates, Inc. (T. Rowe Price), and its affiliates managed \$276.3 billion for more than 11 million individual and institutional investor accounts as of December 31, 2008. T. Rowe Price is the fund's investment manager.

**Mutual fund shares are not deposits or obligations of, or guaranteed by, any depository institution. Shares are not insured by the FDIC, Federal Reserve, or any other government agency, and are subject to investment risks, including possible loss of the principal amount invested.**

## **T. Rowe Price Equity Series, Inc.**

### **T. Rowe Price Mid-Cap Growth Portfolio**

#### **OBJECTIVE, STRATEGY, RISKS, AND EXPENSES**

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The fund should be used as an investment option for variable annuity and variable life insurance contracts.

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

The fund seeks to provide long-term capital appreciation by investing in mid-cap stocks with potential for above-average earnings growth.

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

The fund will normally invest at least 80% of its net assets in a diversified portfolio of common stocks of mid-cap companies whose earnings T. Rowe Price expects to grow at a faster rate than the average company. We define mid-cap companies as those whose market capitalization (number of shares outstanding multiplied by share price) falls within the range of either the S&P MidCap 400 Index or the Russell Midcap Growth Index. As of December 31, 2008, the market capitalization ranges for the S&P MidCap 400 Index and the Russell Midcap Growth Index were approximately \$104 million to \$5 billion, and \$24 million to \$14.6 billion, respectively. The market capitalization of the companies in the fund's portfolio and the S&P and Russell indices changes over time; 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 this range.

As "growth" investors, we believe that when a company's earnings grow faster than both inflation and the overall economy, the market will eventually reward it with a higher stock price.

In selecting investments, we generally favor companies with one or more of the following:

- proven products or services;
- a record of above-average earnings growth;
- demonstrated potential to sustain earnings growth;
- connection to an industry experiencing increasing demand; or
- stock prices that appear to undervalue their growth prospects.

In pursuing its investment objective, the fund has the discretion to purchase some securities that do not meet its normal investment criteria, as previously described, 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 an extraordinary corporate event, a new product introduction, a favorable competitive development, or a change in management.

While most assets will be invested in U.S. common stocks, the fund may invest in other securities, including foreign stocks, and use futures and options in keeping with fund objectives.

The 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 the fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of the fund's securities may change after they are purchased, and this may cause the amount of the 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.

- ▶ ***For details about the fund's investment program, please see the Investment Policies and Practices section.***

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

The stocks of mid-cap companies entail greater risk and are usually more volatile than the shares of larger companies. In addition, growth stocks can be volatile for several reasons. Since growth companies usually reinvest a high proportion of earnings in their own businesses, their stocks may lack the dividends usually associated with value stocks that can cushion their decline in a falling market. Also, since investors buy these stocks for their expected superior earnings growth, earnings disappointments often result in sharp price declines.

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 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 by the fund may prove incorrect, resulting in losses or poor performance even in a rising market. Finally, the fund's investment approach could fall out of favor with the investing public, resulting in lagging performance versus other types of stock funds.

Foreign stock holdings may lose value because of declining foreign currencies or adverse political or economic events overseas. The use of futures and options, if any, may subject the fund to additional volatility and potential losses.

As with any mutual fund, there can be no guarantee the fund will achieve its objective.

- ▶ ***The fund's share price may decline, so when you sell your shares, you may lose money.***

### **How can I tell if the fund is appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. If you can accept the greater risk of investing in mid-cap growth companies in an effort to achieve superior capital appreciation, the fund could be an appropriate part of your overall investment strategy. This fund should not represent your complete investment program or be used for short-term trading purposes.

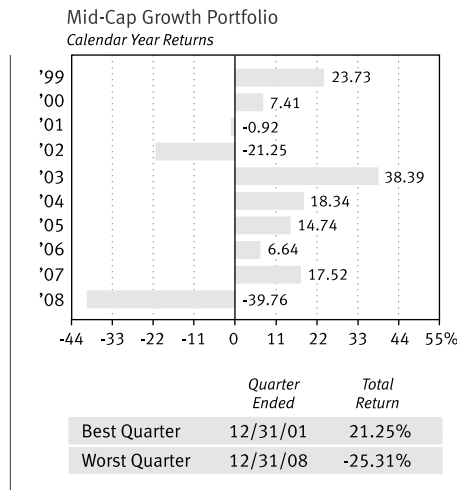
- ▶ ***Equity investors should have a long-term investment horizon and be willing to wait out bear markets.***

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

The bar chart 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 over time. Past fund performance is no guarantee of future returns.

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

Updated performance information is available through [troweprice.com](http://troweprice.com) or may be obtained by calling 1-800-469-5304.



**Table 1 Average Annual Total Returns**

	<b>Periods ended December 31, 2008</b>		
	<b>1 year</b>	<b>5 years</b>	<b>10 years</b>
Mid-Cap Growth Portfolio	-39.76%	0.50%	3.94%
S&P MidCap 400 Index	-36.23	-0.08	4.46
Russell Midcap Growth Index	-44.32	-2.33	-0.19
Lipper Variable Annuity Underlying Mid-Cap Growth Funds Average	-45.17	-2.50	-0.07

These figures include changes in principal value, reinvested dividends, and capital gain distributions, if any.

Figures do not reflect fees at the insurance product or contract level; if those fees were included, returns would be lower.

S&P MidCap 400 Index tracks the stocks of 400 mid-size 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 fees and expenses set forth in the following table are paid by the fund and borne indirectly by contract holders. There are additional expenses charged by insurance companies, which apply to your insurance contract or policy, and these are described in the variable annuity and variable life contract prospectuses.

**Table 2 Fees and Expenses of the Fund**

	<b>Annual fund operating expenses (expenses that are deducted from fund assets)</b>
Management fee	0.85%
Other expenses	—
<b>Total annual fund operating expenses</b>	<b>0.85%</b>

**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 this fund 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:

<b>1 year</b>	<b>3 years</b>	<b>5 years</b>	<b>10 years</b>
\$87	\$271	\$471	\$1,049

## OTHER INFORMATION ABOUT THE FUND

### What are the advantages of mid-cap investing?

Mid-cap companies are often in the earlier phase of their life cycles, but are no longer considered new or emerging. By being more focused in their business activities, these companies may be more responsive and better able to adapt to the changing needs of their markets than large companies. Mid-cap companies also tend to have greater resources, and therefore represent less risk, than small companies. They are usually mature enough to have established organizational structures and the depth of management needed to expand their operations. In addition, they generally have sufficient financial resources and access to capital to finance their growth.

### What is meant by a “growth” investment approach?

Thomas Rowe Price, Jr., pioneered the growth stock theory of investing over 70 years ago. It is based on the premise that inflation represents a more serious long-term threat to an investor’s portfolio than stock market fluctuations or recessions. Mr. Price believed that when a company’s earnings grow faster than both inflation and the economy in general, the market will eventually reward its long-term earnings growth with a higher stock price. However, investors should be aware that, during periods of adverse economic and market conditions, stock prices may fall despite favorable earnings trends.

- ▶ *Growth investors look for companies with above-average earnings gains.*

### Is there other information I can review before making a decision?

Investment Policies and Practices in Section 3 discusses various types of portfolio securities the fund may purchase as well as types of management practices the fund may use.

The Statement of Additional Information contains more detailed information about the fund and its investments, operations, and expenses.

### Important information about the Mid-Cap Growth Portfolio

The fund is now closed to new contract holders of participating insurance companies and is not accepting investments from new insurance company relationships, including new separate accounts and new insurance products of participating insurance companies that are not currently using the fund as an investment option.

Generally, existing contract holders through participating insurance companies will be able to purchase shares where the fund is an investment option under your variable annuity or variable life insurance contract. However, you should check with your insurance company to confirm your eligibility.

The closing does not restrict contract holders from selling shares of the fund.

The fund reserves the right, when in the judgment of T. Rowe Price it is not adverse to the portfolio's interest, to permit certain types of contract holders to open new accounts/contracts in the portfolio, to impose further restrictions, or to close the portfolio to any additional investments or to new contract holders at an earlier date, all without notice.

As an investor in a T. Rowe Price fund through your variable annuity or variable life insurance contract, you will want to know about the following policies and procedures that apply to the funds. For instructions on how to purchase and redeem shares, read the insurance contract prospectus.

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**PRICING SHARES AND RECEIVING SALE PROCEEDS**

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Shares of the fund are designed to be offered to insurance company separate accounts established for the purpose of funding variable annuity and life insurance contracts. Variable annuity and variable life contract holders or participants are not the shareholders of the fund. Rather, the separate account of the insurance company is the shareholder. The variable annuity and variable life contracts are described in separate prospectuses issued by the insurance companies. The fund assumes no responsibility for such prospectuses, or variable annuity or variable life contracts.

Shares of the fund are sold and redeemed without the imposition of any sales commission or redemption charge. However, certain other charges may apply to annuity or life contracts. Those charges are disclosed in the insurance contract prospectus.

Your ability to exchange from this fund to any other T. Rowe Price fund that serves as an investment option under your insurance contract is governed by the terms of that contract and the insurance contract prospectus, as well as the fund's excessive trading policy described in this section.

**How and When Shares Are Priced**

The share price (also called "net asset value" or NAV per share) for a fund is calculated at the close of the New York Stock Exchange, normally 4 p.m. ET, each day that the exchange is open for business. To calculate the NAV, the fund's assets are valued and totaled, liabilities are subtracted, and the balance, called net assets, is divided by the number of shares outstanding. Market values are used to price stocks and bonds. Market values represent the prices at which securities actually trade or evaluations based on the judgment of the fund's pricing services. If a market value for a security is not available, the fund will make a good faith effort to assign a fair value to the security by taking into account factors that have been approved by the fund's Board of Directors. This value may differ from the value the fund receives upon sale of the securities. Amortized cost is used to price securities held by money market funds and certain other debt securities held by a fund. Investments in mutual funds are valued at the closing NAV per share of the mutual fund on the day of valuation.

Non-U.S. equity securities are valued on the basis of their most recent closing market prices at 4 p.m. ET except under the circumstances described below. Most foreign markets close before 4 p.m. ET. For securities primarily traded in the Far East, for example, the most recent closing prices may be as much as 15 hours old at 4 p.m. ET. If a fund determines that developments between the close of a foreign market and 4 p.m. ET will, in its judgment, materially affect the value of some or all of the fund's securities, the fund will adjust the previous closing prices to reflect what it believes to be the fair value of the securities as of 4 p.m. ET. In deciding whether to make these adjustments, the fund reviews a variety of factors, including developments in foreign markets, the performance of U.S. securities markets, and the performance of instruments trading in U.S. markets that represent foreign securities and baskets of foreign securities. The fund may also fair value securities in other situations, for example, when a particular foreign market is closed but the fund is open. The fund uses outside pricing services to provide it with closing market prices and information used for adjusting those prices. The fund cannot predict how often it will use closing prices and how often it will adjust those prices. As a means of

evaluating its fair value process, the fund routinely compares closing market prices, the next day's opening prices in the same markets, and adjusted prices. Other mutual funds may adjust the prices of their securities by different amounts.

### **How Your Purchase, Sale, or Exchange Price Is Determined**

#### **Purchases**

The insurance companies purchase shares of the fund for their separate accounts, using premiums allocated by the contract holders or participants. Shares are purchased at the NAV next determined after the insurance company receives the premium payment in acceptable form. Initial and subsequent payments allocated to the fund are subject to the limits stated in the insurance contract prospectus issued by the insurance company.

When authorized by the fund, certain financial institutions or retirement plans purchasing fund shares on behalf of customers or plan participants through Financial Institution Services or Retirement Plan Services may place a purchase order unaccompanied by payment. Payment for these shares must be received by the time designated by the fund (not to exceed the period established for settlement under applicable regulations). If payment is not received by this time, the order may be cancelled. The financial institution or retirement plan is responsible for any costs or losses incurred by the fund or T. Rowe Price if payment is delayed or not received.

#### **Redemptions**

The insurance companies redeem shares of the fund to make benefit or surrender payments under the terms of its contracts. Redemptions are processed on any day on which the New York Stock Exchange is open and are priced at the fund's NAV next determined after the insurance company receives a surrender request in acceptable form.

*Note:* The time at which transactions and shares are priced and the time until which orders are accepted may be changed in case of an emergency or if the New York Stock Exchange closes at a time other than 4 p.m. ET. There may be times when you are unable to contact us by telephone or access your account by computer due to extreme market activity, the unavailability of the T. Rowe Price Web site, or other circumstances. Should this occur, your order must still be placed and accepted prior to the time the New York Stock Exchange closes to be priced at that business day's NAV.

### **How You Can Receive the Proceeds From a Sale**

Payment for redeemed shares will be made promptly, but in no event later than seven calendar days after receipt of your redemption order. However, the right of redemption may be suspended or the date of payment postponed in accordance with the Investment Company Act of 1940 ("1940 Act"). The amount received upon redemption of the shares of the fund may be more or less than the amount paid for the shares, depending on the fluctuations in the market value of the assets owned by the fund.

### **Excessive and Short-Term Trading**

- ▶ *T. Rowe Price may bar excessive and short-term traders from purchasing shares.*

Excessive or short-term trading in fund shares may disrupt management of a fund and raise its costs. Short-term traders in funds investing in foreign securities may seek to take advantage of an anticipated difference between the price of the fund's shares and price movements in overseas markets (see Pricing Shares and Receiving Sale Proceeds—How and When Shares Are Priced). While there is no assurance that T. Rowe Price can prevent all excessive and short-term trading, the Boards of Directors of the T. Rowe Price funds have adopted the following policies to deter such activity. Persons trading directly with T. Rowe Price or indirectly through intermediaries in violation of this policy or persons believed

to be short-term traders may be barred permanently from further purchases of T. Rowe Price funds. Purchase transactions placed by such persons are subject to rejection without notice. These policies apply to contract holders notwithstanding any provisions in your insurance contract.

- All persons purchasing shares held directly with a T. Rowe Price fund who make more than one purchase and one sale or one sale and one purchase involving the same fund within any 90-day calendar period will violate the policy.
- All persons purchasing fund shares held through an insurance company who hold the shares for less than 90 calendar days will violate the policy.

#### **Omnibus Accounts**

Intermediaries often establish omnibus accounts in the T. Rowe Price funds for their customers. In such situations, T. Rowe Price cannot always monitor trading activity by underlying contract holders. However, T. Rowe Price reviews trading activity at the omnibus account level and looks for activity that indicates potential excessive or short-term trading. If it detects suspicious trading activity, T. Rowe Price contacts the intermediary to determine whether the excessive trading policy has been violated and may request and receive personal identifying information and transaction histories for some or all contract holders to make this determination. If T. Rowe Price believes that its excessive trading policy has been violated, it will instruct the intermediary to take action with respect to the underlying contract holder in accordance with the policy.

#### **Exceptions to Policy**

Systematic purchases and redemptions are exempt from these policies. Redemptions to fund the periodic deduction of contract charges and fees and to pay death benefits are also exempt. Transactions in certain rebalancing and asset allocation programs may be exempt from the excessive trading policy subject to prior written approval by designated persons at T. Rowe Price. In addition, transactions by certain T. Rowe Price funds in other T. Rowe Price funds, as well as certain transactions by approved accounts managed by T. Rowe Price, may also be exempt.

T. Rowe Price generally seeks to enforce its excessive trading policies against individual contract holders when violations of its policies are discovered. The terms of your insurance contract may also restrict your ability to trade between the investment options available under your contract. T. Rowe Price reserves the right to modify the 90-day policy set forth above and apply your insurance company's excessive trading policy (for example, in situations where an insurance contract or insurance company has restrictions on trading that differ from a T. Rowe Price fund's policy). These modifications would be authorized only if T. Rowe Price believes that the modified policy would provide protection to the fund that is reasonably equivalent to the fund's regular policy. If you are trading your fund shares through an intermediary, you should consult with the intermediary to determine the excessive trading policy that applies to your trades in the fund.

There may be limitations on the ability of insurance companies to impose restrictions on the trading practices of certain contract holders. As a result, T. Rowe Price's ability to discourage excessive trading practices in this fund may be limited.

- ▶ ***There is no guarantee that T. Rowe Price will be able to detect or prevent excessive or short-term trading. In addition, T. Rowe Price cannot always detect excessive or short-term trading through intermediaries with omnibus accounts.***

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**RIGHTS RESERVED BY THE FUNDS**

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T. Rowe Price funds and their agents, in their sole discretion, reserve the following rights: (1) to waive or lower investment minimums; (2) to accept initial purchases by telephone or telegram; (3) to refuse any purchase or exchange order; (4) to cancel or rescind any purchase or exchange order placed through an intermediary, no later than the business day after the order is received by the intermediary (including, but not limited to, orders deemed to result in excessive trading, market timing, or 5% ownership); (5) to cease offering fund shares at any time to all or certain groups of investors; (6) to freeze any account and suspend account services when notice has been received of a dispute between the registered or beneficial account owners or there is reason to believe a fraudulent transaction may occur; (7) to otherwise modify the conditions of purchase and any services at any time; (8) to waive any wire fees charged to a group of shareholders; (9) to act on instructions reasonably believed to be genuine; and (10) to involuntarily redeem your account at the net asset value calculated the day the account is redeemed, in cases of threatening conduct, suspected fraudulent or illegal activity, or if the fund or its agent is unable, through its procedures, to verify the identity of the person(s) or entity opening an account.

In an effort to protect T. Rowe Price funds from the possible adverse effects of a substantial redemption in a large account, as a matter of general policy, no contract holder or participant or group of contract holders or participants controlled by the same person or group of persons will knowingly be permitted to purchase in excess of 5% of the outstanding shares of the fund, except upon approval of the fund's management.

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**DIVIDENDS AND OTHER DISTRIBUTIONS**

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For a discussion of the tax status of your variable annuity contract, please refer to the insurance contract prospectus.

**Dividends and Other Distributions**

The policy of the fund is to distribute all of its net investment income and net capital gains each year to its shareholders, which are the separate accounts established by the various insurance companies in connection with their issuance of variable annuity and variable life contracts. Dividends from net investment income are declared daily and paid monthly for the Limited-Term Bond and Prime Reserve Portfolios; declared and paid quarterly for the Equity Income, Equity Index 500, and Personal Strategy Balanced Portfolios; and declared and paid annually for all other portfolios. All fund distributions made to a separate account will be reinvested automatically in additional fund shares, unless a shareholder (separate account) elects to receive distributions in cash. Under current law, dividends and distributions made by the fund to separate accounts generally are not taxable to the separate accounts, the insurance company, or the contract holder, provided that the separate account meets the diversification requirements of Section 817(h) of the Internal Revenue Code of 1986, as amended, (Code) and other tax-related requirements are satisfied. The fund intends to diversify its investments in the manner required under Code Section 817(h).

## ORGANIZATION AND MANAGEMENT

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### How is the fund organized?

T. Rowe Price Equity Series, Inc. (the “corporation”) was incorporated in Maryland in 1994. Currently, the corporation consists of seven series, each representing a separate pool of assets with different objectives and investment policies.

The Mid-Cap Growth Portfolio is managed in a manner similar to the T. Rowe Price Mid-Cap Growth Fund, a fund with the same investment objective and program as the portfolio but offered to the general public and not to insurance company separate accounts. However, investors should be aware that the Mid-Cap Growth Portfolio is not the same as the fund and will not have the same performance. Investments made by the Mid-Cap Growth Portfolio at any given time may not be the same as those made by T. Rowe Price Mid-Cap Growth Fund. Different performance will result due to factors such as differences in the cash flows into and out of the portfolio and fund, different fees and expenses, and differences in net assets and size of holdings.

- ▶ *Shareholders benefit from T. Rowe Price’s 72 years of investment management experience.*

### What is meant by “shares”?

Contract holders and participants indirectly (through the insurance company separate account) purchase shares when they put money in a fund offered as an investment option in their insurance contracts. These shares are part of a fund’s authorized capital stock, but share certificates are not issued.

Each share and fractional share entitles the shareholder (the insurance company separate account) to cast one vote per share on certain fund matters, including the election of fund directors, changes in fundamental policies, or approval of changes in the fund’s management contract.

The shares of the fund have equal voting rights. The various insurance companies own the outstanding shares of the fund in their separate accounts. These separate accounts are registered under the 1940 Act or are exempted from registration thereunder. Under current law, the insurance companies must vote the shares held in registered separate accounts in accordance with voting instructions received from variable contract holders or participants having the right to give such instructions.

### Do T. Rowe Price funds have annual shareholder meetings?

The funds are not required to hold annual meetings and, to avoid unnecessary costs to fund shareholders, do not do so except when certain matters, such as a change in fundamental policies, must be decided. In addition, shareholders representing at least 10% of all eligible votes may call a special meeting for the purpose of voting on the removal of any fund director. If a meeting is held and you cannot attend, you can vote by proxy. Before the meeting, the insurance company will send or make available to you the fund’s proxy materials that explain the issues to be decided and include instructions on voting.

### Who runs the fund?

#### General Oversight

The fund is governed by a Board of Directors that meets regularly to review fund investments, performance, expenses, and other business affairs. The Board elects the fund’s officers. At least 75% of Board members are independent of T. Rowe Price.

- ▶ *All decisions regarding the purchase and sale of fund investments are made by T. Rowe Price—specifically by the fund’s portfolio manager.*

**Portfolio Management**

T. Rowe Price has established an Investment Advisory Committee with respect to the fund. The committee members are: Brian W.H. Berghuis, Chairman, Kennard W. Allen, P. Robert Bartolo, Donald J. Easley, Henry M. Ellenbogen, Kris H. Jenner, Daniel Martino, Joseph M. Milano, Clark R. Shields, Taymour R. Tamaddon, and John F. Wakeman. The committee chairman has day-to-day responsibility for managing the fund's portfolio and works with the committee in developing and executing the fund's investment program. Mr. Berghuis has been chairman of the committee since 1996. He joined T. Rowe Price in 1985 and his investment experience dates from 1983. The Statement of Additional Information provides additional information about the portfolio manager's compensation, other accounts managed by the portfolio manager, and the portfolio manager's ownership of securities in the fund.

**The Management Fee**

The fund pays T. Rowe Price an annual fee that includes investment management services and ordinary, recurring operating expenses, but does not cover interest, taxes, brokerage, nonrecurring or extraordinary items. The fee is based on fund average daily net assets and is calculated and accrued daily. The fee for the fund for the most recent fiscal year was 0.85%.

In addition, from time to time, T. Rowe Price may make payments from its own resources to eligible insurance companies for recordkeeping and administrative services they provide to the fund for contract holders. These payments range from 0.15% to 0.25% of the average annual total assets invested by the separate accounts of the insurance company in the fund. T. Rowe Price may also reimburse insurance companies, broker-dealers, and other distributors for certain bona fide selling expenses associated with distribution of the insurance contracts in which the fund serves as an investment option. All payments described by this paragraph are paid by T. Rowe Price and not by the fund. As a result, the total expense ratio of the fund will not be affected by any such payments.

A discussion about the factors considered by the Board and its conclusions in approving the fund's investment management contract with T. Rowe Price appears in the fund's semiannual report to contract holders for the period ended June 30.

**Variable Annuity and Variable Life Charges**

Variable annuity and variable life fees and charges imposed on contract holders and participants by the insurance companies are in addition to those described previously and are described in the variable annuity and variable life contract prospectuses.

**Variable Annuity and Variable Life Conflicts**

The fund may serve as an investment medium for both variable annuity contracts and variable life insurance policies. Shares of the fund may be offered to separate accounts established by any number of insurance companies. The fund currently does not foresee any disadvantages to variable annuity contract owners due to the fact that the fund may serve as an investment medium for both variable life insurance policies and annuity contracts; however, due to differences in tax treatment or other considerations, it is theoretically possible that the interests of owners of annuity contracts and insurance policies for which the fund serves as an investment medium might at some time be in conflict. The fund's Board of Directors is required to monitor events to identify any material conflicts between variable annuity contract owners and variable life policy owners, and will determine what action, if any, should be taken in the event of such a conflict. If such a conflict were to occur, an insurance company participating in the fund might be required to redeem the investment of one or more of its separate accounts from the fund. This might force the fund to sell securities at disadvantageous prices.

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## UNDERSTANDING PERFORMANCE INFORMATION

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This section should help you understand the terms used to describe fund performance. You may see these terms used in shareholder reports you receive from your insurance company.

### Total Return

This tells you how much an investment has changed in value over a given period. It reflects any net increase or decrease in the share price and assumes that all dividends and capital gains (if any) paid during the period were reinvested in additional shares. Therefore, total return numbers include the effect of compounding.

Advertisements may include cumulative or average annual total return figures, which may be compared with various indices, other performance measures, or other mutual funds.

### Cumulative Total Return

This is the actual return of an investment for a specified period. A cumulative return does not indicate how much the value of the investment may have fluctuated *during* the period. For example, an investment could have a 10-year positive cumulative return despite experiencing some years of negative returns during that time.

### Average Annual Total Return

This is always hypothetical and should not be confused with actual year-by-year results. It smoothes out variations in annual performance to tell you what *constant* year-by-year return would have produced the investment's actual cumulative return. This gives you an idea of an investment's annual contribution to your portfolio, provided you held it for the entire period.

Total returns quoted for the fund include the effect of deducting the fund's expenses, but may not include charges and expenses attributable to any particular insurance product. Since you can only purchase shares of the fund through an insurance product, you should carefully review the prospectus of the insurance product you have chosen for information on relevant charges and expenses. Excluding these charges from quotations of the fund's performance has the effect of increasing the performance quoted.

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## INVESTMENT POLICIES AND PRACTICES

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This section takes a detailed look at some of the types of fund securities and the various kinds of investment practices that may be used in day-to-day portfolio management. Fund investments are subject to further restrictions and risks described in the Statement of Additional Information.

Shareholder approval is required to substantively change fund objectives. Shareholder approval is also required to change certain investment restrictions noted in the following section as "fundamental policies." Portfolio managers also follow certain "operating policies" that can be changed without shareholder approval. Shareholders will receive at least 60 days' prior notice of any change in the policy requiring the fund to normally invest at least 80% of net assets in mid-cap companies. Fund investment restrictions and policies apply at the time of purchase. A later change in circumstances will not require the sale of an investment if it was proper at the time it was made. (This exception does not apply to the fund's borrowing policy.)

Fund holdings of certain kinds of investments cannot exceed maximum percentages of total assets, which are set forth in this prospectus. For instance, fund investments in certain derivatives are limited to 10% of total assets. While these restrictions provide a useful level of detail about fund investments,

investors should not view them as an accurate gauge of the potential risk of such investments. For example, in a given period, a 5% investment in derivatives could have significantly more of an impact on a fund's share price than its weighting in the portfolio. The net effect of a particular investment depends on its volatility and the size of its overall return in relation to the performance of all other fund investments.

Changes in fund holdings, fund performance, and the contribution of various investments are discussed in the shareholder reports sent to you by your insurance company.

- ▶ ***Fund managers have considerable discretion in choosing investment strategies and selecting securities they believe will help achieve fund objectives.***

### **Types of Portfolio Securities**

In seeking to meet its investment objective, fund investments may be made in any type of security or instrument (including certain potentially high-risk derivatives described in this section) whose investment characteristics are consistent with its investment program. The following pages describe various types of fund securities and investment management practices.

***Diversification*** As a fundamental policy, the fund will not purchase a security if, as a result, with respect to 75% of its total assets, more than 5% of the fund's total assets would be invested in securities of a single issuer or more than 10% of the outstanding voting securities of the issuer would be held by the fund.

Fund investments are primarily in common stocks and, to a lesser degree, other types of securities as described below.

#### **Common and Preferred Stocks**

Stocks represent shares of ownership in a company. Generally, preferred stock has a specified dividend and ranks after bonds and before common stocks in its claim on income for dividend payments and on assets should the company be liquidated. After other claims are satisfied, common stockholders participate in company profits on a pro-rata basis; profits may be paid out in dividends or reinvested in the company to help it grow. Increases and decreases in earnings are usually reflected in a company's stock price, so common stocks generally have the greatest appreciation and depreciation potential of all corporate securities. While most preferred stocks pay a dividend, a fund may decide to purchase preferred stock where the issuer has omitted, or is in danger of omitting, payment of its dividend. Such investments would be made primarily for their capital appreciation potential.

#### **Convertible Securities and Warrants**

Investments may be made in debt or preferred equity securities convertible into, or exchangeable for, equity securities. Traditionally, convertible securities have paid dividends or interest at rates higher than common stocks but lower than nonconvertible securities. They generally participate in the appreciation or depreciation of the underlying stock into which they are convertible, but to a lesser degree than common stock. Some convertible securities combine higher or lower current income with options and other features. Warrants are options to buy, directly from the issuer, a stated number of shares of common stock at a specified price anytime during the life of the warrants (generally, two or more years). Warrants can be highly volatile, have no voting rights, and pay no dividends.

#### **Foreign Securities**

Investments may be made in foreign securities. These include nondollar-denominated securities traded outside of the U.S. and dollar-denominated securities of foreign issuers traded in the U.S. Investing in foreign securities involves special risks that can increase the potential for losses. These include: exposure to potentially adverse local, political, and economic developments such as war, political instability, hyperinflation, currency devaluations, and overdependence on particular

industries; government interference in markets such as nationalization and exchange controls, expropriation of assets, or imposition of punitive taxes; potentially lower liquidity and higher volatility; possible problems arising from accounting, disclosure, settlement, and regulatory practices and legal rights that differ from U.S. standards; and the chance that fluctuations in foreign exchange rates will decrease the investment's value (favorable changes can increase its value). These risks are heightened for investments in emerging markets. The fund may purchase American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs), which are certificates evidencing ownership of shares of a foreign issuer. ADRs and GDRs trade on established markets and are alternatives to directly purchasing the underlying foreign securities in their local markets and currencies. Such investments are subject to many of the same risks associated with investing directly in foreign securities.

*Operating policy* Fund investments in foreign securities are limited to 25% of total assets. Subject to the overall limit on fund investments in foreign securities, there is no limit on the amount of foreign investments that may be made in emerging markets.

#### **Hybrid Instruments**

These instruments (a type of potentially high-risk derivative) can combine the characteristics of securities, futures, and options. For example, the principal amount, redemption, or conversion terms of a security could be related to the market price of some commodity, currency, securities, or securities index. Such securities may or may not bear interest or pay dividends. Under certain conditions, the redemption value of a hybrid could be zero.

► ***Hybrids can have volatile prices and limited liquidity, and their use may not be successful.***

*Operating policy* Fund investments in hybrid instruments are limited to 10% of total assets.

#### **Illiquid Securities**

Some fund holdings may be considered illiquid because they are subject to legal or contractual restrictions on resale or because they cannot be sold in the ordinary course of business at approximately the prices at which they are valued. The determination of liquidity involves a variety of factors. Illiquid securities may include private placements that are sold directly to a small number of investors, usually institutions. Unlike public offerings, such securities are not registered with the Securities and Exchange Commission (SEC). Although certain of these securities may be readily sold, for example, under Rule 144A of the Securities Act of 1933, others may have resale restrictions and be illiquid. The sale of illiquid securities may involve substantial delays and additional costs, and the fund may only be able to sell such securities at prices substantially less than what the fund believes they are worth.

*Operating policy* Fund investments in illiquid securities are limited to 15% of net assets.

### **Types of Investment Management Practices**

#### **Reserve Position**

A certain portion of fund assets will be held in reserves. Fund reserve positions can consist of: 1) shares of one or both of the T. Rowe Price internal money funds; 2) short-term, high-quality U.S. and foreign dollar-denominated money market securities, including repurchase agreements; and 3) U.S. dollar or non-U.S. dollar currencies. For temporary, defensive purposes, there is no limit on a fund's holdings in reserves. If a fund has significant holdings in reserves, it could compromise the fund's ability to achieve its objectives. The reserve position provides flexibility in meeting redemptions, paying expenses, and in the timing of new investments and can serve as a short-term defense during periods of unusual market volatility. Non-U.S. dollar reserves are subject to currency risk.

**Borrowing Money and Transferring Assets**

The fund may borrow from banks and other T. Rowe Price funds for temporary emergency purposes to facilitate redemption requests, or for other purposes consistent with fund policies as set forth in this prospectus. Such borrowings may be collateralized with fund assets, subject to restrictions.

*Fundamental policy* Borrowings may not exceed 33 $\frac{1}{3}$ % of total assets.

*Operating policy* Fund transfers of portfolio securities as collateral will not be made except as necessary in connection with permissible borrowings or investments, and then such transfers may not exceed 33 $\frac{1}{3}$ % of total assets. Fund purchases of additional securities will not be made when borrowings exceed 5% of total assets.

**Futures and Options**

Futures, a type of potentially high-risk derivative, are often used to manage or hedge risk because they enable the investor to buy or sell an asset in the future at an agreed-upon price. Options, another type of potentially high-risk derivative, give the investor the right (when the investor purchases the option), or the obligation (when the investor “writes” or sells the option), to buy or sell an asset at a predetermined price in the future. Futures and options contracts may be bought or sold for any number of reasons, including: to manage exposure to changes in securities prices, foreign currencies, and credit quality; as an efficient means of increasing or decreasing a fund’s exposure to a specific part or broad segment of the U.S. market or a foreign market; in an effort to enhance income; to protect the value of portfolio securities; and to serve as a cash management tool. Call or put options may be purchased or sold on securities, futures, financial indices, and foreign currencies.

Futures contracts and options may not always be successful hedges; their prices can be highly volatile; using them could lower fund total return; and the potential loss from the use of futures can exceed a fund’s initial investment in such contracts.

*Operating policies* Initial margin deposits on futures and premiums on options used for non-hedging purposes will not exceed 5% of net asset value. The total market value of securities covering call or put options may not exceed 25% of total assets. No more than 5% of total assets will be committed to premiums when purchasing call or put options.

**Exchange Traded Funds (ETFs)**

An ETF is a type of index fund bought and sold on a securities exchange. An ETF trades like common stock and typically represents a portfolio of securities designed to track a particular market index. The fund could purchase an ETF to temporarily gain exposure to a portion of the U.S. or a foreign market while awaiting purchase of underlying securities. The risks of owning an ETF are generally similar to the risks of owning the underlying securities in the index it is designed to track, although lack of liquidity in an ETF could result in it being more volatile and ETFs have management fees that increase their costs.

**Managing Foreign Currency Risk**

Investors in foreign securities may attempt to hedge their exposure to potentially unfavorable currency changes. The primary means of doing this is through the use of forwards, which are contracts to exchange one currency for another on some future date at a specified exchange rate. However, futures, swaps, and options on foreign currencies may also be used. In certain circumstances, a different currency may be substituted for the currency in which the investment is denominated, a strategy known as proxy hedging. If the fund were to engage in any of these foreign currency transactions, it would be primarily to protect its foreign securities from adverse currency movements relative to the dollar. Such transactions involve the risk that anticipated currency movements will not occur, which could reduce fund total return. There are certain markets, including many emerging markets, where it is not possible to engage in effective foreign currency hedging.

**Lending of Portfolio Securities**

A fund may lend its securities to broker-dealers, other institutions, or other persons to earn additional income. Risks include the potential insolvency of the broker-dealer or other borrower that could result in delays in recovering securities and capital losses. Additionally, losses could result from the reinvestment of collateral received on loaned securities in investments that default or do not perform as expected.

*Fundamental policy* The value of loaned securities may not exceed 33<sup>1</sup>/<sub>3</sub>% of total assets.

**Portfolio Turnover**

Turnover is an indication of frequency of trading. The fund will not generally trade in securities for short-term profits, but, when circumstances warrant, securities may be purchased and sold without regard to the length of time held. Each time the fund purchases or sells a security, it incurs a cost. This cost is reflected in the fund's net asset value but not in its operating expenses. The higher the turnover rate, the higher the transaction costs and the greater the impact on the fund's total return. Higher turnover can also increase the possibility of taxable capital gain distributions. The fund's portfolio turnover rates are shown in the Financial Highlights table.

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**DISCLOSURE OF FUND PORTFOLIO INFORMATION**

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The fund's portfolio holdings are disclosed on a regular basis in its semiannual and annual reports to shareholders, and on Form N-Q, which is filed with the SEC within 60 days of the fund's first and third fiscal quarter-end. In addition, the fund discloses its calendar quarter-end portfolio holdings on [troweprice.com](http://troweprice.com) 15 calendar days after each quarter. Under certain conditions, up to 5% of the fund's holdings may be included in this portfolio list without being individually identified. Generally, securities would not be individually identified if they are being actively bought or sold and it is determined that the quarter-end disclosure of the holding could be harmful to the fund. A security will not be excluded for these purposes from a fund's quarter-end holdings disclosure for more than one year. The fund also discloses its largest 10 holdings on [troweprice.com](http://troweprice.com) on the seventh business day after each month-end. These holdings are listed in alphabetical order along with the aggregate percentage of the fund's total assets that they represent. The quarter-end portfolio will remain on the Web site for one year. Each monthly top 10 list will remain on the Web site for six months. A description of the fund's policy and procedures with respect to the disclosure of portfolio information is in the Statement of Additional Information.

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**FINANCIAL HIGHLIGHTS**

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Table 3, which provides information about the fund's financial history, is based on a single share outstanding throughout the periods shown. The table is part of the fund's financial statements, which are included in its annual report and are incorporated by reference into the Statement of Additional Information (available upon request). The total returns in the table represent the rate that an investor would have earned or lost on an investment in the fund (assuming reinvestment of all dividends and distributions and no payment of account or [if applicable] redemption fees). The financial statements in the annual report were audited by the fund's independent registered public accounting firm, PricewaterhouseCoopers LLP.

**Table 3 Financial Highlights**

	<i>Year ended December 31</i>				
	<i>2004</i>	<i>2005*</i>	<i>2006*</i>	<i>2007*</i>	<i>2008*</i>
Net asset value, beginning of period	\$ 19.90	\$ 23.55	\$ 25.55	\$ 23.88	\$ 25.02
<b>Income From Investment Operations</b>					
Net investment income	(0.09)	(0.05)	0.05	—	(0.07)
Net gains or losses on securities (both realized and unrealized)	3.74	3.53	1.65	4.17	(9.89)
Total from investment operations	3.65	3.48	1.70	4.17	(9.96)
<b>Less Distributions</b>					
Dividends (from net investment income)	—	—	—	(0.06)	—
Distributions (from capital gains)	—	(1.48)	(3.37)	(2.97)	(1.17)
Returns of capital	—	—	—	—	—
Total distributions	—	(1.48)	(3.37)	(3.03)	(1.17)
<b>Net asset value, end of period</b>	<b>\$ 23.55</b>	<b>\$ 25.55</b>	<b>\$ 23.88</b>	<b>\$ 25.02</b>	<b>\$ 13.89</b>
<b>Total return</b>	<b>18.34%</b>	<b>14.74%</b>	<b>6.64%</b>	<b>17.52%</b>	<b>(39.76)%</b>
<b>Ratios/Supplemental Data</b>					
Net assets, end of period (in thousands)	\$598,124	\$651,002	\$338,056	\$363,277	\$193,528
Ratio of expenses to average net assets	0.85%	0.85%	0.85%	0.85%	0.85%
Ratio of net income to average net assets	(0.41)%	(0.19)%	0.21%	0.02%	(0.32)%
Portfolio turnover rate	31.0%	28.4%	34.2%	33.7%	30.4%

\* Per share amounts calculated using average shares outstanding method.

A Statement of Additional Information for the T. Rowe Price family of funds has been filed with the Securities and Exchange Commission and is incorporated by reference into this prospectus. Further information about fund investments, including a review of market conditions and the manager's recent strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain a free copy of a fund report or Statement of Additional Information, or for inquiries, contact your insurance company. The Statement of Additional Information and updated performance information are available through [troweprice.com](http://troweprice.com).

Fund information and Statements of Additional Information are also available from the Public Reference Room of the Securities and Exchange Commission. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-202-942-8090. Fund reports and other fund information are available on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. Copies of this information may be obtained, after paying a duplicating fee, by electronic request at [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the Public Reference Room, Washington D.C. 20549-0102.

1940 Act File No.: 811-07143

E305-040 5/1/09



May 1, 2009

T. ROWE PRICE

# New America Growth Portfolio

A stock fund seeking long-term capital growth by investing primarily in the common stocks of growth companies.



*The Securities and Exchange Commission has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.*

## Table of Contents

1	<b>ABOUT THE FUND</b>	
	Objective, Strategy, Risks, and Expenses	1
	Other Information About the Fund	4
2	<b>T. ROWE PRICE ACCOUNT INFORMATION</b>	
	Pricing Shares and Receiving Sale Proceeds	5
	Rights Reserved by the Funds	8
	Dividends and Other Distributions	8
3	<b>MORE ABOUT THE FUND</b>	
	Organization and Management	9
	Understanding Performance Information	11
	Investment Policies and Practices	11
	Disclosure of Fund Portfolio Information	15
	Financial Highlights	15

Founded in 1937 by the late Thomas Rowe Price, Jr., T. Rowe Price Associates, Inc. (T. Rowe Price), and its affiliates managed \$276.3 billion for more than 11 million individual and institutional investor accounts as of December 31, 2008. T. Rowe Price is the fund's investment manager.

**Mutual fund shares are not deposits or obligations of, or guaranteed by, any depository institution. Shares are not insured by the FDIC, Federal Reserve, or any other government agency, and are subject to investment risks, including possible loss of the principal amount invested.**

## **T. Rowe Price Equity Series, Inc.**

### **T. Rowe Price New America Growth Portfolio**

#### **OBJECTIVE, STRATEGY, RISKS, AND EXPENSES**

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The fund should be used as an investment option for variable annuity and variable life insurance contracts.

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

The fund seeks to provide long-term capital growth by investing primarily in the common stocks of growth companies.

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

We invest primarily (at least 65% of total assets) in common stocks of U.S. companies operating in those sectors of the economy that, in the view of T. Rowe Price, are the fastest growing or have the greatest growth potential. In recent years, the U.S. economy has evolved rapidly, primarily because of the application of new technologies and scientific advances. Fast-growing companies can be found across an array of industries in today's "new America." The choice of industry sectors will generally reflect such factors as the overall revenue growth of the component companies and the sector's contribution to gross domestic product from year to year.

Holdings range from large-cap to small-cap companies. In selecting stocks, we look for many characteristics, typically including, but not limited to:

- earnings growth rates that generally exceed that of the average company in the S&P 500 Stock Index;
- favorable company fundamentals, such as a strong balance sheet, sound business strategy, and promising competitive positioning;
- effective management; or
- stock valuations, such as price/earnings or price/cash flow ratios, that seem reasonable relative to the company's prospects.

In pursuing its investment objective, the fund has the discretion to purchase some securities that do not meet its normal investment criteria, as previously described, 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 an extraordinary corporate event, a new product introduction, a favorable competitive development, or a change in management.

While most assets will be invested in U.S. common stocks, the fund may invest in other securities, including foreign stocks, and use futures and options in keeping with fund objectives.

The 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 the fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of the fund's securities may change after they are purchased, and this may cause the amount of the 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.

- ▶ ***For details about the fund's investment program, please see the Investment Policies and Practices section.***

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

The fund may be subject to above-average risk since growth companies pay few dividends and are typically more volatile than slower-growing companies with high dividends. Generally, stocks of companies in rapidly evolving—and often highly competitive—industries are subject to significant price swings. Since investors buy these stocks for their expected superior earnings growth, earnings disappointments, even small ones, can result in sharp price declines. Changes in investor psychology from positive to negative can also cause growth stocks to lose value because of the high valuations they typically carry. The level of risk will be increased if the fund has significant exposure to small-company stocks, which tend to be more volatile than large-company stocks because of their limited product lines, markets, or financial resources. In addition, picking long-term winners in the early stages of developing new industries is very difficult. Promising new fields tend to attract a great deal of competition and capital investment, and the increasingly fast pace of technological change can render an established company's products and services obsolete virtually overnight.

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 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 by the fund may prove incorrect, resulting in losses or poor performance even in a rising market. Finally, the fund's investment approach could fall out of favor with the investing public, resulting in lagging performance versus other types of stock funds.

Foreign stock holdings may lose value because of declining foreign currencies or adverse political or economic events overseas. The use of futures and options, if any, may subject the fund to additional volatility and potential losses.

As with any mutual fund, there can be no guarantee the fund will achieve its objective.

- ▶ ***The fund's share price may decline, so when you sell your shares, you may lose money.***

### **How can I tell if the fund is appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. If you seek long-term appreciation and can accept the potentially higher volatility of growth stocks, the fund could be an appropriate part of your overall investment strategy. This fund should not represent your complete investment program or be used for short-term trading purposes.

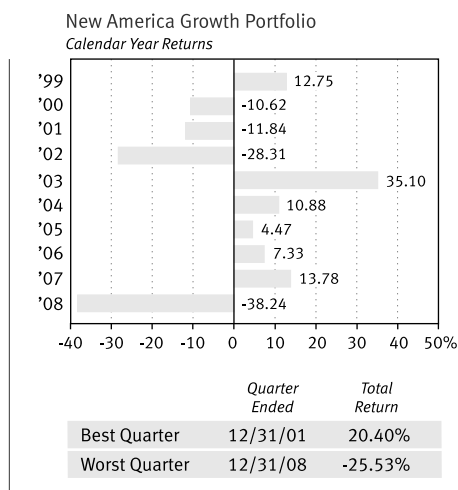
- ▶ ***Equity investors should have a long-term investment horizon and be willing to wait out bear markets.***

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

The bar chart 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 over time. Past fund performance is no guarantee of future returns.

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

Updated performance information is available through [troweprice.com](http://troweprice.com) or may be obtained by calling 1-800-469-5304.



**Table 1 Average Annual Total Returns**

	<i>Periods ended December 31, 2008</i>		
	<b>1 year</b>	<b>5 years</b>	<b>10 years</b>
New America Growth Portfolio	-38.24%	-2.66%	-2.81%
S&P 500 Index	-37.00	-2.19	-1.38
Lipper Variable Annuity Underlying Multi-Cap Growth Funds Average	-42.58	-2.63	-1.87

These figures include changes in principal value, reinvested dividends, and capital gain distributions, if any. Figures do not reflect fees at the insurance product or contract level; if those fees were included, returns would be lower. S&P 500 Index tracks the stocks of 500 U.S. companies.

**What fees and expenses will I pay?**

The fees and expenses set forth in the following table are paid by the fund and borne indirectly by contract holders. There are additional expenses charged by insurance companies, which apply to your insurance contract or policy, and these are described in the variable annuity and variable life contract prospectuses.

**Table 2 Fees and Expenses of the Fund**

	<b>Annual fund operating expenses</b> <i>(expenses that are deducted from fund assets)</i>
Management fee	0.85%
Other expenses	—
<b>Total annual fund operating expenses</b>	<b>0.85%</b>

**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 this fund 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:

<b>1 year</b>	<b>3 years</b>	<b>5 years</b>	<b>10 years</b>
\$87	\$271	\$471	\$1,049

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## OTHER INFORMATION ABOUT THE FUND

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### What are some of the fund's potential rewards?

The fund offers the potential for significant, long-term growth of capital by seeking to participate in the growth of companies positioned to benefit from the dynamic technological, social, medical, economic, and business developments that are defining the "new America." The fund has the flexibility to seek investments in companies of any size in any sector believed by T. Rowe Price to offer the greatest growth potential.

### What is meant by a "growth" investment approach?

Thomas Rowe Price, Jr., pioneered the growth stock theory of investing over 70 years ago. It is based on the premise that inflation represents a more serious long-term threat to an investor's portfolio than stock market fluctuations or recessions. Mr. Price believed that when a company's earnings grow faster than both inflation and the economy in general, the market will eventually reward its long-term earnings growth with a higher stock price. However, investors should be aware that, during periods of adverse economic and market conditions, stock prices may fall despite favorable earnings trends.

- ▶ *Growth investors look for companies with above-average earnings gains.*

### Is there other information I can review before making a decision?

Investment Policies and Practices in Section 3 discusses various types of portfolio securities the fund may purchase as well as types of management practices the fund may use.

The Statement of Additional Information contains more detailed information about the fund and its investments, operations, and expenses.

As an investor in a T. Rowe Price fund through your variable annuity or variable life insurance contract, you will want to know about the following policies and procedures that apply to the funds. For instructions on how to purchase and redeem shares, read the insurance contract prospectus.

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**PRICING SHARES AND RECEIVING SALE PROCEEDS**

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Shares of the fund are designed to be offered to insurance company separate accounts established for the purpose of funding variable annuity and life insurance contracts. Variable annuity and variable life contract holders or participants are not the shareholders of the fund. Rather, the separate account of the insurance company is the shareholder. The variable annuity and variable life contracts are described in separate prospectuses issued by the insurance companies. The fund assumes no responsibility for such prospectuses, or variable annuity or variable life contracts.

Shares of the fund are sold and redeemed without the imposition of any sales commission or redemption charge. However, certain other charges may apply to annuity or life contracts. Those charges are disclosed in the insurance contract prospectus.

Your ability to exchange from this fund to any other T. Rowe Price fund that serves as an investment option under your insurance contract is governed by the terms of that contract and the insurance contract prospectus, as well as the fund's excessive trading policy described in this section.

**How and When Shares Are Priced**

The share price (also called "net asset value" or NAV per share) for a fund is calculated at the close of the New York Stock Exchange, normally 4 p.m. ET, each day that the exchange is open for business. To calculate the NAV, the fund's assets are valued and totaled, liabilities are subtracted, and the balance, called net assets, is divided by the number of shares outstanding. Market values are used to price stocks and bonds. Market values represent the prices at which securities actually trade or evaluations based on the judgment of the fund's pricing services. If a market value for a security is not available, the fund will make a good faith effort to assign a fair value to the security by taking into account factors that have been approved by the fund's Board of Directors. This value may differ from the value the fund receives upon sale of the securities. Amortized cost is used to price securities held by money market funds and certain other debt securities held by a fund. Investments in mutual funds are valued at the closing NAV per share of the mutual fund on the day of valuation.

Non-U.S. equity securities are valued on the basis of their most recent closing market prices at 4 p.m. ET except under the circumstances described below. Most foreign markets close before 4 p.m. ET. For securities primarily traded in the Far East, for example, the most recent closing prices may be as much as 15 hours old at 4 p.m. ET. If a fund determines that developments between the close of a foreign market and 4 p.m. ET will, in its judgment, materially affect the value of some or all of the fund's securities, the fund will adjust the previous closing prices to reflect what it believes to be the fair value of the securities as of 4 p.m. ET. In deciding whether to make these adjustments, the fund reviews a variety of factors, including developments in foreign markets, the performance of U.S. securities markets, and the performance of instruments trading in U.S. markets that represent foreign securities and baskets of foreign securities. The fund may also fair value securities in other situations, for example, when a particular foreign market is closed but the fund is open. The fund uses outside pricing services to provide it with closing market prices and information used for adjusting those prices. The fund cannot predict how often it will use closing prices and how often it will adjust those prices. As a means of

evaluating its fair value process, the fund routinely compares closing market prices, the next day's opening prices in the same markets, and adjusted prices. Other mutual funds may adjust the prices of their securities by different amounts.

### **How Your Purchase, Sale, or Exchange Price Is Determined**

#### **Purchases**

The insurance companies purchase shares of the fund for their separate accounts, using premiums allocated by the contract holders or participants. Shares are purchased at the NAV next determined after the insurance company receives the premium payment in acceptable form. Initial and subsequent payments allocated to the fund are subject to the limits stated in the insurance contract prospectus issued by the insurance company.

When authorized by the fund, certain financial institutions or retirement plans purchasing fund shares on behalf of customers or plan participants through Financial Institution Services or Retirement Plan Services may place a purchase order unaccompanied by payment. Payment for these shares must be received by the time designated by the fund (not to exceed the period established for settlement under applicable regulations). If payment is not received by this time, the order may be cancelled. The financial institution or retirement plan is responsible for any costs or losses incurred by the fund or T. Rowe Price if payment is delayed or not received.

#### **Redemptions**

The insurance companies redeem shares of the fund to make benefit or surrender payments under the terms of its contracts. Redemptions are processed on any day on which the New York Stock Exchange is open and are priced at the fund's NAV next determined after the insurance company receives a surrender request in acceptable form.

*Note:* The time at which transactions and shares are priced and the time until which orders are accepted may be changed in case of an emergency or if the New York Stock Exchange closes at a time other than 4 p.m. ET. There may be times when you are unable to contact us by telephone or access your account by computer due to extreme market activity, the unavailability of the T. Rowe Price Web site, or other circumstances. Should this occur, your order must still be placed and accepted prior to the time the New York Stock Exchange closes to be priced at that business day's NAV.

### **How You Can Receive the Proceeds From a Sale**

Payment for redeemed shares will be made promptly, but in no event later than seven calendar days after receipt of your redemption order. However, the right of redemption may be suspended or the date of payment postponed in accordance with the Investment Company Act of 1940 ("1940 Act"). The amount received upon redemption of the shares of the fund may be more or less than the amount paid for the shares, depending on the fluctuations in the market value of the assets owned by the fund.

### **Excessive and Short-Term Trading**

- ▶ *T. Rowe Price may bar excessive and short-term traders from purchasing shares.*

Excessive or short-term trading in fund shares may disrupt management of a fund and raise its costs. Short-term traders in funds investing in foreign securities may seek to take advantage of an anticipated difference between the price of the fund's shares and price movements in overseas markets (see Pricing Shares and Receiving Sale Proceeds—How and When Shares Are Priced). While there is no assurance that T. Rowe Price can prevent all excessive and short-term trading, the Boards of Directors of the T. Rowe Price funds have adopted the following policies to deter such activity. Persons trading directly with T. Rowe Price or indirectly through intermediaries in violation of this policy or persons believed

to be short-term traders may be barred permanently from further purchases of T. Rowe Price funds. Purchase transactions placed by such persons are subject to rejection without notice. These policies apply to contract holders notwithstanding any provisions in your insurance contract.

- All persons purchasing shares held directly with a T. Rowe Price fund who make more than one purchase and one sale or one sale and one purchase involving the same fund within any 90-day calendar period will violate the policy.
- All persons purchasing fund shares held through an insurance company who hold the shares for less than 90 calendar days will violate the policy.

### **Omnibus Accounts**

Intermediaries often establish omnibus accounts in the T. Rowe Price funds for their customers. In such situations, T. Rowe Price cannot always monitor trading activity by underlying contract holders. However, T. Rowe Price reviews trading activity at the omnibus account level and looks for activity that indicates potential excessive or short-term trading. If it detects suspicious trading activity, T. Rowe Price contacts the intermediary to determine whether the excessive trading policy has been violated and may request and receive personal identifying information and transaction histories for some or all contract holders to make this determination. If T. Rowe Price believes that its excessive trading policy has been violated, it will instruct the intermediary to take action with respect to the underlying contract holder in accordance with the policy.

### **Exceptions to Policy**

Systematic purchases and redemptions are exempt from these policies. Redemptions to fund the periodic deduction of contract charges and fees and to pay death benefits are also exempt. Transactions in certain rebalancing and asset allocation programs may be exempt from the excessive trading policy subject to prior written approval by designated persons at T. Rowe Price. In addition, transactions by certain T. Rowe Price funds in other T. Rowe Price funds, as well as certain transactions by approved accounts managed by T. Rowe Price, may also be exempt.

T. Rowe Price generally seeks to enforce its excessive trading policies against individual contract holders when violations of its policies are discovered. The terms of your insurance contract may also restrict your ability to trade between the investment options available under your contract. T. Rowe Price reserves the right to modify the 90-day policy set forth above and apply your insurance company's excessive trading policy (for example, in situations where an insurance contract or insurance company has restrictions on trading that differ from a T. Rowe Price fund's policy). These modifications would be authorized only if T. Rowe Price believes that the modified policy would provide protection to the fund that is reasonably equivalent to the fund's regular policy. If you are trading your fund shares through an intermediary, you should consult with the intermediary to determine the excessive trading policy that applies to your trades in the fund.

There may be limitations on the ability of insurance companies to impose restrictions on the trading practices of certain contract holders. As a result, T. Rowe Price's ability to discourage excessive trading practices in this fund may be limited.

- ▶ ***There is no guarantee that T. Rowe Price will be able to detect or prevent excessive or short-term trading. In addition, T. Rowe Price cannot always detect excessive or short-term trading through intermediaries with omnibus accounts.***

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**RIGHTS RESERVED BY THE FUNDS**

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T. Rowe Price funds and their agents, in their sole discretion, reserve the following rights: (1) to waive or lower investment minimums; (2) to accept initial purchases by telephone or telegram; (3) to refuse any purchase or exchange order; (4) to cancel or rescind any purchase or exchange order placed through an intermediary, no later than the business day after the order is received by the intermediary (including, but not limited to, orders deemed to result in excessive trading, market timing, or 5% ownership); (5) to cease offering fund shares at any time to all or certain groups of investors; (6) to freeze any account and suspend account services when notice has been received of a dispute between the registered or beneficial account owners or there is reason to believe a fraudulent transaction may occur; (7) to otherwise modify the conditions of purchase and any services at any time; (8) to waive any wire fees charged to a group of shareholders; (9) to act on instructions reasonably believed to be genuine; and (10) to involuntarily redeem your account at the net asset value calculated the day the account is redeemed, in cases of threatening conduct, suspected fraudulent or illegal activity, or if the fund or its agent is unable, through its procedures, to verify the identity of the person(s) or entity opening an account.

In an effort to protect T. Rowe Price funds from the possible adverse effects of a substantial redemption in a large account, as a matter of general policy, no contract holder or participant or group of contract holders or participants controlled by the same person or group of persons will knowingly be permitted to purchase in excess of 5% of the outstanding shares of the fund, except upon approval of the fund's management.

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**DIVIDENDS AND OTHER DISTRIBUTIONS**

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For a discussion of the tax status of your variable annuity contract, please refer to the insurance contract prospectus.

**Dividends and Other Distributions**

The policy of the fund is to distribute all of its net investment income and net capital gains each year to its shareholders, which are the separate accounts established by the various insurance companies in connection with their issuance of variable annuity and variable life contracts. Dividends from net investment income are declared daily and paid monthly for the Limited-Term Bond and Prime Reserve Portfolios; declared and paid quarterly for the Equity Income, Equity Index 500, and Personal Strategy Balanced Portfolios; and declared and paid annually for all other portfolios. All fund distributions made to a separate account will be reinvested automatically in additional fund shares, unless a shareholder (separate account) elects to receive distributions in cash. Under current law, dividends and distributions made by the fund to separate accounts generally are not taxable to the separate accounts, the insurance company, or the contract holder, provided that the separate account meets the diversification requirements of Section 817(h) of the Internal Revenue Code of 1986, as amended, (Code) and other tax-related requirements are satisfied. The fund intends to diversify its investments in the manner required under Code Section 817(h).

## ORGANIZATION AND MANAGEMENT

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### How is the fund organized?

T. Rowe Price Equity Series, Inc. (the “corporation”) was incorporated in Maryland in 1994. Currently, the corporation consists of seven series, each representing a separate pool of assets with different objectives and investment policies.

The New America Growth Portfolio is managed in a manner similar to the T. Rowe Price New America Growth Fund, a fund with the same investment objective and program as the portfolio but offered to the general public and not to insurance company separate accounts. However, investors should be aware that the New America Growth Portfolio is not the same as the fund and will not have the same performance. Investments made by the New America Growth Portfolio at any given time may not be the same as those made by T. Rowe Price New America Growth Fund. Different performance will result due to factors such as differences in the cash flows into and out of the portfolio and fund, different fees and expenses, and differences in net assets and size of holdings.

- ▶ *Shareholders benefit from T. Rowe Price’s 72 years of investment management experience.*

### What is meant by “shares”?

Contract holders and participants indirectly (through the insurance company separate account) purchase shares when they put money in a fund offered as an investment option in their insurance contracts. These shares are part of a fund’s authorized capital stock, but share certificates are not issued.

Each share and fractional share entitles the shareholder (the insurance company separate account) to cast one vote per share on certain fund matters, including the election of fund directors, changes in fundamental policies, or approval of changes in the fund’s management contract.

The shares of the fund have equal voting rights. The various insurance companies own the outstanding shares of the fund in their separate accounts. These separate accounts are registered under the 1940 Act or are exempted from registration thereunder. Under current law, the insurance companies must vote the shares held in registered separate accounts in accordance with voting instructions received from variable contract holders or participants having the right to give such instructions.

### Do T. Rowe Price funds have annual shareholder meetings?

The funds are not required to hold annual meetings and, to avoid unnecessary costs to fund shareholders, do not do so except when certain matters, such as a change in fundamental policies, must be decided. In addition, shareholders representing at least 10% of all eligible votes may call a special meeting for the purpose of voting on the removal of any fund director or trustee. If a meeting is held and you cannot attend, you can vote by proxy. Before the meeting, the insurance company will send or make available to you the fund’s proxy materials that explain the issues to be decided and include instructions on voting.

### Who runs the fund?

#### General Oversight

The fund is governed by a Board of Directors that meets regularly to review fund investments, performance, expenses, and other business affairs. The Board elects the fund’s officers. At least 75% of Board members are independent of T. Rowe Price.

- ▶ *All decisions regarding the purchase and sale of fund investments are made by T. Rowe Price—specifically by the fund’s portfolio manager.*

**Portfolio Management**

T. Rowe Price has established an Investment Advisory Committee with respect to the fund. The committee members are: Joseph M. Milano, Chairman, Francisco Alonso, Jeffrey W. Arricale, P. Robert Bartolo, Brian W.H. Berghuis, Shawn T. Driscoll, Jason Nogueira, Curt J. Organt, Robert W. Sharps, Clark R. Shields, and Eric L. Veiel. The committee chairman has day-to-day responsibility for managing the fund's portfolio and works with the committee in developing and executing the fund's investment program. Mr. Milano has been chairman of the committee since 2002. He joined T. Rowe Price in 1996 and his investment experience dates from that time. The Statement of Additional Information provides additional information about the portfolio manager's compensation, other accounts managed by the portfolio manager, and the portfolio manager's ownership of securities in the fund.

**The Management Fee**

The fund pays T. Rowe Price an annual fee that includes investment management services and ordinary, recurring operating expenses, but does not cover interest, taxes, brokerage, nonrecurring or extraordinary items. The fee is based on fund average daily net assets and is calculated and accrued daily. The fee for the fund for the most recent fiscal year was 0.85%.

In addition, from time to time, T. Rowe Price may make payments from its own resources to eligible insurance companies for recordkeeping and administrative services they provide to the fund for contract holders. These payments range from 0.15% to 0.25% of the average annual total assets invested by the separate accounts of the insurance company in the fund. T. Rowe Price may also reimburse insurance companies, broker-dealers, and other distributors for certain bona fide selling expenses associated with distribution of the insurance contracts in which the fund serves as an investment option. All payments described by this paragraph are paid by T. Rowe Price and not by the fund. As a result, the total expense ratio of the fund will not be affected by any such payments.

A discussion about the factors considered by the Board and its conclusions in approving the fund's investment management contract with T. Rowe Price appears in the fund's semiannual report to contract holders for the period ended June 30.

**Variable Annuity and Variable Life Charges**

Variable annuity and variable life fees and charges imposed on contract holders and participants by the insurance companies are in addition to those described previously and are described in the variable annuity and variable life contract prospectuses.

**Variable Annuity and Variable Life Conflicts**

The fund may serve as an investment medium for both variable annuity contracts and variable life insurance policies. Shares of the fund may be offered to separate accounts established by any number of insurance companies. The fund currently does not foresee any disadvantages to variable annuity contract owners due to the fact that the fund may serve as an investment medium for both variable life insurance policies and annuity contracts; however, due to differences in tax treatment or other considerations, it is theoretically possible that the interests of owners of annuity contracts and insurance policies for which the fund serves as an investment medium might at some time be in conflict. The fund's Board of Directors is required to monitor events to identify any material conflicts between variable annuity contract owners and variable life policy owners, and will determine what action, if any, should be taken in the event of such a conflict. If such a conflict were to occur, an insurance company participating in the fund might be required to redeem the investment of one or more of its separate accounts from the fund. This might force the fund to sell securities at disadvantageous prices.

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## UNDERSTANDING PERFORMANCE INFORMATION

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This section should help you understand the terms used to describe fund performance. You may see these terms used in shareholder reports you receive from your insurance company.

### Total Return

This tells you how much an investment has changed in value over a given period. It reflects any net increase or decrease in the share price and assumes that all dividends and capital gains (if any) paid during the period were reinvested in additional shares. Therefore, total return numbers include the effect of compounding.

Advertisements may include cumulative or average annual total return figures, which may be compared with various indices, other performance measures, or other mutual funds.

### Cumulative Total Return

This is the actual return of an investment for a specified period. A cumulative return does not indicate how much the value of the investment may have fluctuated *during* the period. For example, an investment could have a 10-year positive cumulative return, despite experiencing some years of negative returns during that time.

### Average Annual Total Return

This is always hypothetical and should not be confused with actual year-by-year results. It smoothes out variations in annual performance to tell you what *constant* year-by-year return would have produced the investment's actual cumulative return. This gives you an idea of an investment's annual contribution to your portfolio, provided you held it for the entire period.

Total returns quoted for the fund include the effect of deducting the fund's expenses, but may not include charges and expenses attributable to any particular insurance product. Since you can only purchase shares of the fund through an insurance product, you should carefully review the prospectus of the insurance product you have chosen for information on relevant charges and expenses. Excluding these charges from quotations of the fund's performance has the effect of increasing the performance quoted.

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## INVESTMENT POLICIES AND PRACTICES

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This section takes a detailed look at some of the types of fund securities and the various kinds of investment practices that may be used in day-to-day portfolio management. Fund investments are subject to further restrictions and risks described in the Statement of Additional Information.

Shareholder approval is required to substantively change fund objectives. Shareholder approval is also required to change certain investment restrictions noted in the following section as "fundamental policies." Portfolio managers also follow certain "operating policies" that can be changed without shareholder approval. Fund investment restrictions and policies apply at the time of purchase. A later change in circumstances will not require the sale of an investment if it was proper at the time it was made. (This exception does not apply to the fund's borrowing policy.)

Fund holdings of certain kinds of investments cannot exceed maximum percentages of total assets, which are set forth in this prospectus. For instance, fund investments in certain derivatives are limited to 10% of total assets. While these restrictions provide a useful level of detail about fund investments, investors should not view them as an accurate gauge of the potential risk of such investments. For example, in a given period, a 5% investment in derivatives could have significantly more of an impact

on a fund's share price than its weighting in the portfolio. The net effect of a particular investment depends on its volatility and the size of its overall return in relation to the performance of all other fund investments.

Changes in fund holdings, fund performance, and the contribution of various investments are discussed in the shareholder reports sent to you by your insurance company.

- ▶ ***Fund managers have considerable discretion in choosing investment strategies and selecting securities they believe will help achieve fund objectives.***

### **Types of Portfolio Securities**

In seeking to meet its investment objective, fund investments may be made in any type of security or instrument (including certain potentially high-risk derivatives described in this section) whose investment characteristics are consistent with its investment program. The following pages describe various types of fund securities and investment management practices.

***Diversification*** As a fundamental policy, the fund will not purchase a security if, as a result, with respect to 75% of its total assets, more than 5% of the fund's total assets would be invested in securities of a single issuer or more than 10% of the outstanding voting securities of the issuer would be held by the fund.

Fund investments are primarily in common stocks and, to a lesser degree, other types of securities as described below.

#### **Common and Preferred Stocks**

Stocks represent shares of ownership in a company. Generally, preferred stock has a specified dividend and ranks after bonds and before common stocks in its claim on income for dividend payments and on assets should the company be liquidated. After other claims are satisfied, common stockholders participate in company profits on a pro-rata basis; profits may be paid out in dividends or reinvested in the company to help it grow. Increases and decreases in earnings are usually reflected in a company's stock price, so common stocks generally have the greatest appreciation and depreciation potential of all corporate securities. While most preferred stocks pay a dividend, a fund may decide to purchase preferred stock where the issuer has omitted, or is in danger of omitting, payment of its dividend. Such investments would be made primarily for their capital appreciation potential.

#### **Convertible Securities and Warrants**

Investments may be made in debt or preferred equity securities convertible into, or exchangeable for, equity securities. Traditionally, convertible securities have paid dividends or interest at rates higher than common stocks but lower than nonconvertible securities. They generally participate in the appreciation or depreciation of the underlying stock into which they are convertible, but to a lesser degree than common stock. Some convertible securities combine higher or lower current income with options and other features. Warrants are options to buy, directly from the issuer, a stated number of shares of common stock at a specified price anytime during the life of the warrants (generally, two or more years). Warrants can be highly volatile, have no voting rights, and pay no dividends.

#### **Foreign Securities**

Investments may be made in foreign securities. These include nondollar-denominated securities traded outside of the U.S. and dollar-denominated securities of foreign issuers traded in the U.S. Investing in foreign securities involves special risks that can increase the potential for losses. These include: exposure to potentially adverse local, political, and economic developments such as war, political instability, hyperinflation, currency devaluations, and overdependence on particular industries; government interference in markets such as nationalization and exchange controls, expropriation of assets, or imposition of punitive taxes; potentially lower liquidity and higher

volatility; possible problems arising from accounting, disclosure, settlement, and regulatory practices and legal rights that differ from U.S. standards; and the chance that fluctuations in foreign exchange rates will decrease the investment's value (favorable changes can increase its value). These risks are heightened for investments in emerging markets. The fund may purchase American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs), which are certificates evidencing ownership of shares of a foreign issuer. ADRs and GDRs trade on established markets and are alternatives to directly purchasing the underlying foreign securities in their local markets and currencies. Such investments are subject to many of the same risks associated with investing directly in foreign securities.

*Operating policy* Fund investments in foreign securities are limited to 15% of total assets. Subject to the overall limit on fund investments in foreign securities, there is no limit on the amount of foreign investments that may be made in emerging markets.

### **Hybrid Instruments**

These instruments (a type of potentially high-risk derivative) can combine the characteristics of securities, futures, and options. For example, the principal amount, redemption, or conversion terms of a security could be related to the market price of some commodity, currency, securities, or securities index. Such securities may or may not bear interest or pay dividends. Under certain conditions, the redemption value of a hybrid could be zero.

► ***Hybrids can have volatile prices and limited liquidity, and their use may not be successful.***

*Operating policy* Fund investments in hybrid instruments are limited to 10% of total assets.

### **Illiquid Securities**

Some fund holdings may be considered illiquid because they are subject to legal or contractual restrictions on resale or because they cannot be sold in the ordinary course of business at approximately the prices at which they are valued. The determination of liquidity involves a variety of factors. Illiquid securities may include private placements that are sold directly to a small number of investors, usually institutions. Unlike public offerings, such securities are not registered with the Securities and Exchange Commission (SEC). Although certain of these securities may be readily sold, for example under Rule 144A of the Securities Act of 1933, others may have resale restrictions and be illiquid. The sale of illiquid securities may involve substantial delays and additional costs, and the fund may only be able to sell such securities at prices substantially less than what the fund believes they are worth.

*Operating policy* Fund investments in illiquid securities are limited to 15% of net assets.

## **Types of Investment Management Practices**

### **Reserve Position**

A certain portion of fund assets will be held in reserves. Fund reserve positions can consist of: 1) shares of one or both of the T. Rowe Price internal money funds; 2) short-term, high-quality U.S. and foreign dollar-denominated money market securities, including repurchase agreements; and 3) U.S. dollar or non-U.S. dollar currencies. For temporary, defensive purposes, there is no limit on a fund's holdings in reserves. If a fund has significant holdings in reserves, it could compromise the fund's ability to achieve its objectives. The reserve position provides flexibility in meeting redemptions, paying expenses, and in the timing of new investments and can serve as a short-term defense during periods of unusual market volatility. Non-U.S. dollar reserves are subject to currency risk.

**Borrowing Money and Transferring Assets**

The fund may borrow from banks and other T. Rowe Price funds for temporary emergency purposes to facilitate redemption requests, or for other purposes consistent with fund policies as set forth in this prospectus. Such borrowings may be collateralized with fund assets, subject to restrictions.

*Fundamental policy* Borrowings may not exceed 33 $\frac{1}{3}$ % of total assets.

*Operating policy* Fund transfers of portfolio securities as collateral will not be made except as necessary in connection with permissible borrowings or investments, and then such transfers may not exceed 33 $\frac{1}{3}$ % of total assets. Fund purchases of additional securities will not be made when borrowings exceed 5% of total assets.

**Futures and Options**

Futures, a type of potentially high-risk derivative, are often used to manage or hedge risk because they enable the investor to buy or sell an asset in the future at an agreed-upon price. Options, another type of potentially high-risk derivative, give the investor the right (when the investor purchases the option), or the obligation (when the investor “writes” or sells the option), to buy or sell an asset at a predetermined price in the future. Futures and options contracts may be bought or sold for any number of reasons, including: to manage exposure to changes in securities prices, foreign currencies, and credit quality; as an efficient means of increasing or decreasing a fund’s exposure to a specific part or broad segment of the U.S. market or a foreign market; in an effort to enhance income; to protect the value of portfolio securities; and to serve as a cash management tool. Call or put options may be purchased or sold on securities, futures, financial indices, and foreign currencies.

Futures contracts and options may not always be successful hedges; their prices can be highly volatile; using them could lower fund total return; and the potential loss from the use of futures can exceed a fund’s initial investment in such contracts.

*Operating policies* Initial margin deposits on futures and premiums on options used for non-hedging purposes will not exceed 5% of net asset value. The total market value of securities covering call or put options may not exceed 25% of total assets. No more than 5% of total assets will be committed to premiums when purchasing call or put options.

**Exchange Traded Funds (ETFs)**

An ETF is a type of index fund bought and sold on a securities exchange. An ETF trades like common stock and typically represents a portfolio of securities designed to track a particular market index. The fund could purchase an ETF to temporarily gain exposure to a portion of the U.S. or a foreign market while awaiting purchase of underlying securities. The risks of owning an ETF are generally similar to the risks of owning the underlying securities in the index it is designed to track, although lack of liquidity in an ETF could result in it being more volatile and ETFs have management fees that increase their costs.

**Managing Foreign Currency Risk**

Investors in foreign securities may attempt to hedge their exposure to potentially unfavorable currency changes. The primary means of doing this is through the use of forwards, which are contracts to exchange one currency for another on some future date at a specified exchange rate. However, futures, swaps, and options on foreign currencies may also be used. In certain circumstances, a different currency may be substituted for the currency in which the investment is denominated, a strategy known as proxy hedging. If the fund were to engage in any of these foreign currency transactions, it would be primarily to protect its foreign securities from adverse currency movements relative to the dollar. Such transactions involve the risk that anticipated currency movements will not occur, which could reduce fund total return. There are certain markets, including many emerging markets, where it is not possible to engage in effective foreign currency hedging.

**Lending of Portfolio Securities**

A fund may lend its securities to broker-dealers, other institutions, or other persons to earn additional income. Risks include the potential insolvency of the broker-dealer or other borrower that could result in delays in recovering securities and capital losses. Additionally, losses could result from the reinvestment of collateral received on loaned securities in investments that default or do not perform as expected.

*Fundamental policy* The value of loaned securities may not exceed 33<sup>1</sup>/<sub>3</sub>% of total assets.

**Portfolio Turnover**

Turnover is an indication of frequency of trading. The fund will not generally trade in securities for short-term profits, but, when circumstances warrant, securities may be purchased and sold without regard to the length of time held. Each time the fund purchases or sells a security, it incurs a cost. This cost is reflected in the fund's net asset value but not in its operating expenses. The higher the turnover rate, the higher the transaction costs and the greater the impact on the fund's total return. Higher turnover can also increase the possibility of taxable capital gain distributions. The fund's portfolio turnover rates are shown in the Financial Highlights table.

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**DISCLOSURE OF FUND PORTFOLIO INFORMATION**

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The fund's portfolio holdings are disclosed on a regular basis in its semiannual and annual reports to shareholders, and on Form N-Q, which is filed with the SEC within 60 days of the fund's first and third fiscal quarter-end. In addition, the fund discloses its calendar quarter-end portfolio holdings on [troweprice.com](http://troweprice.com) 15 calendar days after each quarter. Under certain conditions, up to 5% of the fund's holdings may be included in this portfolio list without being individually identified. Generally, securities would not be individually identified if they are being actively bought or sold and it is determined that the quarter-end disclosure of the holding could be harmful to the fund. A security will not be excluded for these purposes from a fund's quarter-end holdings disclosure for more than one year. The fund also discloses its largest 10 holdings on [troweprice.com](http://troweprice.com) on the seventh business day after each month-end. These holdings are listed in alphabetical order along with the aggregate percentage of the fund's total assets that they represent. The quarter-end portfolio will remain on the Web site for one year. Each monthly top 10 list will remain on the Web site for six months. A description of the fund's policy and procedures with respect to the disclosure of portfolio information is in the Statement of Additional Information.

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**FINANCIAL HIGHLIGHTS**

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Table 3, which provides information about the fund's financial history, is based on a single share outstanding throughout the periods shown. The table is part of the fund's financial statements, which are included in its annual report and are incorporated by reference into the Statement of Additional Information (available upon request). The total returns in the table represent the rate that an investor would have earned or lost on an investment in the fund (assuming reinvestment of all dividends and distributions and no payment of account or [if applicable] redemption fees). The financial statements in the annual report were audited by the fund's independent registered public accounting firm, PricewaterhouseCoopers LLP.

**Table 3 Financial Highlights**

	<i>Year ended December 31</i>				
	<i>2004</i>	<i>2005*</i>	<i>2006*</i>	<i>2007*</i>	<i>2008*</i>
Net asset value, beginning of period	\$ 17.55	\$ 19.45	\$ 20.32	\$ 21.52	\$ 22.08
<b>Income From Investment Operations</b>					
Net investment income	—	(0.01)	0.01	—	(0.03)
Net gains or losses on securities (both realized and unrealized)	1.91	0.88	1.48	2.96	(8.42)
Total from investment operations	1.91	0.87	1.49	2.96	(8.45)
<b>Less Distributions</b>					
Dividends (from net investment income)	(0.01)	—	(0.01)	—	—
Distributions (from capital gains)	—	—	(0.28)	(2.40)	(0.87)
Returns of capital	—	—	—	—	—
Total distributions	(0.01)	—	(0.29)	(2.40)	(0.87)
<b>Net asset value, end of period</b>	<b>\$ 19.45</b>	<b>\$ 20.32</b>	<b>\$ 21.52</b>	<b>\$ 22.08</b>	<b>\$ 12.76</b>
<b>Total return</b>	<b>10.88%</b>	<b>4.47%</b>	<b>7.33%</b>	<b>13.78%</b>	<b>(38.24)%</b>
<b>Ratios/Supplemental Data</b>					
Net assets, end of period (in thousands)	\$76,312	\$94,373	\$91,405	\$93,529	\$55,325
Ratio of expenses to average net assets	0.85%	0.85%	0.85%	0.85%	0.85%
Ratio of net income to average net assets	0.01% <sup>a</sup>	(0.07)%	0.04%	0.01%	(0.14)%
Portfolio turnover rate	56.2%	58.0%	71.3%	63.1%	94.6%

\* Per share amounts calculated using average shares outstanding method.

<sup>a</sup> Includes the effect of a one-time special dividend (0.25% of average net assets) that is not expected to recur.

A Statement of Additional Information for the T. Rowe Price family of funds has been filed with the Securities and Exchange Commission and is incorporated by reference into this prospectus. Further information about fund investments, including a review of market conditions and the manager's recent strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain a free copy of a fund report or Statement of Additional Information, or for inquiries, contact your insurance company. The Statement of Additional Information and updated performance information are available through [troweprice.com](http://troweprice.com).

Fund information and Statements of Additional Information are also available from the Public Reference Room of the Securities and Exchange Commission. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-202-942-8090. Fund reports and other fund information are available on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. Copies of this information may be obtained, after paying a duplicating fee, by electronic request at [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the Public Reference Room, Washington D.C. 20549-0102.

1940 Act File No.: 811-07143

E302-040 5/1/09



May 1, 2009

T. ROWE PRICE

# Personal Strategy Balanced Portfolio

A fund seeking capital appreciation and income  
from stocks and bonds.



*The Securities and Exchange Commission has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.*

## Table of Contents

1	<b>ABOUT THE FUND</b>	
	Objective, Strategy, Risks, and Expenses	1
	Other Information About the Fund	5
2	<b>T. ROWE PRICE ACCOUNT INFORMATION</b>	
	Pricing Shares and Receiving Sale Proceeds	7
	Rights Reserved by the Funds	10
	Dividends and Other Distributions	10
3	<b>MORE ABOUT THE FUND</b>	
	Organization and Management	11
	Understanding Performance Information	13
	Investment Policies and Practices	13
	Disclosure of Fund Portfolio Information	23
	Financial Highlights	23

Founded in 1937 by the late Thomas Rowe Price, Jr., T. Rowe Price Associates, Inc. (T. Rowe Price), and its affiliates managed \$276.3 billion for more than 11 million individual and institutional investor accounts as of December 31, 2008. T. Rowe Price is the fund's investment manager.

**Mutual fund shares are not deposits or obligations of, or guaranteed by, any depository institution. Shares are not insured by the FDIC, Federal Reserve, or any other government agency, and are subject to investment risks, including possible loss of the principal amount invested.**

## **T. Rowe Price Equity Series, Inc.**

### **T. Rowe Price Personal Strategy Balanced Portfolio**

#### **OBJECTIVE, STRATEGY, RISKS, AND EXPENSES**

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The fund should be used as an investment option for variable annuity and variable life insurance contracts.

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

The fund's objective is to seek the highest total return over time consistent with an emphasis on both capital appreciation and income.

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

The fund pursues its objective by investing in a diversified portfolio typically consisting of approximately 60% stocks, 30% bonds, and 10% money market securities. Under normal conditions, allocations for the fund can vary by 10% above or below these benchmark allocations, based on the fund manager's outlook for the economy and the financial markets. The fund will invest at least 25% of total assets in senior fixed-income securities.

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. When strong economic growth is expected, managers may favor stocks. When selecting particular stocks, the manager will examine relative values and prospects among growth- and value-oriented stocks, domestic and international stocks, and small- to large-cap stocks. Domestic stocks are drawn from the overall U.S. market, while international equities are selected primarily from large companies in developed countries. Stocks in developing countries may also be purchased. This process draws heavily upon T. Rowe Price's proprietary stock research expertise. While the 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, the manager 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. The fund will invest in bonds which may include foreign issues that are primarily investment grade (top four credit ratings) and are chosen from across the entire government, corporate, and mortgage-backed bond market. Maturities will reflect the manager's outlook for interest rates.

In pursuing its investment objective, the fund has the discretion to purchase some securities that do not meet its normal investment criteria, as previously described, 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 an extraordinary corporate event, a favorable competitive development, or a change in management.

In keeping with a fund's objective, it may also invest in other securities, and use 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 the fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of the fund's securities may change after they are purchased, and this may cause the amount of the 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.

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

The 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 three 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 fund purchases longer-maturity bonds and interest rates rise unexpectedly, its share price could decline. Mortgage securities can react somewhat differently from regular bonds to interest rate changes. Falling rates can cause losses of interest payments due to increased mortgage prepayments. Rising rates can lead to decreased prepayments and greater volatility. *Credit risk* is the chance that the perceived creditworthiness of a fund holding deteriorates or a fund holding has its credit rating downgraded or the bond issuer defaults (fails to make timely payments of interest or principal), potentially reducing the fund's income level and share price. *Liquidity risk* is the chance that a fund may not be able to sell securities at desired prices. Sectors of the bond market can experience sudden downturns in trading activity and spreads can widen between the prices at which a security can be bought and sold. Less liquid securities can be more difficult to value and subject to erratic price movements.

While the fund's bond investments will primarily be investment-grade, it 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 the 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 fund invests in emerging markets, it is 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 the 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 fund will achieve its objective.

- ▶ **The fund's share price may decline, so when you sell your shares, you may lose money.**

**How can I tell if the fund is appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. Generally, the fund is intended for those seeking a middle-of-the-road approach that emphasizes stocks for potential appreciation but also produces significant income to temper principal volatility.

If you are investing for principal safety and liquidity, you should consider a money market fund.

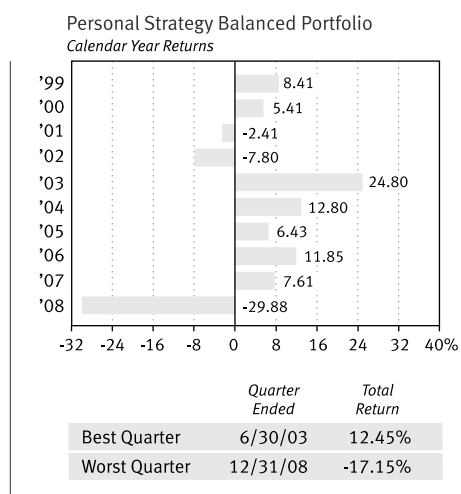
- ▶ **The fund should not represent your complete investment program or be used for short-term trading purposes.**

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

The bar chart 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 over time. Past fund performance is no guarantee of future returns.

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

Updated performance information is available through [troweprice.com](http://troweprice.com) or may be obtained by calling 1-800-469-5304.



**Table 1 Average Annual Total Returns**

	<i>Periods ended December 31, 2008</i>		
	<i>1 year</i>	<i>5 years</i>	<i>10 years</i>
Personal Strategy Balanced Portfolio	-29.88%	0.26%	2.66%
<i>Merrill Lynch-Wilshire Capital Market Index</i>	-21.10	1.13	1.76
<i>Combined Index Portfolio<sup>a</sup></i>	-23.65	1.14	2.05

These figures include changes in principal value, reinvested dividends, and capital gain distributions, if any.

Figures do not reflect fees at the insurance product or contract level; if those fees were included, returns would be lower.

<sup>a</sup> Combined Index Portfolio is an unmanaged portfolio composed of 60% stocks (48% Dow Jones Wilshire 5000 Composite Index, and 12% MSCI EAFE Index), 30% bonds (Lehman Brothers U.S. Aggregate Index), and 10% money market securities (Citigroup 3-Month Treasury Index) through 6/30/08. From 7/1/08, the portfolio is composed of 60% stocks (48% Russell 3000 Index, and 12% MSCI All-Country World ex-US Index), 30% bonds (Barclays Capital U.S. Aggregate Index), and 10% money market securities (Citigroup 3-Month Treasury Index). The indices or percentages may vary over time.

Beginning July 1, 2008, two components of each Personal Strategy Fund's Combined Index Portfolio benchmark were changed. For the domestic stocks portion of each benchmark, the Dow Jones Wilshire 5000 Composite Index was replaced by the Russell 3000 Index, which is more representative of the markets from which the underlying fund managers select their holdings. For the international equities portion of each benchmark, the MSCI EAFE Index was replaced by the MSCI All Country World ex-US Index, which includes emerging and developed markets marking it more representative of how the fund invests in international stocks.

Barclays Capital U.S. Aggregate Index (formerly the Lehman Brothers U.S. Aggregate Index) tracks domestic investment-grade bonds, including corporate, government, and mortgage-backed securities.

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

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

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

MSCI All Country World ex-US Index measures the equity market performance of developed and emerging countries, excluding the U.S.

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).

Russell 3000 Index tracks the performance of the largest 3,000 U.S. companies representing a large percentage of the investable U.S. equity market.

### What fees and expenses will I pay?

The fees and expenses set forth in the following table are paid by the fund and borne indirectly by contract holders. There are additional expenses charged by insurance companies, which apply to your insurance contract or policy, and these are described in the variable annuity and variable life contract prospectuses.

**Table 2 Fees and Expenses of the Fund**

	<i>Annual fund operating expenses (expenses that are deducted from fund assets)</i>
Management fee	0.90%
Other expenses	—
Acquired fund fees and expenses	0.00% <sup>a</sup>
<b>Total annual fund operating expenses</b>	<b>0.90%<sup>b</sup></b>

<sup>a</sup> Acquired fees and expenses of 0.04% were completely offset by a mandatory reduction in the fund's management fee of the same amount.

<sup>b</sup> Actual expenses paid by the fund were 0.86% due to the credit received from investing in certain T. Rowe Price mutual funds; this credit totaled 0.04% in fiscal 2008 but will vary with the amount invested in the T. Rowe Price mutual funds.

**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 this fund 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:

<b>1 year</b>	<b>3 years</b>	<b>5 years</b>	<b>10 years</b>
\$92	\$287	\$498	\$1,108

## OTHER INFORMATION ABOUT THE FUND

### What are the fund's potential rewards?

The fund offers a way to try to balance the potential capital appreciation of common stocks with the income and relative stability of bonds over the long term. It should be less volatile than an all-stock fund. The fund's broad diversification means that you are not putting all your eggs in one basket. While there is no guarantee, spreading investments across several types of assets could reduce the fund's overall volatility, since prices of stocks and bonds may respond differently to changes in economic conditions and interest rate levels. A rise in bond prices, for example, could help offset a fall in stock prices. Money market securities should have a stabilizing influence. In addition, the steady income provided by bonds and money market securities contributes positively to total return, cushioning the impact of any price declines or enhancing price increases.

### How does the portfolio manager try to reduce risk?

Consistent with the fund's objective, the portfolio manager uses various tools to try to reduce risk and increase total return, including:

- Diversification of assets to reduce the impact of a single holding or sector on the fund's net asset value.
  - Thorough research of stocks, bonds, and other securities by our analysts to find the most favorable investment opportunities.
  - Gradual shifts in stock, bond, and money market allocations to take advantage of market opportunities and changing economic conditions.
- ***We regularly review the asset allocation and may make gradual changes, within allowed ranges, based on our outlook for the economy, interest rates, and financial markets. The fund will not attempt to time short-term market swings.***

### Why include foreign securities?

The fund may invest up to 35% of its total assets in foreign stocks and bonds, which offer advantages but also increase risk. The potential advantages are extra diversification and enhanced returns. Since foreign stock and bond markets may move independently from U.S. securities, they could reduce the fund's price fluctuations while offering a way to participate in markets that may generate attractive returns. However, if U.S. and foreign markets move in the same direction, the positive or negative effect on the fund's share price could be magnified.

- ***For a discussion of the effects of currency exchange rate fluctuations and other special risks of foreign investing, please see Investment Policies and Practices.***

### How is a bond's price affected by changes in interest rates?

When interest rates rise, a bond's price usually falls, and vice versa. In general, the longer a bond's maturity, the greater the price increase or decrease in response to a given change in interest rates, as shown in Table 3.

**Table 3 How Interest Rate Changes May Affect Bond Prices**

<i>Bond maturity</i>	<i>Coupon</i>	<i>Price of a \$1,000 face value bond if interest rates:</i>			
		<i>Increase</i>		<i>Decrease</i>	
		<i>1 percent</i>	<i>2 percent</i>	<i>1 percent</i>	<i>2 percent</i>
2 years	0.76%	\$980	\$961	\$1,020	\$1,041
5 years	1.55	953	909	1,049	1,101
10 years	2.25	915	840	1,094	1,196
30 years	2.69	822	697	1,232	1,517

Coupons reflect yields on U.S. Treasury securities as of December 31, 2008. The table may not be representative of price changes for mortgage-backed securities because of prepayments. This is an illustration and does not represent expected yields or share price changes of any T. Rowe Price fund.

### What are derivatives and can the fund use them?

The fund may use derivatives. A derivative is a financial instrument whose value is derived from an underlying security such as a stock or bond or from a market benchmark, such as an interest rate index. Many types of investments representing a wide range of risks and potential rewards are derivatives, including conventional instruments such as callable bonds, futures, and options, as well as more exotic investments such as swaps and structured notes. Investment managers have used derivatives for many years. The use of derivatives can involve leverage. Leverage has the effect of magnifying returns, positively or negatively. The effect on returns will depend on the extent to which an investment is leveraged. For example, an investment of \$1, leveraged at 2 to 1, would have the effect of an investment of \$2. Leverage ratios can be higher or lower with a corresponding effect on returns. Derivatives will be used only if the expected risks and rewards are consistent with fund objectives, policies, and overall risk profile as described in this prospectus. The fund uses derivatives in situations in which they may help accomplish any of the following: hedge against decline in principal value, increase yield, invest in eligible asset classes with greater efficiency and at a lower cost than is possible through direct investment, or adjust portfolio duration or credit risk exposure.

### Is there other information I can review before making a decision?

Investment Policies and Practices in Section 3 discusses various types of portfolio securities the fund may purchase as well as types of management practices the fund may use.

The Statement of Additional Information contains more detailed information about the fund and its investments, operations, and expenses.

As an investor in a T. Rowe Price fund through your variable annuity or variable life insurance contract, you will want to know about the following policies and procedures that apply to the funds. For instructions on how to purchase and redeem shares, read the insurance contract prospectus.

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**PRICING SHARES AND RECEIVING SALE PROCEEDS**

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Shares of the fund are designed to be offered to insurance company separate accounts established for the purpose of funding variable annuity and life insurance contracts. Variable annuity and variable life contract holders or participants are not the shareholders of the fund. Rather, the separate account of the insurance company is the shareholder. The variable annuity and variable life contracts are described in separate prospectuses issued by the insurance companies. The fund assumes no responsibility for such prospectuses, or variable annuity or variable life contracts.

Shares of the fund are sold and redeemed without the imposition of any sales commission or redemption charge. However, certain other charges may apply to annuity or life contracts. Those charges are disclosed in the insurance contract prospectus.

Your ability to exchange from this fund to any other T. Rowe Price fund that serves as an investment option under your insurance contract is governed by the terms of that contract and the insurance contract prospectus, as well as the fund's excessive trading policy described in this section.

**How and When Shares Are Priced**

The share price (also called "net asset value" or NAV per share) for a fund is calculated at the close of the New York Stock Exchange, normally 4 p.m. ET, each day that the exchange is open for business. To calculate the NAV, the fund's assets are valued and totaled, liabilities are subtracted, and the balance, called net assets, is divided by the number of shares outstanding. Market values are used to price stocks and bonds. Market values represent the prices at which securities actually trade or evaluations based on the judgment of the fund's pricing services. If a market value for a security is not available, the fund will make a good faith effort to assign a fair value to the security by taking into account factors that have been approved by the fund's Board of Directors. This value may differ from the value the fund receives upon sale of the securities. Amortized cost is used to price securities held by money market funds and certain other debt securities held by a fund. Investments in mutual funds are valued at the closing NAV per share of the mutual fund on the day of valuation.

Non-U.S. equity securities are valued on the basis of their most recent closing market prices at 4 p.m. ET except under the circumstances described below. Most foreign markets close before 4 p.m. ET. For securities primarily traded in the Far East, for example, the most recent closing prices may be as much as 15 hours old at 4 p.m. ET. If a fund determines that developments between the close of a foreign market and 4 p.m. ET will, in its judgment, materially affect the value of some or all of the fund's securities, the fund will adjust the previous closing prices to reflect what it believes to be the fair value of the securities as of 4 p.m. ET. In deciding whether to make these adjustments, the fund reviews a variety of factors, including developments in foreign markets, the performance of U.S. securities markets, and the performance of instruments trading in U.S. markets that represent foreign securities and baskets of foreign securities. The fund may also fair value securities in other situations, for example, when a particular foreign market is closed but the fund is open. The fund uses outside pricing services to provide it with closing market prices and information used for adjusting those prices. The fund cannot predict how often it will use closing prices and how often it will adjust those prices. As a means of

evaluating its fair value process, the fund routinely compares closing market prices, the next day's opening prices in the same markets, and adjusted prices. Other mutual funds may adjust the prices of their securities by different amounts.

### **How Your Purchase, Sale, or Exchange Price Is Determined**

#### **Purchases**

The insurance companies purchase shares of the fund for their separate accounts, using premiums allocated by the contract holders or participants. Shares are purchased at the NAV next determined after the insurance company receives the premium payment in acceptable form. Initial and subsequent payments allocated to the fund are subject to the limits stated in the insurance contract prospectus issued by the insurance company.

When authorized by the fund, certain financial institutions or retirement plans purchasing fund shares on behalf of customers or plan participants through Financial Institution Services or Retirement Plan Services may place a purchase order unaccompanied by payment. Payment for these shares must be received by the time designated by the fund (not to exceed the period established for settlement under applicable regulations). If payment is not received by this time, the order may be cancelled. The financial institution or retirement plan is responsible for any costs or losses incurred by the fund or T. Rowe Price if payment is delayed or not received.

#### **Redemptions**

The insurance companies redeem shares of the fund to make benefit or surrender payments under the terms of its contracts. Redemptions are processed on any day on which the New York Stock Exchange is open and are priced at the fund's NAV next determined after the insurance company receives a surrender request in acceptable form.

*Note:* The time at which transactions and shares are priced and the time until which orders are accepted may be changed in case of an emergency or if the New York Stock Exchange closes at a time other than 4 p.m. ET. There may be times when you are unable to contact us by telephone or access your account by computer due to extreme market activity, the unavailability of the T. Rowe Price Web site, or other circumstances. Should this occur, your order must still be placed and accepted prior to the time the New York Stock Exchange closes to be priced at that business day's NAV.

### **How You Can Receive the Proceeds From a Sale**

Payment for redeemed shares will be made promptly, but in no event later than seven calendar days after receipt of your redemption order. However, the right of redemption may be suspended or the date of payment postponed in accordance with the Investment Company Act of 1940 ("1940 Act"). The amount received upon redemption of the shares of the fund may be more or less than the amount paid for the shares, depending on the fluctuations in the market value of the assets owned by the fund.

### **Excessive and Short-Term Trading**

- ▶ *T. Rowe Price may bar excessive and short-term traders from purchasing shares.*

Excessive or short-term trading in fund shares may disrupt management of a fund and raise its costs. Short-term traders in funds investing in foreign securities may seek to take advantage of an anticipated difference between the price of the fund's shares and price movements in overseas markets (see Pricing Shares and Receiving Sale Proceeds—How and When Shares Are Priced). While there is no assurance that T. Rowe Price can prevent all excessive and short-term trading, the Boards of Directors of the T. Rowe Price funds have adopted the following policies to deter such activity. Persons trading directly with T. Rowe Price or indirectly through intermediaries in violation of this policy or persons believed

to be short-term traders may be barred permanently from further purchases of T. Rowe Price funds. Purchase transactions placed by such persons are subject to rejection without notice. These policies apply to contract holders notwithstanding any provisions in your insurance contract.

- All persons purchasing shares held directly with a T. Rowe Price fund who make more than one purchase and one sale or one sale and one purchase involving the same fund within any 90-day calendar period will violate the policy.
- All persons purchasing fund shares held through an insurance company who hold the shares for less than 90 calendar days will violate the policy.

#### **Omnibus Accounts**

Intermediaries often establish omnibus accounts in the T. Rowe Price funds for their customers. In such situations, T. Rowe Price cannot always monitor trading activity by underlying contract holders. However, T. Rowe Price reviews trading activity at the omnibus account level and looks for activity that indicates potential excessive or short-term trading. If it detects suspicious trading activity, T. Rowe Price contacts the intermediary to determine whether the excessive trading policy has been violated and may request and receive personal identifying information and transaction histories for some or all contract holders to make this determination. If T. Rowe Price believes that its excessive trading policy has been violated, it will instruct the intermediary to take action with respect to the underlying contract holder in accordance with the policy.

#### **Exceptions to Policy**

Systematic purchases and redemptions are exempt from these policies. Redemptions to fund the periodic deduction of contract charges and fees and to pay death benefits are also exempt. Transactions in certain rebalancing and asset allocation programs may be exempt from the excessive trading policy subject to prior written approval by designated persons at T. Rowe Price. In addition, transactions by certain T. Rowe Price funds in other T. Rowe Price funds, as well as certain transactions by approved accounts managed by T. Rowe Price, may also be exempt.

T. Rowe Price generally seeks to enforce its excessive trading policies against individual contract holders when violations of its policies are discovered. The terms of your insurance contract may also restrict your ability to trade between the investment options available under your contract. T. Rowe Price reserves the right to modify the 90-day policy set forth above and apply your insurance company's excessive trading policy (for example, in situations where an insurance contract or insurance company has restrictions on trading that differ from a T. Rowe Price fund's policy). These modifications would be authorized only if T. Rowe Price believes that the modified policy would provide protection to the fund that is reasonably equivalent to the fund's regular policy. If you are trading your fund shares through an intermediary, you should consult with the intermediary to determine the excessive trading policy that applies to your trades in the fund.

There may be limitations on the ability of insurance companies to impose restrictions on the trading practices of certain contract holders. As a result, T. Rowe Price's ability to discourage excessive trading practices in this fund may be limited.

- ▶ ***There is no guarantee that T. Rowe Price will be able to detect or prevent excessive or short-term trading. In addition, T. Rowe Price cannot always detect excessive or short-term trading through intermediaries with omnibus accounts.***

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**RIGHTS RESERVED BY THE FUNDS**

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T. Rowe Price funds and their agents, in their sole discretion, reserve the following rights: (1) to waive or lower investment minimums; (2) to accept initial purchases by telephone or telegram; (3) to refuse any purchase or exchange order; (4) to cancel or rescind any purchase or exchange order placed through an intermediary, no later than the business day after the order is received by the intermediary (including, but not limited to, orders deemed to result in excessive trading, market timing, or 5% ownership); (5) to cease offering fund shares at any time to all or certain groups of investors; (6) to freeze any account and suspend account services when notice has been received of a dispute between the registered or beneficial account owners or there is reason to believe a fraudulent transaction may occur; (7) to otherwise modify the conditions of purchase and any services at any time; (8) to waive any wire fees charged to a group of shareholders; (9) to act on instructions reasonably believed to be genuine; and (10) to involuntarily redeem your account at the net asset value calculated the day the account is redeemed, in cases of threatening conduct, suspected fraudulent or illegal activity, or if the fund or its agent is unable, through its procedures, to verify the identity of the person(s) or entity opening an account.

In an effort to protect T. Rowe Price funds from the possible adverse effects of a substantial redemption in a large account, as a matter of general policy, no contract holder or participant or group of contract holders or participants controlled by the same person or group of persons will knowingly be permitted to purchase in excess of 5% of the outstanding shares of the fund, except upon approval of the fund's management.

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**DIVIDENDS AND OTHER DISTRIBUTIONS**

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For a discussion of the tax status of your variable annuity contract, please refer to the insurance contract prospectus.

**Dividends and Other Distributions**

The policy of the fund is to distribute all of its net investment income and net capital gains each year to its shareholders, which are the separate accounts established by the various insurance companies in connection with their issuance of variable annuity and variable life contracts. Dividends from net investment income are declared daily and paid monthly for the Limited-Term Bond and Prime Reserve Portfolios; declared and paid quarterly for the Equity Income, Equity Index 500, and Personal Strategy Balanced Portfolios; and declared and paid annually for all other portfolios. All fund distributions made to a separate account will be reinvested automatically in additional fund shares, unless a shareholder (separate account) elects to receive distributions in cash. Under current law, dividends and distributions made by the fund to separate accounts generally are not taxable to the separate accounts, the insurance company, or the contract holder, provided that the separate account meets the diversification requirements of Section 817(h) of the Internal Revenue Code of 1986, as amended, (Code) and other tax-related requirements are satisfied. The fund intends to diversify its investments in the manner required under Code Section 817(h).

## ORGANIZATION AND MANAGEMENT

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### How is the fund organized?

T. Rowe Price Equity Series, Inc. (the “corporation”) was incorporated in Maryland in 1994. Currently, the corporation consists of seven series, each representing a separate pool of assets with different objectives and investment policies.

The Personal Strategy Balanced Portfolio is managed in a manner similar to the T. Rowe Price Personal Strategy Balanced Fund, a fund with the same investment objective and program as the portfolio but offered to the general public and not to insurance company separate accounts. However, investors should be aware that the Personal Strategy Balanced Portfolio is not the same as the fund and will not have the same performance. Investments made by the Personal Strategy Balanced Portfolio at any given time may not be the same as those made by T. Rowe Price Personal Strategy Balanced Fund. Different performance will result due to factors such as differences in the cash flows into and out of the portfolio and fund, different fees and expenses, and differences in net assets and size of holdings.

- ▶ *Shareholders benefit from T. Rowe Price’s 72 years of investment management experience.*

### What is meant by “shares”?

Contract holders and participants indirectly (through the insurance company separate account) purchase shares when they put money in a fund offered as an investment option in their insurance contracts. These shares are part of a fund’s authorized capital stock, but share certificates are not issued.

Each share and fractional share entitles the shareholder (the insurance company separate account) to cast one vote per share on certain fund matters, including the election of fund directors, changes in fundamental policies, or approval of changes in the fund’s management contract.

The shares of the fund have equal voting rights. The various insurance companies own the outstanding shares of the fund in their separate accounts. These separate accounts are registered under the 1940 Act or are exempted from registration thereunder. Under current law, the insurance companies must vote the shares held in registered separate accounts in accordance with voting instructions received from variable contract holders or participants having the right to give such instructions.

### Do T. Rowe Price funds have annual shareholder meetings?

The funds are not required to hold annual meetings and, to avoid unnecessary costs to fund shareholders, do not do so except when certain matters, such as a change in fundamental policies, must be decided. In addition, shareholders representing at least 10% of all eligible votes may call a special meeting for the purpose of voting on the removal of any fund director or trustee. If a meeting is held and you cannot attend, you can vote by proxy. Before the meeting, the insurance company will send or make available to you the fund’s proxy materials that explain the issues to be decided and include instructions on voting.

### Who runs the fund?

#### General Oversight

The fund is governed by a Board of Directors that meets regularly to review fund investments, performance, expenses, and other business affairs. The Board elects the fund’s officers. At least 75% of Board members are independent of T. Rowe Price.

- ▶ *All decisions regarding the purchase and sale of fund investments are made by T. Rowe Price—specifically by the fund's portfolio manager.*

### **Portfolio Management**

The fund's investments are guided by two committees. An Asset Allocation Committee meets regularly to determine the asset allocation of the fund among stocks, bonds, and money market securities. Committee members include Edmund M. Notzon III, Chairman, Christopher D. Alderson, Edward C. Bernard, Jerome A. Clark, Ian D. Kelson, John H. Laporte, Mary J. Miller, Brian C. Rogers, Robert W. Smith, Mark J. Vaselkiv, and Richard T. Whitney. The Asset Allocation Committee has been acting in this role for T. Rowe Price since 1990, and its members bring a wide range of investment experience to this task.

T. Rowe Price has established an Investment Advisory Committee with respect to the funds. The committee members are: Edmund M. Notzon III, Chairman, Christopher D. Alderson, Edward C. Bernard, Jerome A. Clark, Ian D. Kelson, John H. Laporte, John D. Linehan, Mary J. Miller, Raymond A. Mills, Larry J. Puglia, Brian C. Rogers, Charles M. Shriver, Robert W. Smith, Mark J. Vaselkiv, and Richard T. Whitney. The committee chairman has day-to-day responsibility for managing the fund's portfolio and works with the committee in developing and executing the fund's investment program. Mr. Notzon has been chairman of the Investment Advisory Committee since 1998. He joined T. Rowe Price in 1989 and his investment experience dates from that time. The Statement of Additional Information provides additional information about the portfolio manager's compensation, other accounts managed by the portfolio manager, and the portfolio manager's ownership of securities in the fund.

### **The Management Fee**

The fund pays T. Rowe Price an annual fee that includes investment management services and ordinary, recurring operating expenses, but does not cover interest, taxes, brokerage, nonrecurring or extraordinary items. The fee is based on fund average daily net assets and is calculated and accrued daily. The fee for the fund for the most recent fiscal year was 0.90%.

In addition, from time to time, T. Rowe Price may make payments from its own resources to eligible insurance companies for recordkeeping and administrative services they provide to the fund for contract holders. These payments range from 0.15% to 0.25% of the average annual total assets invested by the separate accounts of the insurance company in the fund. T. Rowe Price may also reimburse insurance companies, broker-dealers, and other distributors for certain bona fide selling expenses associated with distribution of the insurance contracts in which the fund serves as an investment option. All payments described by this paragraph are paid by T. Rowe Price and not by the fund. As a result, the total expense ratio of the fund will not be affected by any such payments.

A discussion about the factors considered by the Board and its conclusions in approving the fund's investment management contract with T. Rowe Price appears in the fund's semiannual report to contract holders for the period ended June 30.

### **Variable Annuity and Variable Life Charges**

Variable annuity and variable life fees and charges imposed on contract holders and participants by the insurance companies are in addition to those described previously and are described in the variable annuity and variable life contract prospectuses.

### **Variable Annuity and Variable Life Conflicts**

The fund may serve as an investment medium for both variable annuity contracts and variable life insurance policies. Shares of the fund may be offered to separate accounts established by any number of insurance companies. The fund currently does not foresee any disadvantages to variable annuity contract owners due to the fact that the fund may serve as an investment medium for both variable life

insurance policies and annuity contracts; however, due to differences in tax treatment or other considerations, it is theoretically possible that the interests of owners of annuity contracts and insurance policies for which the fund serves as an investment medium might at some time be in conflict. The fund's Board of Directors is required to monitor events to identify any material conflicts between variable annuity contract owners and variable life policy owners, and will determine what action, if any, should be taken in the event of such a conflict. If such a conflict were to occur, an insurance company participating in the fund might be required to redeem the investment of one or more of its separate accounts from the fund. This might force the fund to sell securities at disadvantageous prices.

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## UNDERSTANDING PERFORMANCE INFORMATION

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This section should help you understand the terms used to describe fund performance. You may see these terms used in shareholder reports you receive from your insurance company.

### **Total Return**

This tells you how much an investment has changed in value over a given period. It reflects any net increase or decrease in the share price and assumes that all dividends and capital gains (if any) paid during the period were reinvested in additional shares. Therefore, total return numbers include the effect of compounding.

Advertisements may include cumulative or average annual total return figures, which may be compared with various indices, other performance measures, or other mutual funds.

### **Cumulative Total Return**

This is the actual return of an investment for a specified period. A cumulative return does not indicate how much the value of the investment may have fluctuated *during* the period. For example, an investment could have a 10-year positive cumulative return, despite experiencing some years of negative returns during that time.

### **Average Annual Total Return**

This is always hypothetical and should not be confused with actual year-by-year results. It smoothes out variations in annual performance to tell you what *constant* year-by-year return would have produced the investment's actual cumulative return. This gives you an idea of an investment's annual contribution to your portfolio, provided you held it for the entire period.

Total returns quoted for the fund include the effect of deducting the fund's expenses, but may not include charges and expenses attributable to any particular insurance product. Since you can only purchase shares of the fund through an insurance product, you should carefully review the prospectus of the insurance product you have chosen for information on relevant charges and expenses. Excluding these charges from quotations of the fund's performance has the effect of increasing the performance quoted.

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## INVESTMENT POLICIES AND PRACTICES

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This section takes a detailed look at some of the types of fund securities and the various kinds of investment practices that may be used in day-to-day portfolio management. Fund investments are subject to further restrictions and risks described in the Statement of Additional Information.

Shareholder approval is required to substantively change fund objectives. Shareholder approval is also required to change certain investment restrictions noted in the following section as “fundamental policies.” Portfolio managers also follow certain “operating policies” that can be changed without shareholder approval. Fund investment restrictions and policies apply at the time of purchase. A later change in circumstances will not require the sale of an investment if it was proper at the time it was made. (This exception does not apply to the fund’s borrowing policy.)

Fund holdings of certain kinds of investments cannot exceed maximum percentages of total assets, which are set forth in this prospectus. For instance, fund investments in certain derivatives are limited to 10% of total assets. While these restrictions provide a useful level of detail about fund investments, investors should not view them as an accurate gauge of the potential risk of such investments. For example, in a given period, a 5% investment in derivatives could have significantly more of an impact on a fund’s share price than its weighting in the portfolio. The net effect of a particular investment depends on its volatility and the size of its overall return in relation to the performance of all other fund investments.

Changes in fund holdings, fund performance, and the contribution of various investments are discussed in the shareholder reports sent to you by your insurance company.

- ▶ ***Fund managers have considerable discretion in choosing investment strategies and selecting securities they believe will help achieve fund objectives.***

### **Types of Portfolio Securities**

In seeking to meet its investment objective, fund investments may be made in any type of security or instrument (including certain potentially high-risk derivatives described in this section) whose investment characteristics are consistent with its investment program. The following pages describe various types of fund securities and investment management practices.

***Diversification*** As a fundamental policy, the fund will not purchase a security if, as a result, with respect to 75% of its total assets, more than 5% of the fund’s total assets would be invested in securities of a single issuer or more than 10% of the outstanding voting securities of the issuer would be held by the fund.

### **Common and Preferred Stocks**

Stocks represent shares of ownership in a company. Generally, preferred stock has a specified dividend and ranks after bonds and before common stocks in its claim on income for dividend payments and on assets should the company be liquidated. After other claims are satisfied, common stockholders participate in company profits on a pro-rata basis; profits may be paid out in dividends or reinvested in the company to help it grow. Increases and decreases in earnings are usually reflected in a company’s stock price, so common stocks generally have the greatest appreciation and depreciation potential of all corporate securities. While most preferred stocks pay a dividend, a fund may decide to purchase preferred stock where the issuer has omitted, or is in danger of omitting, payment of its dividend. Such investments would be made primarily for their capital appreciation potential. The fund may purchase American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs), which are certificates evidencing ownership of shares of a foreign issuer. ADRs and GDRs trade on established markets and are alternatives to directly purchasing the underlying foreign securities in their local markets and currencies. Such investments are subject to many of the same risks associated with investing directly in foreign securities.

### **Convertible Securities and Warrants**

Investments may be made in debt or preferred equity securities convertible into, or exchangeable for, equity securities. Traditionally, convertible securities have paid dividends or interest at rates higher than common stocks but lower than nonconvertible securities. They generally participate in the appre-

ciation or depreciation of the underlying stock into which they are convertible, but to a lesser degree than common stock. Some convertible securities combine higher or lower current income with options and other features. Warrants are options to buy, directly from the issuer, a stated number of shares of common stock at a specified price anytime during the life of the warrants (generally, two or more years). Warrants can be highly volatile, have no voting rights, and pay no dividends.

### **Foreign Securities**

Investments may be made in foreign securities. These include nondollar-denominated securities traded outside of the U.S. and dollar-denominated securities of foreign issuers traded in the U.S. (such as ADRs and ADSs). Investing in foreign securities involves special risks that can increase the potential for losses. These include: exposure to potentially adverse local, political, and economic developments such as war, political instability, hyperinflation, currency devaluations, and overdependence on particular industries; government interference in markets such as nationalization and exchange controls, expropriation of assets, or imposition of punitive taxes; potentially lower liquidity and higher volatility; possible problems arising from accounting, disclosure, settlement, and regulatory practices and legal rights that differ from U.S. standards; and the chance that fluctuations in foreign exchange rates will decrease the investment's value (favorable changes can increase its value). These risks are heightened for investments in emerging markets.

*Operating policy* The fund may invest up to 35% of its total assets (excluding reserves) in foreign securities, provided that the bond portion of the fund may be invested without limitation in Yankee bonds (dollar-denominated bonds) issued in the U.S. by foreign companies. Subject to the overall limit on fund investments in foreign securities, there is no limit on the amount of foreign investments that may be made in emerging markets.

### **Bonds**

A bond is an interest-bearing security. The issuer has a contractual obligation to pay interest at a stated rate on specific dates and to repay principal (the bond's face value) on a specified date. An issuer may have the right to redeem or "call" a bond before maturity, and the investor may have to reinvest the proceeds at lower market rates. Bonds can be issued by U.S. and foreign governments, states, and municipalities, as well as a wide variety of companies.

A bond's annual interest income, set by its coupon rate, is usually fixed for the life of the bond. Its yield (income as a percent of current price) will fluctuate to reflect changes in interest rate levels. A bond's price usually rises when interest rates fall and vice versa, so its yield stays consistent with current market conditions.

Conventional fixed-rate bonds offer a coupon rate for a fixed maturity with no adjustment for inflation. Real rate of return bonds also offer a fixed coupon but include ongoing inflation adjustments for the life of the bond.

Bonds may be unsecured (backed by the issuer's general creditworthiness only) or secured (also backed by specified collateral). Bonds include asset- and mortgage-backed securities.

Certain bonds have interest rates that are adjusted periodically. These interest rate adjustments tend to minimize fluctuations in the bonds' principal values. The maturity of those securities may be shortened under specified conditions.

Bonds may be designated as senior or subordinated obligations. Senior obligations generally have the first claim on a corporation's earnings and assets and, in the event of liquidation, are paid before subordinated debt.

*Operating policy* At least 25% of the fund's total assets must be senior fixed-income securities.

**Municipal Securities**

The fund may invest in municipal notes and bonds, which are interest-bearing securities issued by state and local governments and governmental authorities to pay for public projects and services. The issuer of a municipal security has a contractual obligation to pay interest at a stated rate and to repay principal (the bond's face value) on a specified date. An issuer may have the right to redeem or "call" a bond before maturity, which could require reinvestment of the proceeds at lower rates. The fund may purchase insured municipal bonds, which provide a guarantee that the bond's interest and principal will be paid when due if the issuing entity defaults. Municipal bond insurance does not guarantee the price of the bond.

Income received from most municipal securities is exempt from federal income taxes. As a result, the yield on a municipal bond is typically lower than the yield on a taxable bond of similar quality and maturity. Like a taxable bond, a municipal bond's price usually rises when interest rates fall and vice versa so its yield stays consistent with current market conditions.

**Asset-Backed Securities**

An underlying pool of assets, such as credit card or automobile trade receivables or corporate loans or bonds, backs these bonds and provides the interest and principal payments to investors. On occasion, the pool of assets may also include a swap obligation, which is used to change the cash flows on the underlying assets. As an example, a swap may be used to allow floating rate assets to back a fixed-rate obligation. Credit quality depends primarily on the quality of the underlying assets, the level of any credit support provided by the structure or by a third-party insurance wrap, and the credit quality of the swap counterparty. The underlying assets (i.e., loans) are sometimes subject to prepayments, which can shorten the security's weighted average life and may lower its return. The value of these securities also may change because of actual or perceived changes in the creditworthiness of the individual borrowers, the originator, the servicing agent, the financial institution providing the credit support, or the swap counterparty. There is no limit on the portion of the fund's fixed-income investments in these securities.

**Mortgage-Backed Securities**

The fund may invest in a variety of mortgage-backed securities. Mortgage lenders pool individual home mortgages with similar characteristics to back a certificate or bond, which is sold to investors such as the fund. Interest and principal payments generated by the underlying mortgages are passed through to the investors. The "big three" issuers are the Government National Mortgage Association (Ginnie Mae or GNMA), the Federal National Mortgage Association (Fannie Mae or FNMA), and the Federal Home Loan Mortgage Corporation (Freddie Mac or FHLMC). GNMA certificates are backed by the full faith and credit of the U.S. government, while others, such as Fannie Mae and Freddie Mac certificates, are only supported by the ability to borrow from the U.S. Treasury or by the credit of the agency. (Since September 2008, Fannie Mae and Freddie Mac have operated under conservatorship of the Federal Housing Finance Agency, an independent federal agency.) Private mortgage bankers and other institutions also issue mortgage-backed securities.

Mortgage-backed securities are subject to scheduled and unscheduled principal payments as homeowners pay down or prepay their mortgages. As these payments are received, they must be reinvested when interest rates may be higher or lower than on the original mortgage security. Therefore, mortgage securities are not an effective means of locking in long-term interest rates. In addition, when interest rates fall, the rate of mortgage prepayments tends to increase. These refinanced mortgages are paid off at face value (par), causing a loss for any investor who may have purchased the security at a price above par. In such an environment, this risk limits the potential price appreciation of these securities and can negatively affect a fund's net asset value. When rates rise, however, mortgage-backed securities have historically experienced smaller price declines than comparable quality

bonds. In addition, when rates rise and prepayments slow, the effective duration of mortgage-backed securities extends, resulting in increased volatility. There is no limit on the portion of the fund's fixed-income investments in these securities.

Additional mortgage-backed securities in which the fund may invest include:

- **Collateralized Mortgage Obligations (CMOs)** CMOs are debt securities that are fully collateralized by a portfolio of mortgages or mortgage-backed securities including GNMA, FNMA, FHLMC and non-agency-backed mortgages. All interest and principal payments from the underlying mortgages are passed through to the CMOs in such a way as to create different classes with varying risk characteristics, payment structures, and maturity dates. CMO classes may pay fixed or variable rates of interest, and certain classes have priority over others with respect to the receipt of prepayments.
- **Stripped Mortgage Securities** Stripped mortgage securities (a type of potentially high-risk derivative) are created by separating the interest and principal payments generated by a pool of mortgage-backed securities or a CMO to create additional classes of securities. Generally, one class receives only interest payments (IOs), and another receives principal payments (POs). Unlike other mortgage-backed securities and POs, the value of IOs tends to move in the same direction as interest rates. The fund can use IOs as a hedge against falling prepayment rates (when interest rates are rising) and/or a bear market environment. POs can be used as a hedge against rising prepayment rates (when interest rates are falling) and/or a bull market environment. IOs and POs are acutely sensitive to interest rate changes and to the rate of principal prepayments.

A rapid or unexpected increase in prepayments can severely depress the price of IOs, while a rapid or unexpected decrease in prepayments could have the same effect on POs. Of course, under the opposite conditions these securities may appreciate in value. These securities can be very volatile in price and may have lower liquidity than most other mortgage-backed securities. Certain non-stripped CMO classes may also exhibit these qualities, especially those that pay variable rates of interest that adjust inversely with, and more rapidly than, short-term interest rates. In addition, if interest rates rise rapidly and prepayment rates slow more than expected, certain CMO classes, in addition to losing value, can exhibit characteristics of longer-term securities and become more volatile. There is no guarantee that fund investments in CMOs, IOs, or POs will be successful, and fund total return could be adversely affected as a result.

*Operating policy* Fund investments in stripped mortgage securities are limited to 10% of total assets.

- **Commercial Mortgage-Backed Securities (CMBS)** CMBS are securities created from a pool of commercial mortgage loans, such as loans for hotels, shopping centers, office buildings, apartment buildings, etc. Interest and principal payments from the loans are passed on to the investor according to a schedule of payments. Credit quality depends primarily on the quality of the loans themselves and on the structure of the particular deal. Generally, deals are structured with senior and subordinate classes. The degree of subordination is determined by the rating agencies who rate the individual classes of the structure. Commercial mortgages are generally structured with prepayment penalties, which greatly reduce prepayment risk to the investor. However, the value of these securities may change because of actual or perceived changes in the creditworthiness of the individual borrowers, their tenants, the servicing agents, or the general state of commercial real estate. There is no limit on fund investments in these securities.

### **Inflation-Linked Securities**

Inflation-linked securities are income-generating instruments whose interest and principal payments are adjusted for inflation—a sustained increase in prices of goods and services that erodes the purchasing power of money. Treasury inflation-protected securities (TIPS) are inflation-linked securities issued by the U.S. government. Inflation-linked bonds are also issued by corporations, U.S. government agencies, and foreign countries. The inflation adjustment, which is typically applied

monthly to the principal of the bond, follows a designated inflation index, such as the consumer price index (CPI). A fixed coupon rate is applied to the inflation-adjusted principal so that as inflation rises, both the principal value and the interest payments increase. This can provide investors with a hedge against inflation, as it helps preserve the purchasing power of your investment. Because of this inflation-adjustment feature, inflation-protected bonds typically have lower yields than conventional fixed-rate bonds.

Inflation-protected bonds normally will decline in price when real interest rates rise. (A real interest rate is calculated by subtracting the inflation rate from a nominal interest rate. For example, if a 10-year Treasury note is yielding 5% and inflation is 2%, the real interest rate is 3%.) If inflation is negative, the principal and income of an inflation-protected bond will decline and could result in losses for the fund.

#### **Notes, Loan Participations, and Assignments**

The fund may make investments through the purchase or execution of a privately negotiated note or loan, including loan assignments and participations. Larger loans to corporations or governments may be shared or syndicated among several lenders, usually banks. The fund could participate in such syndicates or could buy part of a loan, becoming a direct lender. These loans may often be obligations of companies or governments in financial distress or in default. These investments involve special types of risk, including those of being a lender, reduced liquidity, increased credit risk, and volatility.

*Operating policy* Fund investments in loan participations and assignments are limited to 10% of total assets.

#### **High-Yield, High-Risk Bonds**

The price and yield of lower-quality (high-yield, high-risk) bonds, commonly referred to as “junk bonds” and below investment-grade emerging market bonds, can be expected to fluctuate more than the price and yield of higher-quality bonds. Because these bonds are rated below BBB or in default, they are regarded as predominantly speculative with respect to the issuer’s continuing ability to meet principal and interest payments. Successful investment in lower-medium- and low-quality bonds involves greater investment risk and is highly dependent on T. Rowe Price’s credit analysis. A real or perceived economic downturn or higher interest rates could cause a decline in high-yield bond prices by lessening the ability of issuers to make principal and interest payments. These bonds are often thinly traded and can be more difficult to sell and value accurately than high-quality bonds. Because objective pricing data may be less available, judgment may play a greater role in the valuation process. In addition, the entire high-yield bond market can experience sudden and sharp price swings due to a variety of factors, including changes in economic forecasts, stock market activity, large or sustained sales by major investors, a high-profile default, or just a change in the market’s psychology. This type of volatility is usually associated more with stocks than bonds, but junk bond investors should be prepared for it.

*Operating policy* Fund investments in below investment-grade bonds are limited to 20% of total assets.

#### **Hybrid Instruments**

These instruments (a type of potentially high-risk derivative) can combine the characteristics of securities, futures, and options. For example, the principal amount or interest rate of a hybrid could be tied (positively or negatively) to the price of some commodity, currency, securities, or securities index or another interest rate (each a “benchmark”). Hybrids can be used as an efficient means of pursuing a variety of investment goals, including currency hedging, duration management, and increased total return. Hybrids may or may not bear interest or pay dividends. The value of a hybrid or its interest rate may be a multiple of a benchmark and, as a result, may be leveraged and move (up or down) more steeply and rapidly than the benchmark. These benchmarks may be sensitive to economic and

political events, such as commodity shortages and currency devaluations, which cannot be readily foreseen by the purchaser of a hybrid. Under certain conditions, the redemption value of a hybrid could be zero. Thus, an investment in a hybrid may entail significant market risks that are not associated with a similar investment in a traditional, U.S. dollar-denominated bond that has a fixed principal amount and pays a fixed rate or floating rate of interest. The purchase of hybrids also exposes the fund to the credit risk of the issuer of the hybrid. These risks may cause significant fluctuations in the net asset values of the fund.

► ***Hybrids can have volatile prices and limited liquidity, and their use may not be successful.***

*Operating policy* Fund investments in hybrid instruments are limited to 10% of total assets.

#### **Zero Coupon Bonds and Pay-in-Kind Bonds**

A zero coupon bond does not make cash interest payments during the life of the bond. Instead, it is sold at a deep discount to face value, and the interest consists of the gradual appreciation in price as the bond approaches maturity. “Zeros” can be an attractive financing method for issuers with near-term cash-flow problems. Pay-in-kind (PIK) bonds pay interest in cash or additional securities, at the issuer’s option, for a specified period. Like zeros, they may help a corporation economize on cash. PIK prices reflect the market value of the underlying debt plus any accrued interest. Zeros and PIKs can be higher- or lower-quality debt, and both are more volatile than coupon bonds.

The fund is required to distribute to shareholders income imputed to any zero or PIK investments. Such distributions could reduce the fund’s reserve position.

*Operating policy* Fund investments in zero coupon and pay-in-kind bonds are limited to 10% of total assets.

#### **Illiquid Securities**

Some fund holdings may be considered illiquid because they are subject to legal or contractual restrictions on resale or because they cannot be sold in the ordinary course of business at approximately the prices at which they are valued. The determination of liquidity involves a variety of factors. Illiquid securities may include private placements that are sold directly to a small number of investors, usually institutions. Unlike public offerings, such securities are not registered with the Securities and Exchange Commission (SEC). Although certain of these securities may be readily sold, for example, under Rule 144A of the Securities Act of 1933, others may have resale restrictions and be illiquid. The sale of illiquid securities may involve substantial delays and additional costs, and the fund may only be able to sell such securities at prices substantially less than what the fund believes they are worth.

*Operating policy* Fund investments in illiquid securities are limited to 15% of net assets.

#### **Investments in Other T. Rowe Price Funds**

The fund may invest in a particular asset class by purchasing shares of other T. Rowe Price mutual funds that concentrate their investments in that asset class, provided the investment is consistent with the fund’s investment program and policies. Such an investment could allow the fund to obtain the benefits of a more diversified portfolio than might otherwise be available by direct investment in the asset class. Any such investments will subject the fund to the risks of the particular asset class. Examples of asset classes in which other T. Rowe Price mutual funds invest include high-yield bonds, floating rate loans, international bonds, and emerging market bonds. The management fee paid by the fund will be reduced to ensure that the fund does not incur duplicate management fees as a result of any investment in other T. Rowe Price mutual funds.

## **Types of Investment Management Practices**

### **Reserve Position**

A certain portion of fund assets will be held in reserves. Fund reserve positions can consist of: 1) shares of one or both of the T. Rowe Price internal money funds; 2) short-term, high-quality U.S. and foreign dollar-denominated money market securities, including repurchase agreements; and 3) U.S. dollar or non-U.S. dollar currencies. For temporary, defensive purposes, there is no limit on a fund's holdings in reserves. If a fund has significant holdings in reserves, it could compromise the fund's ability to achieve its objectives. The reserve position provides flexibility in meeting redemptions, paying expenses, and in the timing of new investments and can serve as a short-term defense during periods of unusual market volatility. Non-U.S. dollar reserves are subject to currency risk.

### **Borrowing Money and Transferring Assets**

The fund may borrow from banks and other T. Rowe Price funds for temporary emergency purposes to facilitate redemption requests, or for other purposes consistent with fund policies as set forth in this prospectus. Such borrowings may be collateralized with fund assets, subject to restrictions.

*Fundamental policy* Borrowings may not exceed 33 $\frac{1}{3}$ % of total assets.

*Operating policy* Fund transfers of portfolio securities as collateral will not be made except as necessary in connection with permissible borrowings or investments, and then such transfers may not exceed 33 $\frac{1}{3}$ % of total assets. Fund purchases of additional securities will not be made when borrowings exceed 5% of total assets.

### **Futures and Options**

Futures, a type of potentially high-risk derivative, are often used to manage or hedge risk because they enable the investor to buy or sell an asset in the future at an agreed-upon price. Options, another type of potentially high-risk derivative, give the investor the right (when the investor purchases the option), or the obligation (when the investor "writes" or sells the option), to buy or sell an asset at a predetermined price in the future. Futures and options contracts may be bought or sold for any number of reasons, including: to manage exposure to changes in interest rates, foreign currencies, and credit quality; as an efficient means of increasing or decreasing a fund's exposure to a specific part or a broad segment of the U.S. market or a foreign market; in an effort to enhance income; to protect the value of portfolio securities; to serve as a cash management tool and to adjust portfolio duration or credit exposure. Call or put options may be purchased or sold on securities, futures, financial indices, and foreign currencies.

Futures contracts and options may not always be successful hedges; their prices can be highly volatile; using them could lower fund total return; and the potential loss from the use of futures can exceed a fund's initial investment in such contracts.

*Operating policies* Initial margin deposits on futures and premiums on options used for non-hedging purposes will not exceed 5% of net asset value. The total market value of securities covering call or put options may not exceed 25% of total assets. No more than 5% of total assets will be committed to premiums when purchasing call or put options.

### **Swaps**

Fund investments may be made in interest rate, index, total return, credit default, and other types of swap agreements, as well as options on swaps (swaptions). All of these agreements are considered derivatives and, in certain cases, high-risk derivatives. Interest rate, index, and total return swaps are two-party contracts under which a fund and a counterparty, such as a broker or dealer, agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or indices. Credit default swaps are agreements where one party (the protection buyer) will make periodic payments to another party (the protection seller) in exchange for protection

against specified credit events, such as defaults and bankruptcies related to an issuer or underlying credit instrument. Swaps and swaptions can be used for a variety of purposes, including: to manage fund exposure to changes in interest or foreign currency exchange rates and credit quality; as an efficient means of adjusting fund overall exposure to certain markets; in an effort to enhance income or total return or protect the value of portfolio securities; to serve as a cash management tool; and to adjust portfolio duration or credit exposure.

There are risks in the use of swaps and swaptions. Swaps could result in losses if interest or foreign currency exchange rates or credit quality changes are not correctly anticipated by the fund. Total return swaps could result in losses if the reference index, security, or investments do not perform as anticipated. Credit default swaps can increase fund exposure to credit risk and could result in losses if evaluation of the creditworthiness of the counterparty, or of the company or government on which the credit default swap is based, is incorrect. The use of swaps and swaptions may not always be successful; using them could lower fund total return, their prices can be highly volatile, and the potential loss from the use of swaps can exceed a fund's initial investment in such instruments. Also, the other party to a swap agreement could default on its obligations or refuse to cash out a fund's investment at a reasonable price, which could turn an expected gain into a loss.

*Operating policies* A swap agreement with any single counterparty will not be entered into if the net amount owed or to be received under existing contracts with that party would exceed 5% of fixed income assets or if the net amount owed or to be received by the fund under all outstanding swap agreements will exceed 10% of fixed income assets. Swaptions: The total market value of securities covering call or put options may not exceed 25% of total assets. No more than 5% of total assets will be committed to premiums when purchasing call or put options.

### **Exchange Traded Funds (ETFs)**

An ETF is a type of index fund bought and sold on a securities exchange. An ETF trades like common stock and typically represents a portfolio of securities designed to track a particular market index. The fund could purchase an ETF to temporarily gain exposure to a portion of the U.S. or a foreign market while awaiting purchase of underlying securities. The risks of owning an ETF are generally similar to the risks of owning the underlying securities in the index it is designed to track, although lack of liquidity in an ETF could result in it being more volatile and ETFs have management fees that increase their costs.

### **Managing Foreign Currency Risk**

Investors in foreign securities may attempt to hedge their exposure to potentially unfavorable currency changes. The primary means of doing this is through the use of forwards, which are contracts to exchange one currency for another on some future date at a specified exchange rate. However, futures, swaps, and options on foreign currencies may also be used. In certain circumstances, a different currency may be substituted for the currency in which the investment is denominated, a strategy known as proxy hedging. If the fund were to engage in any of these foreign currency transactions, it would be primarily to protect its foreign securities from adverse currency movements relative to the dollar. Such transactions involve the risk that anticipated currency movements will not occur, which could reduce fund total return. There are certain markets, including many emerging markets, where it is not possible to engage in effective foreign currency hedging.

### **Lending of Portfolio Securities**

A fund may lend its securities to broker-dealers, other institutions, or other persons to earn additional income. Risks include the potential insolvency of the broker-dealer or other borrower that could result in delays in recovering securities and capital losses. Additionally, losses could result from the reinvestment of collateral received on loaned securities in investments that default or do not perform as expected.

*Fundamental policy* The value of loaned securities may not exceed 33<sup>1</sup>/<sub>3</sub>% of total assets.

**When-Issued Securities and Forwards**

The fund may purchase securities on a when-issued or delayed delivery basis or may purchase or sell securities on a forward commitment basis. There is no limit on the fund's fixed-income investments in these securities. The price of these securities is fixed at the time of the commitment to buy, but delivery and payment can take place a month or more later. During the interim period, the market value of the securities can fluctuate, and no interest accrues to the purchaser. At the time of delivery, the value of the securities may be more or less than the purchase or sale price. To the extent the fund remains fully or almost fully invested (in securities with a remaining maturity of more than one year) at the same time it purchases these securities, there will be greater fluctuations in the fund's net asset values than if the fund did not purchase them.

**Portfolio Turnover**

Turnover is an indication of frequency of trading. The fund will not generally trade in securities for short-term profits, but, when circumstances warrant, securities may be purchased and sold without regard to the length of time held. Each time the fund purchases or sells a security, it incurs a cost. This cost is reflected in the fund's net asset value but not in its operating expenses. The higher the turnover rate, the higher the transaction costs and the greater the impact on the fund's total return. Higher turnover can also increase the possibility of taxable capital gain distributions. The fund's portfolio turnover rates are shown in the Financial Highlights table.

**Credit-Quality Considerations**

The credit quality of many fund holdings is evaluated by rating agencies such as Moody's and Standard & Poor's. Credit quality refers to the issuer's ability to meet all required interest and principal payments. The highest ratings are assigned to companies perceived to be the best credit risks. T. Rowe Price research analysts also evaluate all fund holdings, including those rated by outside agencies. Other things being equal, lower-rated bonds and other debt obligations have higher yields due to greater credit risk. High-yield bonds, also called "junk" bonds, are those rated below BBB.

Credit quality ratings are not guarantees. They are estimates of a company's financial strength and ability to make interest and principal payment as they come due. Ratings can change at any time due to real or perceived changes in a company's credit or financial fundamentals.

Table 4 shows the rating scale used by the major rating agencies. T. Rowe Price considers publicly available ratings but emphasizes its own credit analysis when selecting investments.

**Table 4 Ratings of Corporate Debt Securities**

	<b>Moody's Investors Service, Inc.</b>	<b>Standard &amp; Poor's Corporation</b>	<b>Fitch Ratings</b>	<b>Definition</b>		
Long Term	Aaa	AAA	AAA	Highest quality		
	Aa	AA	AA	High quality		
	A	A	A	Upper-medium grade		
	Baa	BBB	BBB	Medium grade		
	Ba	BB	BB	Speculative		
	B	B	B	Highly speculative		
	Caa	CCC	CCC	Vulnerable to default		
	Ca	CC	CC	Default is imminent		
	C	C	C	Probably in default		
Commercial Paper	<b>Moody's</b>		<b>S&amp;P</b>		<b>Fitch Ratings</b>	
	P-1	Superior quality	A-1+	Extremely strong quality	F-1+	Exceptionally strong quality
			A-1	Strong quality	F-1	Very strong quality
	P-2	Strong quality	A-2	Satisfactory quality	F-2	Good credit quality
P-3	Acceptable quality	A-3	Adequate quality	F-3	Fair credit quality	
		B	Speculative quality			
		C	Doubtful quality			

**DISCLOSURE OF FUND PORTFOLIO INFORMATION**

The fund's portfolio holdings are disclosed on a regular basis in its semiannual and annual reports to shareholders and on Form N-Q, which is filed with the SEC within 60 days of the fund's first and third fiscal quarter-end. In addition, the fund discloses its calendar quarter-end portfolio holdings on [troweprice.com](http://troweprice.com) 15 calendar days after each quarter. Under certain conditions, up to 5% of the fund's holdings may be included in this portfolio list without being individually identified. Generally, securities would not be individually identified if they are being actively bought or sold and it is determined that the quarter-end disclosure of the holding could be harmful to the fund. A security will not be excluded for these purposes from a fund's quarter-end holdings disclosure for more than one year. The fund also discloses its largest 10 holdings on [troweprice.com](http://troweprice.com) on the seventh business day after each month-end. These holdings are listed in alphabetical order along with the aggregate percentage of the fund's total assets that they represent. The quarter-end portfolio will remain on the Web site for one year. Each monthly top 10 list will remain on the Web site for six months. A description of the fund's policy and procedures with respect to the disclosure of portfolio information is in the Statement of Additional Information.

**FINANCIAL HIGHLIGHTS**

Table 5, which provides information about the fund's financial history, is based on a single share outstanding throughout the periods shown. The table is part of the fund's financial statements, which are included in its annual report and are incorporated by reference into the Statement of Additional Information (available upon request). The total returns in the table represent the rate that an investor

would have earned or lost on an investment in the fund (assuming reinvestment of all dividends and distributions and no payment of account or [if applicable] redemption fees). The financial statements in the annual report were audited by the fund's independent registered public accounting firm, PricewaterhouseCoopers LLP.

**Table 5 Financial Highlights**

	<i>Year ended December 31</i>				
	<b>2004</b>	<b>2005*</b>	<b>2006*</b>	<b>2007*</b>	<b>2008*</b>
Net asset value, beginning of period	\$ 16.13	\$ 17.76	\$ 18.41	\$ 19.57	\$ 18.70
<b>Income From Investment Operations</b>					
Net investment income	0.34 <sup>a</sup>	0.32 <sup>a</sup>	0.40 <sup>a</sup>	0.44 <sup>a</sup>	0.39 <sup>a</sup>
Net gains or losses on securities (both realized and unrealized)	1.70	0.81	1.75	1.02	(5.88)
Total from investment operations	2.04	1.13	2.15	1.46	(5.49)
<b>Less Distributions</b>					
Dividends (from net investment income)	(0.34)	(0.32)	(0.40)	(0.45)	(0.40)
Distributions (from capital gains)	(0.07)	(0.16)	(0.59)	(1.88)	(0.11)
Returns of capital	—	—	—	—	—
Total distributions	(0.41)	(0.48)	(0.99)	(2.33)	(0.51)
<b>Net asset value, end of period</b>	<b>\$ 17.76</b>	<b>\$ 18.41</b>	<b>\$ 19.57</b>	<b>\$ 18.70</b>	<b>\$ 12.70</b>
<b>Total return</b>	<b>12.80%<sup>a</sup></b>	<b>6.43%<sup>a</sup></b>	<b>11.85%<sup>a</sup></b>	<b>7.61%<sup>a</sup></b>	<b>(29.88)%<sup>a</sup></b>
<b>Ratios/Supplemental Data</b>					
Net assets, end of period (in thousands)	\$125,949	\$146,204	\$178,120	\$192,938	\$136,642
Ratio of expenses to average net assets	0.87% <sup>a</sup>	0.88% <sup>a</sup>	0.88% <sup>a</sup>	0.88% <sup>a</sup>	0.86% <sup>a</sup>
Ratio of net income to average net assets	2.03% <sup>ab</sup>	1.81% <sup>a</sup>	2.09% <sup>a</sup>	2.19% <sup>a</sup>	2.43% <sup>a</sup>
Portfolio turnover rate	72.5%	57.1%	55.1%	76.6%	68.9%

\* Per share amounts calculated using average shares outstanding method.

<sup>a</sup> Excludes expenses permanently waived of 0.04%, 0.02%, 0.02%, 0.02%, and 0.03% of average net assets for the years ended December 31, 2008, December 31, 2007, December 31, 2006, December 31, 2005, and December 31, 2004, respectively, related to investments in T. Rowe Price mutual funds.

<sup>b</sup> Includes the effect of a one-time special dividend (0.14% of average net assets) that is not expected to recur.

A Statement of Additional Information for the T. Rowe Price family of funds has been filed with the Securities and Exchange Commission and is incorporated by reference into this prospectus. Further information about fund investments, including a review of market conditions and the manager's recent strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain a free copy of a fund report or Statement of Additional Information, or for inquiries, contact your insurance company. The Statement of Additional Information and updated performance information are available through [troweprice.com](http://troweprice.com).

Fund information and Statements of Additional Information are also available from the Public Reference Room of the Securities and Exchange Commission. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-202-942-8090. Fund reports and other fund information are available on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. Copies of this information may be obtained, after paying a duplicating fee, by electronic request at [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the Public Reference Room, Washington D.C. 20549-0102.

1940 Act File No.: 811-07143

E304-040 5/1/09



May 1, 2009

T. ROWE PRICE

# International Stock Portfolio

A stock fund seeking long-term capital growth  
through investments in non-U.S. companies.



*The Securities and Exchange Commission has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.*

## Table of Contents

1	<b>ABOUT THE FUND</b>	
	Objective, Strategy, Risks, and Expenses	1
	Other Information About the Fund	4
2	<b>T. ROWE PRICE ACCOUNT INFORMATION</b>	
	Pricing Shares and Receiving Sale Proceeds	5
	Rights Reserved by the Funds	8
	Dividends and Other Distributions	8
3	<b>MORE ABOUT THE FUND</b>	
	Organization and Management	9
	Understanding Performance Information	11
	Investment Policies and Practices	11
	Disclosure of Fund Portfolio Information	15
	Financial Highlights	16

T. Rowe Price International, Inc. managed \$34.1 billion in foreign stocks and bonds as of December 31, 2008, through its offices in Baltimore, London, Singapore, Hong Kong, and Buenos Aires.

**Mutual fund shares are not deposits or obligations of, or guaranteed by, any depository institution. Shares are not insured by the FDIC, Federal Reserve, or any other government agency, and are subject to investment risks, including possible loss of the principal amount invested.**

## **T. Rowe Price International Series, Inc.**

### **T. Rowe Price International Stock Portfolio**

#### **OBJECTIVE, STRATEGY, RISKS, AND EXPENSES**

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The fund should be used as an investment option for variable annuity and variable life insurance contracts.

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

The fund seeks long-term growth of capital through investments primarily in the common stocks of established, non-U.S. companies.

##### **What is the fund's principal investment 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. The fund may purchase the stocks of companies of any size, but its 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 common stocks.

T. Rowe Price International, Inc. (T. Rowe Price International), employs a global team of investment analysts dedicated to in-depth fundamental research in an effort to identify 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. Valuation factors often influence our allocations among large-, mid-, or small-cap shares.

While the fund invests with an awareness of the global economic backdrop and its 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, the fund generally favors companies with one or more of the following characteristics:

- leading or improving market position;
- attractive business niche;
- attractive or improving franchise or industry position;
- seasoned management;
- stable or improving earnings and/or cash flow; and
- sound or improving balance sheet.

While the fund invests primarily in common stocks, the fund may invest in other securities, and may use futures and options, in keeping with the fund's objective.

The 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 the fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of the fund's securities may change after they are purchased, and this may cause the amount of the 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.

### **What are the main risks of investing in the 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 fund's portfolio and how each foreign currency appreciates or depreciates in relation to the U.S. dollar and whether currency positions are hedged. Under normal conditions, the fund does not engage in extensive foreign currency hedging programs. Further, exchange rate movements are volatile, fund attempts at hedging could be unsuccessful, and it is not possible to effectively hedge the currency risks of many developing or emerging countries.
- **Geographic risk** The economies and financial markets of certain regions—such as Latin America and Asia—can be interdependent and may all decline at the same time.
- **Emerging market risk** To the extent the fund invests in emerging markets, it is subject to greater risk than a fund investing only in developed markets. The economic and political structures of developing countries, 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. Fund performance will likely be hurt by exposure to countries in the midst of hyperinflation, currency devaluation, trade disagreements, sudden political upheaval, or interventionist government policies. Significant buying or selling by a few major investors may also heighten the volatility of emerging markets. These factors make investing in such countries significantly riskier than investing in other countries, and any one of these factors could cause the 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, 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. A trading market may close without warning for extended time periods, preventing a fund from selling its portfolio securities in that market.
  - ▶ ***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.***
- **Futures/options risk** To the extent the fund uses futures and options, it is exposed to additional volatility and potential losses.

As with all stock funds, the 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 the 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 fund will achieve its objective.

- ▶ *The fund's share price may decline, so when you sell your shares, you may lose money.*

**How can I tell if the fund is appropriate for me?**

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. If you want to diversify your domestic stock portfolio by adding foreign investments, seek the long-term capital appreciation potential of growth stocks, and are comfortable with the risks that accompany foreign investments, the fund could be an appropriate part of your overall investment strategy.

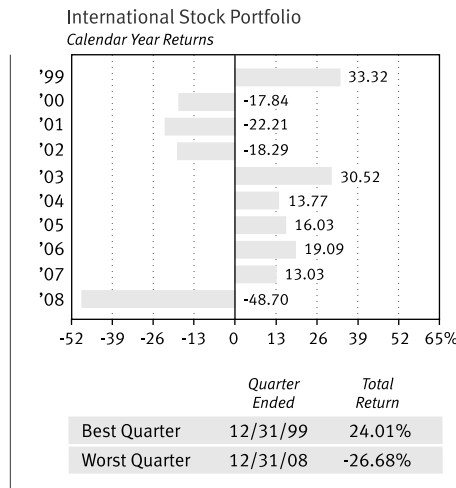
- ▶ *The fund should not represent your complete investment program or be used for short-term trading purposes.*

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

The bar chart 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 over time. Past fund performance is no guarantee of future returns.

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

Updated performance information is available through [troweprice.com](http://troweprice.com) or may be obtained by calling 1-800-469-5304.



**Table 1 Average Annual Total Returns**

	Periods ended December 31, 2008		
	1 year	5 years	10 years
International Stock Portfolio	-48.70%	-1.83%	-1.87%
MSCI All Country World Index ex-US Index	-45.24	3.00	2.27
Lipper Variable Annuity Underlying International Growth Funds Average	-46.61	1.74	1.18

These figures include changes in principal value, reinvested dividends, and capital gain distributions, if any.

Figures do not reflect fees at the insurance product or contract level; if those fees were included, returns would be lower.

MSCI All Country World ex-US Index measures the equity market performance of developed and emerging countries, excluding the U.S.

### What fees and expenses will I pay?

The fees and expenses set forth in the following table are paid by the fund and borne indirectly by contract holders. There are additional expenses charged by insurance companies, which apply to your insurance contract or policy, and these are described in the variable annuity and variable life contract prospectuses.

**Table 2 Fees and Expenses of the Fund**

	<i>Annual fund operating expenses (expenses that are deducted from fund assets)</i>
Management fee	1.05%
Other expenses	—
<b>Total annual fund operating expenses</b>	<b>1.05%</b>

**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 this fund 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>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>10 years</i>
\$107	\$334	\$579	\$1,283

## OTHER INFORMATION ABOUT THE FUND

### What are some of the potential rewards of investing overseas through the fund?

Investing abroad increases the opportunities available to you. Some foreign countries may have greater potential for economic growth than the U.S. Investing a portion of your overall portfolio in foreign stock funds can enhance your diversification while providing the opportunity to increase long-term returns.

### How does the portfolio manager try to reduce risk?

The principal tools we use to try to reduce risk are intensive research and limiting exposure to any one industry or company. Currency hedging techniques may be used from time to time.

Portfolio managers keep close watch on individual investments as well as on political and economic trends in each country and region. Holdings are adjusted according to the manager's analysis and outlook.

The impact on the fund's share price from a drop in the price of a particular stock is reduced substantially by investing in a diversified portfolio that invests in many different companies. Likewise, the impact of unfavorable developments in a particular country is reduced when investments are spread among many countries. However, the economies and financial markets of countries in a certain region may be influenced heavily by one another and the global economy.

### Is there other information I can review before making a decision?

Investment Policies and Practices in Section 3 discusses various types of portfolio securities the fund may purchase as well as types of management practices the fund may use.

The Statement of Additional Information contains more detailed information about the fund and its investments, operations, and expenses.

As an investor in a T. Rowe Price fund through your variable annuity or variable life insurance contract, you will want to know about the following policies and procedures that apply to the funds. For instructions on how to purchase and redeem shares, read the insurance contract prospectus.

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**PRICING SHARES AND RECEIVING SALE PROCEEDS**

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Shares of the fund are designed to be offered to insurance company separate accounts established for the purpose of funding variable annuity and life insurance contracts. Variable annuity and variable life contract holders or participants are not the shareholders of the fund. Rather, the separate account of the insurance company is the shareholder. The variable annuity and variable life contracts are described in separate prospectuses issued by the insurance companies. The fund assumes no responsibility for such prospectuses, or variable annuity or variable life contracts.

Shares of the fund are sold and redeemed without the imposition of any sales commission or redemption charge. However, certain other charges may apply to annuity or life contracts. Those charges are disclosed in the insurance contract prospectus.

Your ability to exchange from this fund to any other T. Rowe Price fund that serves as an investment option under your insurance contract is governed by the terms of that contract and the insurance contract prospectus, as well as the fund's excessive trading policy described in this section.

**How and When Shares Are Priced**

The share price (also called "net asset value" or NAV per share) for a fund is calculated at the close of the New York Stock Exchange, normally 4 p.m. ET, each day that the exchange is open for business. To calculate the NAV, the fund's assets are valued and totaled, liabilities are subtracted, and the balance, called net assets, is divided by the number of shares outstanding. Market values are used to price stocks and bonds. Market values represent the prices at which securities actually trade or evaluations based on the judgment of the fund's pricing services. If a market value for a security is not available, the fund will make a good faith effort to assign a fair value to the security by taking into account factors that have been approved by the fund's Board of Directors. This value may differ from the value the fund receives upon sale of the securities. Amortized cost is used to price securities held by money market funds and certain other debt securities held by a fund. Investments in mutual funds are valued at the closing NAV per share of the mutual fund on the day of valuation.

Non-U.S. equity securities are valued on the basis of their most recent closing market prices at 4 p.m. ET except under the circumstances described below. Most foreign markets close before 4 p.m. ET. For securities primarily traded in the Far East, for example, the most recent closing prices may be as much as 15 hours old at 4 p.m. ET. If a fund determines that developments between the close of a foreign market and 4 p.m. ET will, in its judgment, materially affect the value of some or all of the fund's securities, the fund will adjust the previous closing prices to reflect what it believes to be the fair value of the securities as of 4 p.m. ET. In deciding whether to make these adjustments, the fund reviews a variety of factors, including developments in foreign markets, the performance of U.S. securities markets, and the performance of instruments trading in U.S. markets that represent foreign securities and baskets of foreign securities. The fund may also fair value securities in other situations, for example, when a particular foreign market is closed but the fund is open. The fund uses outside pricing services to provide it with closing market prices and information used for adjusting those prices. The fund cannot predict how often it will use closing prices and how often it will adjust those prices. As a means of

evaluating its fair value process, the fund routinely compares closing market prices, the next day's opening prices in the same markets, and adjusted prices. Other mutual funds may adjust the prices of their securities by different amounts.

### **How Your Purchase, Sale, or Exchange Price Is Determined**

#### **Purchases**

The insurance companies purchase shares of the fund for their separate accounts, using premiums allocated by the contract holders or participants. Shares are purchased at the NAV next determined after the insurance company receives the premium payment in acceptable form. Initial and subsequent payments allocated to the fund are subject to the limits stated in the insurance contract prospectus issued by the insurance company.

When authorized by the fund, certain financial institutions or retirement plans purchasing fund shares on behalf of customers or plan participants through Financial Institution Services or Retirement Plan Services may place a purchase order unaccompanied by payment. Payment for these shares must be received by the time designated by the fund (not to exceed the period established for settlement under applicable regulations). If payment is not received by this time, the order may be cancelled. The financial institution or retirement plan is responsible for any costs or losses incurred by the fund or T. Rowe Price if payment is delayed or not received.

#### **Redemptions**

The insurance companies redeem shares of the fund to make benefit or surrender payments under the terms of its contracts. Redemptions are processed on any day on which the New York Stock Exchange is open and are priced at the fund's NAV next determined after the insurance company receives a surrender request in acceptable form.

*Note:* The time at which transactions and shares are priced and the time until which orders are accepted may be changed in case of an emergency or if the New York Stock Exchange closes at a time other than 4 p.m. ET. There may be times when you are unable to contact us by telephone or access your account by computer due to extreme market activity, the unavailability of the T. Rowe Price Web site, or other circumstances. Should this occur, your order must still be placed and accepted prior to the time the New York Stock Exchange closes to be priced at that business day's NAV.

### **How You Can Receive the Proceeds From a Sale**

Payment for redeemed shares will be made promptly, but in no event later than seven calendar days after receipt of your redemption order. However, the right of redemption may be suspended or the date of payment postponed in accordance with the Investment Company Act of 1940 ("1940 Act"). The amount received upon redemption of the shares of the fund may be more or less than the amount paid for the shares, depending on the fluctuations in the market value of the assets owned by the fund.

### **Excessive and Short-Term Trading**

- ▶ *T. Rowe Price may bar excessive and short-term traders from purchasing shares.*

Excessive or short-term trading in fund shares may disrupt management of a fund and raise its costs. Short-term traders in funds investing in foreign securities may seek to take advantage of an anticipated difference between the price of the fund's shares and price movements in overseas markets (see Pricing Shares and Receiving Sale Proceeds—How and When Shares Are Priced). While there is no assurance that T. Rowe Price can prevent all excessive and short-term trading, the Boards of Directors of the T. Rowe Price funds have adopted the following policies to deter such activity. Persons trading directly with T. Rowe Price or indirectly through intermediaries in violation of this policy or persons believed

to be short-term traders may be barred permanently from further purchases of T. Rowe Price funds. Purchase transactions placed by such persons are subject to rejection without notice. These policies apply to contract holders notwithstanding any provisions in your insurance contract.

- All persons purchasing shares held directly with a T. Rowe Price fund who make more than one purchase and one sale or one sale and one purchase involving the same fund within any 90-day calendar period will violate the policy.
- All persons purchasing fund shares held through an insurance company who hold the shares for less than 90 calendar days will violate the policy.

#### **Omnibus Accounts**

Intermediaries often establish omnibus accounts in the T. Rowe Price funds for their customers. In such situations, T. Rowe Price cannot always monitor trading activity by underlying contract holders. However, T. Rowe Price reviews trading activity at the omnibus account level and looks for activity that indicates potential excessive or short-term trading. If it detects suspicious trading activity, T. Rowe Price contacts the intermediary to determine whether the excessive trading policy has been violated and may request and receive personal identifying information and transaction histories for some or all contract holders to make this determination. If T. Rowe Price believes that its excessive trading policy has been violated, it will instruct the intermediary to take action with respect to the underlying contract holder in accordance with the policy.

#### **Exceptions to Policy**

Systematic purchases and redemptions are exempt from these policies. Redemptions to fund the periodic deduction of contract charges and fees and to pay death benefits are also exempt. Transactions in certain rebalancing and asset allocation programs may be exempt from the excessive trading policy subject to prior written approval by designated persons at T. Rowe Price. In addition, transactions by certain T. Rowe Price funds in other T. Rowe Price funds, as well as certain transactions by approved accounts managed by T. Rowe Price, may also be exempt.

T. Rowe Price generally seeks to enforce its excessive trading policies against individual contract holders when violations of its policies are discovered. The terms of your insurance contract may also restrict your ability to trade between the investment options available under your contract. T. Rowe Price reserves the right to modify the 90-day policy set forth above and apply your insurance company's excessive trading policy (for example, in situations where an insurance contract or insurance company has restrictions on trading that differ from a T. Rowe Price fund's policy). These modifications would be authorized only if T. Rowe Price believes that the modified policy would provide protection to the fund that is reasonably equivalent to the fund's regular policy. If you are trading your fund shares through an intermediary, you should consult with the intermediary to determine the excessive trading policy that applies to your trades in the fund.

There may be limitations on the ability of insurance companies to impose restrictions on the trading practices of certain contract holders. As a result, T. Rowe Price's ability to discourage excessive trading practices in this fund may be limited.

- ▶ ***There is no guarantee that T. Rowe Price will be able to detect or prevent excessive or short-term trading. In addition, T. Rowe Price cannot always detect excessive or short-term trading through intermediaries with omnibus accounts.***

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**RIGHTS RESERVED BY THE FUNDS**

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T. Rowe Price funds and their agents, in their sole discretion, reserve the following rights: (1) to waive or lower investment minimums; (2) to accept initial purchases by telephone or telegram; (3) to refuse any purchase or exchange order; (4) to cancel or rescind any purchase or exchange order placed through an intermediary, no later than the business day after the order is received by the intermediary (including, but not limited to, orders deemed to result in excessive trading, market timing, or 5% ownership); (5) to cease offering fund shares at any time to all or certain groups of investors; (6) to freeze any account and suspend account services when notice has been received of a dispute between the registered or beneficial account owners or there is reason to believe a fraudulent transaction may occur; (7) to otherwise modify the conditions of purchase and any services at any time; (8) to waive any wire fees charged to a group of shareholders; (9) to act on instructions reasonably believed to be genuine; and (10) to involuntarily redeem your account at the net asset value calculated the day the account is redeemed, in cases of threatening conduct, suspected fraudulent or illegal activity, or if the fund or its agent is unable, through its procedures, to verify the identity of the person(s) or entity opening an account.

In an effort to protect T. Rowe Price funds from the possible adverse effects of a substantial redemption in a large account, as a matter of general policy, no contract holder or participant or group of contract holders or participants controlled by the same person or group of persons will knowingly be permitted to purchase in excess of 5% of the outstanding shares of the fund, except upon approval of the fund's management.

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**DIVIDENDS AND OTHER DISTRIBUTIONS**

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For a discussion of the tax status of your variable annuity contract, please refer to the insurance contract prospectus.

**Dividends and Other Distributions**

The policy of the fund is to distribute all of its net investment income and net capital gains each year to its shareholders, which are the separate accounts established by the various insurance companies in connection with their issuance of variable annuity and variable life contracts. Dividends from net investment income are declared daily and paid monthly for the Limited-Term Bond and Prime Reserve Portfolios; declared and paid quarterly for the Equity Income, Equity Index 500, and Personal Strategy Balanced Portfolios; and declared and paid annually for all other portfolios. All fund distributions made to a separate account will be reinvested automatically in additional fund shares, unless a shareholder (separate account) elects to receive distributions in cash. Under current law, dividends and distributions made by the fund to separate accounts generally are not taxable to the separate accounts, the insurance company, or the contract holder, provided that the separate account meets the diversification requirements of Section 817(h) of the Internal Revenue Code of 1986, as amended, (Code) and other tax-related requirements are satisfied. The fund intends to diversify its investments in the manner required under Code Section 817(h).

## ORGANIZATION AND MANAGEMENT

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### How is the fund organized?

T. Rowe Price International Series, Inc. (the “corporation”) was incorporated in Maryland in 1994. Currently, the corporation consists of one series, the International Stock Portfolio.

The International Stock Portfolio is managed in a manner similar to the T. Rowe Price International Stock Fund, a fund with the same investment objective and program as the portfolio but offered to the general public and not to insurance company separate accounts. However, investors should be aware that the International Stock Portfolio is not the same as the fund and will not have the same performance. Investments made by the International Stock Portfolio at any given time may not be the same as those made by T. Rowe Price International Stock Fund. Different performance will result due to factors such as differences in the cash flows into and out of the portfolio and fund, different fees and expenses, and differences in net assets and size of holdings.

### What is meant by “shares”?

Contract holders and participants indirectly (through the insurance company separate account) purchase shares when they put money in a fund offered as an investment option in their insurance contracts. These shares are part of a fund’s authorized capital stock, but share certificates are not issued.

Each share and fractional share entitles the shareholder (the insurance company separate account) to cast one vote per share on certain fund matters, including the election of fund directors, changes in fundamental policies, or approval of changes in the fund’s management contract.

The shares of the fund have equal voting rights. The various insurance companies own the outstanding shares of the fund in their separate accounts. These separate accounts are registered under the 1940 Act or are exempted from registration thereunder. Under current law, the insurance companies must vote the shares held in registered separate accounts in accordance with voting instructions received from variable contract holders or participants having the right to give such instructions.

### Do T. Rowe Price funds have annual shareholder meetings?

The funds are not required to hold annual meetings and, to avoid unnecessary costs to fund shareholders, do not do so except when certain matters, such as a change in fundamental policies, must be decided. In addition, shareholders representing at least 10% of all eligible votes may call a special meeting for the purpose of voting on the removal of any fund director or trustee. If a meeting is held and you cannot attend, you can vote by proxy. Before the meeting, the insurance company will send or make available to you the fund’s proxy materials that explain the issues to be decided and include instructions on voting.

### Who runs the fund?

#### General Oversight

The fund is governed by a Board of Directors that meets regularly to review fund investments, performance, expenses, and other business affairs. The Board elects the fund’s officers. At least 75% of Board members are independent of T. Rowe Price International.

- ▶ *All decisions regarding the purchase and sale of fund investments are made by T. Rowe Price International—specifically by the fund’s portfolio manager.*

**Investment Manager**

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.

**Portfolio Management**

T. Rowe Price International has established an Investment Advisory Committee with respect to the fund. The committee members are: Robert W. Smith, Chairman, Christopher D. Alderson, Mark C.J. Bickford-Smith, Richard N. Clattenburg, Henry M. Ellenbogen, Robert N. Gensler, M. Campbell Gunn, Gonzalo Pangaro, Jeffrey Rottinghaus, and Dean Tenerelli. The committee chairman has day-to-day responsibility for managing the fund's portfolio and works with the committee in 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, T. Rowe Price International in 2007, and his investment experience dates from 1987. The Statement of Additional Information provides additional information about the portfolio manager's compensation, other accounts managed by the portfolio manager, and the portfolio manager's ownership of securities in the fund.

**The Management Fee**

The fund pays T. Rowe Price International an annual fee that includes investment management services and ordinary, recurring operating expenses, but does not cover interest, taxes, brokerage, nonrecurring or extraordinary items. The fee is based on fund average daily net assets and is calculated and accrued daily. The fee for the fund for the most recent fiscal year was 1.05%.

In addition, from time to time, T. Rowe Price International may make payments from its own resources to eligible insurance companies for recordkeeping and administrative services they provide to the fund for contract holders. These payments range from 0.15% to 0.25% of the average annual total assets invested by the separate accounts of the insurance company in the fund. T. Rowe Price may also reimburse insurance companies, broker-dealers, and other distributors for certain bona fide selling expenses associated with distribution of the insurance contracts in which the fund serves as an investment option. All payments described by this paragraph are paid by T. Rowe Price and not by the fund. As a result, the total expense ratio of the fund will not be affected by any such payments.

A discussion about the factors considered by the Board and its conclusions in approving the fund's investment management contract with T. Rowe Price International appears in the fund's semiannual report to contract holders for the period ended June 30.

**Variable Annuity and Variable Life Charges**

Variable annuity and variable life fees and charges imposed on contract holders and participants by the insurance companies are in addition to those described previously and are described in the variable annuity and variable life contract prospectuses.

**Variable Annuity and Variable Life Conflicts**

The fund may serve as an investment medium for both variable annuity contracts and variable life insurance policies. Shares of the fund may be offered to separate accounts established by any number of insurance companies. The fund currently does not foresee any disadvantages to variable annuity contract owners due to the fact that the fund may serve as an investment medium for both variable life insurance policies and annuity contracts; however, due to differences in tax treatment or other considerations, it is theoretically possible that the interests of owners of annuity contracts and insurance policies for which the fund serves as an investment medium might at some time be in conflict. The fund's Board of Directors is required to monitor events to identify any material conflicts between variable annuity contract owners and variable life policy owners, and will determine what action, if any, should

be taken in the event of such a conflict. If such a conflict were to occur, an insurance company participating in the fund might be required to redeem the investment of one or more of its separate accounts from the fund. This might force the fund to sell securities at disadvantageous prices.

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## UNDERSTANDING PERFORMANCE INFORMATION

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This section should help you understand the terms used to describe fund performance. You may see these terms used in shareholder reports you receive from your insurance company.

### **Total Return**

This tells you how much an investment has changed in value over a given period. It reflects any net increase or decrease in the share price and assumes that all dividends and capital gains (if any) paid during the period were reinvested in additional shares. Therefore, total return numbers include the effect of compounding.

Advertisements may include cumulative or average annual total return figures, which may be compared with various indices, other performance measures, or other mutual funds.

### **Cumulative Total Return**

This is the actual return of an investment for a specified period. A cumulative return does not indicate how much the value of the investment may have fluctuated *during* the period. For example, an investment could have a 10-year positive cumulative return, despite experiencing some years of negative returns during that time.

### **Average Annual Total Return**

This is always hypothetical and should not be confused with actual year-by-year results. It smoothes out variations in annual performance to tell you what *constant* year-by-year return would have produced the investment's actual cumulative return. This gives you an idea of an investment's annual contribution to your portfolio, provided you held it for the entire period.

Total returns quoted for the fund include the effect of deducting the fund's expenses, but may not include charges and expenses attributable to any particular insurance product. Since you can only purchase shares of the fund through an insurance product, you should carefully review the prospectus of the insurance product you have chosen for information on relevant charges and expenses. Excluding these charges from quotations of the fund's performance has the effect of increasing the performance quoted.

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## INVESTMENT POLICIES AND PRACTICES

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This section takes a detailed look at some of the types of fund securities and the various kinds of investment practices that may be used in day-to-day portfolio management. Fund investments are subject to further restrictions and risks described in the Statement of Additional Information.

Shareholder approval is required to substantively change fund objectives. Shareholder approval is also required to change certain investment restrictions noted in the following section as "fundamental policies." Portfolio managers also follow certain "operating policies" that can be changed without shareholder approval. Shareholders will receive at least 60 days' prior notice of a change in the policy requiring the fund to normally invest at least 80% of net assets in common stocks of non-U.S.

companies. Fund investment restrictions and policies apply at the time of purchase. A later change in circumstances will not require the sale of an investment if it was proper at the time it was made. (This exception does not apply to the fund's borrowing policy.)

Fund holdings of certain kinds of investments cannot exceed maximum percentages of total assets, which are set forth in this prospectus. For instance, fund investments in certain derivatives are limited to 10% of total assets. While these restrictions provide a useful level of detail about fund investments, investors should not view them as an accurate gauge of the potential risk of such investments. For example, in a given period, a 5% investment in derivatives could have significantly more of an impact on a fund's share price than its weighting in the portfolio. The net effect of a particular investment depends on its volatility and the size of its overall return in relation to the performance of all other fund investments.

Changes in fund holdings, fund performance, and the contribution of various investments are discussed in the shareholder reports sent to you by your insurance company.

- ***Fund managers have considerable discretion in choosing investment strategies and selecting securities they believe will help achieve fund objectives.***

### **Types of Portfolio Securities**

In seeking to meet its investment objective, fund investments may be made in any type of security or instrument (including certain potentially high-risk derivatives described in this section) whose investment characteristics are consistent with its investment program. The following pages describe various types of fund securities and investment management practices.

**Diversification** As a fundamental policy, the fund will not purchase a security if, as a result, with respect to 75% of its total assets, more than 5% of the fund's total assets would be invested in securities of a single issuer or more than 10% of the outstanding voting securities of the issuer would be held by the fund.

Fund investments are primarily in common stocks and, to a lesser degree, other types of securities as described below.

#### **Common and Preferred Stocks**

Stocks represent shares of ownership in a company. Generally, preferred stock has a specified dividend and ranks after bonds and before common stocks in its claim on income for dividend payments and on assets should the company be liquidated. After other claims are satisfied, common stockholders participate in company profits on a pro-rata basis; profits may be paid out in dividends or reinvested in the company to help it grow. Increases and decreases in earnings are usually reflected in a company's stock price, so common stocks generally have the greatest appreciation and depreciation potential of all corporate securities. While most preferred stocks pay a dividend, a fund may decide to purchase preferred stock where the issuer has omitted, or is in danger of omitting, payment of its dividend. The fund may purchase American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs), which are certificates evidencing ownership of shares of a foreign issuer. ADRs and GDRs trade on established markets and are alternatives to directly purchasing the underlying foreign securities in their local markets and currencies. Such investments are subject to many of the same risks associated with investing directly in foreign securities.

#### **Convertible Securities and Warrants**

Investments may be made in debt or preferred equity securities convertible into, or exchangeable for, equity securities. Traditionally, convertible securities have paid dividends or interest at rates higher than common stocks but lower than nonconvertible securities. They generally participate in the appreciation or depreciation of the underlying stock into which they are convertible, but to a lesser degree

than common stock. Some convertible securities combine higher or lower current income with options and other features. Warrants are options to buy, directly from the issuer, a stated number of shares of common stock at a specified price anytime during the life of the warrants (generally, two or more years). Warrants can be highly volatile, have no voting rights, and pay no dividends.

### **Fixed-Income Securities**

From time to time, the fund may invest in corporate and government fixed-income securities. These securities would be purchased in companies that meet fund investment criteria. The price of a fixed-income security fluctuates with changes in interest rates, generally rising when interest rates fall and falling when interest rates rise.

### **Hybrid Instruments**

These instruments (a type of potentially high-risk derivative) can combine the characteristics of securities, futures, and options. For example, the principal amount, redemption, or conversion terms of a security could be related to the market price of some commodity, currency, securities, or securities index. Such securities may or may not bear interest or pay dividends. Under certain conditions, the redemption value of a hybrid could be zero.

- ***Hybrids can have volatile prices and limited liquidity, and their use may not be successful.***

*Operating policy* Fund investments in hybrid instruments are limited to 10% of total assets.

### **Illiquid Securities**

Some fund holdings may be considered illiquid because they are subject to legal or contractual restrictions on resale or because they cannot be sold in the ordinary course of business at approximately the prices at which they are valued. The determination of liquidity involves a variety of factors. Illiquid securities may include private placements that are sold directly to a small number of investors, usually institutions. Unlike public offerings, such securities are not registered with the Securities and Exchange Commission (SEC). Although certain of these securities may be readily sold, for example under Rule 144A of the Securities Act of 1933, others may have resale restrictions and be illiquid. The sale of illiquid securities may involve substantial delays and additional costs, and the fund may only be able to sell such securities at prices substantially less than what the fund believes they are worth.

*Operating policy* Fund investments in illiquid securities are limited to 15% of net assets.

## **Types of Investment Management Practices**

### **Reserve Position**

A certain portion of fund assets will be held in reserves. Fund reserve positions can consist of: 1) shares of one or both of the T. Rowe Price internal money funds; 2) short-term, high-quality U.S. and foreign dollar-denominated money market securities, including repurchase agreements; and 3) U.S. dollar or non-U.S. dollar currencies. For temporary, defensive purposes, there is no limit on a fund's holdings in reserves. If a fund has significant holdings in reserves, it could compromise the fund's ability to achieve its objectives. The reserve position provides flexibility in meeting redemptions, paying expenses, and in the timing of new investments and can serve as a short-term defense during periods of unusual market volatility. Non-U.S. dollar reserves are subject to currency risk.

### **Borrowing Money and Transferring Assets**

The fund may borrow from banks and other T. Rowe Price funds for temporary emergency purposes to facilitate redemption requests, or for other purposes consistent with fund policies as set forth in this prospectus. Such borrowings may be collateralized with fund assets, subject to restrictions.

*Fundamental policy* Borrowings may not exceed 33 $\frac{1}{3}$ % of total assets.

*Operating policy* Fund transfers of portfolio securities as collateral will not be made except as necessary in connection with permissible borrowings or investments, and then such transfers may not exceed 33<sup>1</sup>/<sub>3</sub>% of total assets. Fund purchases of additional securities will not be made when borrowings exceed 5% of total assets.

#### **Foreign Currency Transactions**

The fund will normally conduct its foreign currency exchange transactions, if any, either on a spot (i.e., cash) basis at the spot rate prevailing in the foreign currency exchange market, or through entering into forward contracts to purchase or sell foreign currencies. The fund will generally not enter into a forward contract with a term greater than one year.

The fund will generally enter into forward foreign currency exchange contracts only under two circumstances. First, the fund may “lock in” the U.S. dollar price of the security when it enters into a contract for the purchase or sale of a security denominated in a foreign currency. Second, when T. Rowe Price International believes that the currency of a particular foreign country may move substantially against another currency, it may enter into a forward contract to sell or buy the former foreign currency (or another currency that acts as a proxy for that currency). The contract may approximate the value of some or all of the fund’s portfolio securities denominated in such foreign currency. Under unusual circumstances, the fund may commit a substantial portion or the entire value of its portfolio to the consummation of these contracts. T. Rowe Price International will consider the effect such a commitment to forward contracts would have on the fund’s investment program and the flexibility of the fund to purchase additional securities. Although forward contracts will be used primarily to protect the fund from adverse currency movements, they also involve the risk that anticipated currency movements will not be accurately predicted, and fund total return could be adversely affected as a result.

There are some markets where it is not possible to engage in effective foreign currency hedging. This is generally true, for example, for the currencies of various emerging markets where the foreign exchange markets are not sufficiently developed to permit hedging activity to take place.

#### **Futures and Options**

Futures, a type of potentially high-risk derivative, are often used to manage or hedge risk because they enable the investor to buy or sell an asset in the future at an agreed-upon price. Options, another type of potentially high-risk derivative, give the investor the right (when the investor purchases the option), or the obligation (when the investor “writes” or sells the option), to buy or sell an asset at a predetermined price in the future. Futures and options contracts may be bought or sold for any number of reasons, including: to manage exposure to changes in securities prices and foreign currencies; as an efficient means of increasing or decreasing a fund’s exposure to certain markets; in an effort to enhance income; to protect the value of portfolio securities; and to serve as a cash management tool. Call or put options may be purchased or sold on securities, futures, financial indices, and foreign currencies.

Futures contracts and options may not always be successful hedges; their prices can be highly volatile; using them could lower fund total return; and the potential loss from the use of futures can exceed a fund’s initial investment in such contracts.

*Operating policies* Initial margin deposits on futures and premiums on options used for non-hedging purposes will not exceed 5% of net asset value. The total market value of securities covering call or put options may not exceed 25% of total assets. No more than 5% of total assets will be committed to premiums when purchasing call or put options.

**Tax Consequences of Hedging**

Hedging may result in the application of the mark-to-market and straddle provisions of the Internal Revenue Code. These provisions could result in an increase (or decrease) in the amount of taxable dividends paid by the fund and could affect whether dividends paid are classified as capital gains or ordinary income.

**Lending of Portfolio Securities**

A fund may lend its securities to broker-dealers, other institutions, or other persons to earn additional income. Risks include the potential insolvency of the broker-dealer or other borrower that could result in delays in recovering securities and capital losses. Additionally, losses could result from the reinvestment of collateral received on loaned securities in investments that default or do not perform as expected.

*Fundamental policy* The value of loaned securities may not exceed 33<sup>1</sup>/<sub>3</sub>% of total assets.

**Portfolio Turnover**

Turnover is an indication of frequency of trading. The fund will not generally trade in securities for short-term profits, but, when circumstances warrant, securities may be purchased and sold without regard to the length of time held. Each time the fund purchases or sells a security, it incurs a cost. This cost is reflected in the fund's net asset value but not in its operating expenses. The higher the turnover rate, the higher the transaction costs and the greater the impact on the fund's total return. Higher turnover can also increase the possibility of taxable capital gain distributions. The fund's portfolio turnover rates are shown in the Financial Highlights table.

**Country Classifications**

For purposes of determining whether a particular country is considered a developed market or an emerging market, the fund uses the designation set forth by MSCI Barra, a prominent provider of investment tools and data services for institutions worldwide. For purposes of determining whether a fund invests at least 80% of its net assets in a particular country or geographic region, the fund uses a country assigned to a security by MSCI Barra or another unaffiliated third party data provider. The fund generally follows this same process with respect to the remaining 20% of assets but may occasionally make an exception after assessing various factors relating to a company.

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**DISCLOSURE OF FUND PORTFOLIO INFORMATION**

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The fund's portfolio holdings are disclosed on a regular basis in its semiannual and annual reports to shareholders and on Form N-Q, which is filed with the SEC within 60 days of the fund's first and third fiscal quarter-end. In addition, the fund discloses its calendar quarter-end portfolio holdings on [troweprice.com](http://troweprice.com) 15 calendar days after each quarter. Under certain conditions, up to 5% of the fund's holdings may be included in this portfolio list without being individually identified. Generally, securities would not be individually identified if they are being actively bought or sold and it is determined that the quarter-end disclosure of the holding could be harmful to the fund. A security will not be excluded for these purposes from a fund's quarter-end holdings disclosure for more than one year. The fund also discloses its largest 10 holdings on [troweprice.com](http://troweprice.com) on the seventh business day after each month-end. These holdings are listed in alphabetical order along with the aggregate percentage of the fund's total assets that they represent. The quarter-end portfolio will remain on the Web site for one year. Each monthly top 10 list will remain on the Web site for six months. A description of the fund's policy and procedures with respect to the disclosure of portfolio information is in the Statement of Additional Information.

## FINANCIAL HIGHLIGHTS

Table 3, which provides information about the fund's financial history, is based on a single share outstanding throughout the periods shown. The table is part of the fund's financial statements, which are included in its annual report and are incorporated by reference into the Statement of Additional Information (available upon request). The total returns in the table represent the rate that an investor would have earned or lost on an investment in the fund (assuming reinvestment of all dividends and distributions and no payment of account or [if applicable] redemption fees). The financial statements in the annual report were audited by the fund's independent registered public accounting firm, PricewaterhouseCoopers LLP.

**Table 3 Financial Highlights**

	<i>Year ended December 31</i>				
	<i>2004</i>	<i>2005*</i>	<i>2006*</i>	<i>2007*</i>	<i>2008*</i>
Net asset value, beginning of period	\$ 11.94	\$ 13.44	\$ 15.31	\$ 17.97	\$ 17.71
<b>Income From Investment Operations</b>					
Net investment income	0.14	0.19	0.18	0.26	0.26
Net gains or losses on securities (both realized and unrealized)	1.50	1.96	2.74	2.01	(8.88)
Total from investment operations	1.64	2.15	2.92	2.27	(8.62)
<b>Less Distributions</b>					
Dividends (from net investment income)	(0.14)	(0.23)	(0.20)	(0.28)	(0.29)
Distributions (from capital gains)	—	(0.05)	(0.06)	(2.25)	(0.56)
Returns of capital	—	—	—	—	—
Total distributions	(0.14)	(0.28)	(0.26)	(2.53)	(0.85)
<b>Net asset value, end of period</b>	<b>\$ 13.44</b>	<b>\$ 15.31</b>	<b>\$ 17.97</b>	<b>\$ 17.71</b>	<b>\$ 8.24</b>
<b>Total return</b>	<b>13.77%</b>	<b>16.03%</b>	<b>19.09%</b>	<b>13.03%</b>	<b>(48.70)%</b>
<b>Ratios/Supplemental Data</b>					
Net assets, end of period (in thousands)	\$518,106	\$467,533	\$508,167	\$483,184	\$202,480
Ratio of expenses to average net assets	1.05%	1.05%	1.05%	1.05%	1.05%
Ratio of net income to average net assets	1.11%	1.41%	1.13%	1.34%	1.83%
Portfolio turnover rate	30.4%	71.3%	62.7%	73.4%	60.4%

\* Per share amounts calculated using average shares outstanding method.

A Statement of Additional Information for the T. Rowe Price family of funds has been filed with the Securities and Exchange Commission and is incorporated by reference into this prospectus. Further information about fund investments, including a review of market conditions and the manager's recent strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain a free copy of a fund report or Statement of Additional Information, or for inquiries, contact your insurance company. The Statement of Additional Information and updated performance information are available through [troweprice.com](http://troweprice.com).

Fund information and Statements of Additional Information are also available from the Public Reference Room of the Securities and Exchange Commission. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-202-942-8090. Fund reports and other fund information are available on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. Copies of this information may be obtained, after paying a duplicating fee, by electronic request at [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the Public Reference Room, Washington D.C. 20549-0102.

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