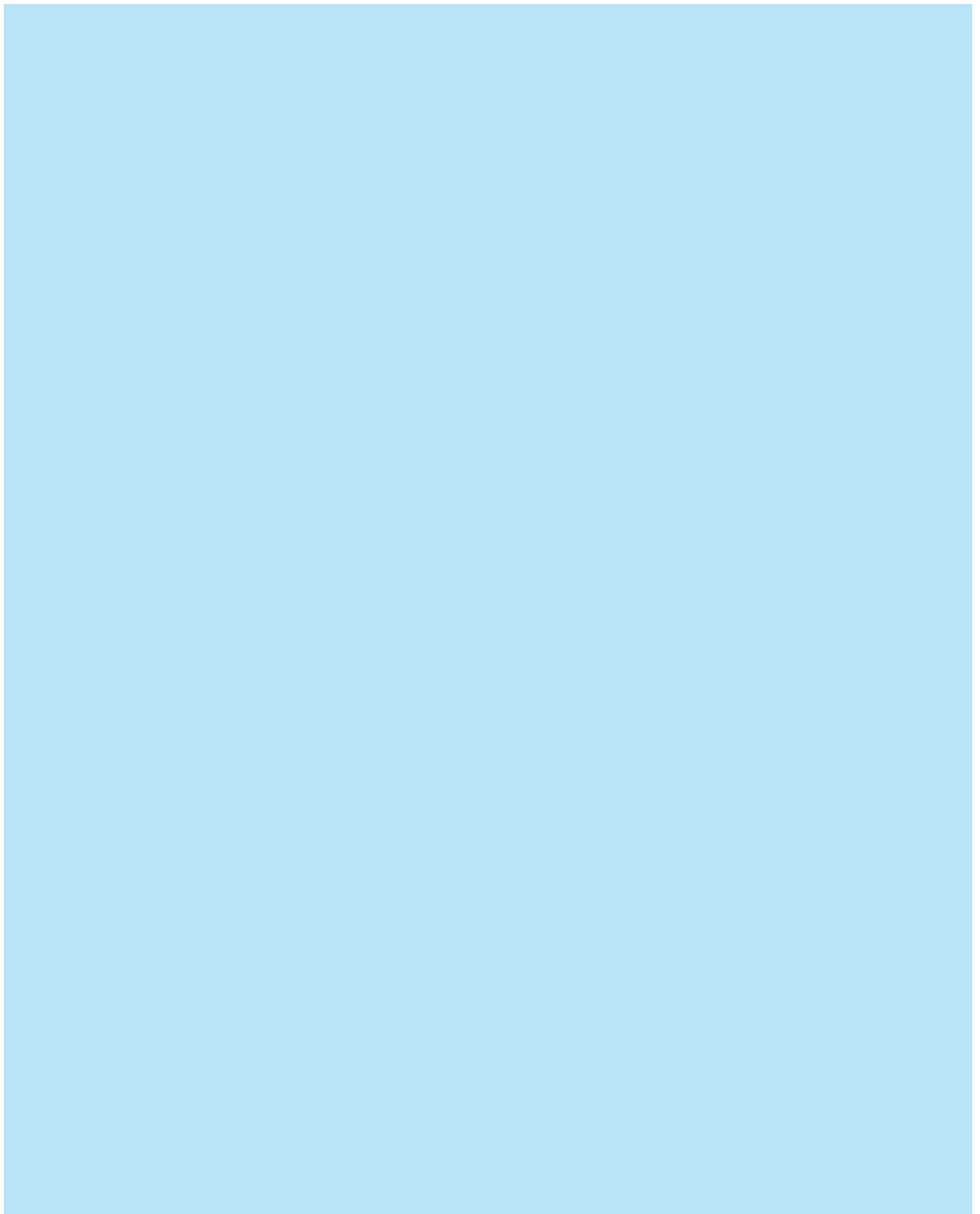


Shaping investor confidence





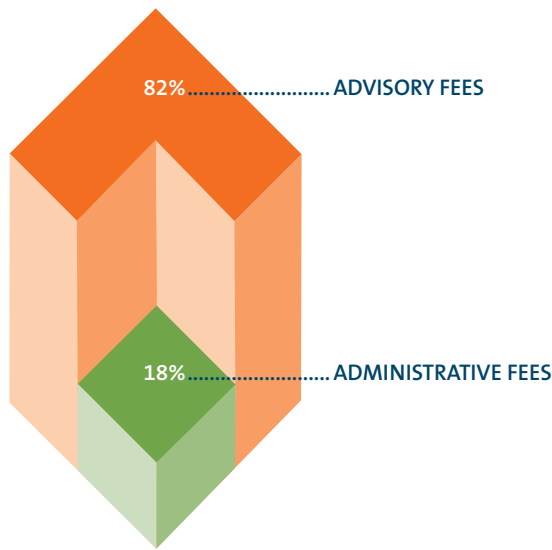
T. Rowe Price is committed to creating success for our clients through investment management excellence supported by world-class service and guidance. We have pursued our commitment with a culture built upon collaboration, discipline, accountability, and perspective that has sustained our firm through nearly 70 years of changing market conditions and evolving client needs.

LETTER to our stockholders

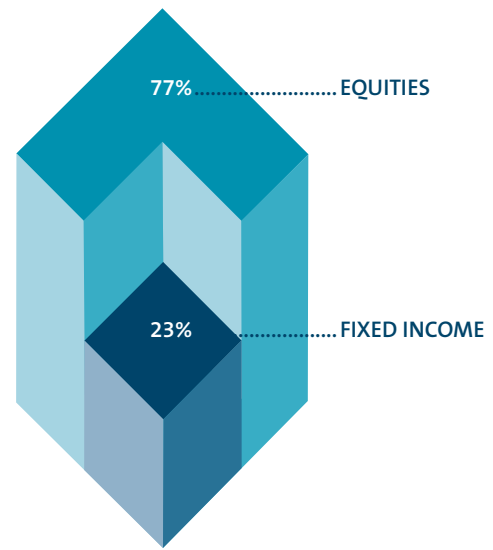
DEAR STOCKHOLDER: T. Rowe Price Group completed another very successful year in 2005, despite choppy financial markets that faced significant headwinds in rising short-term interest rates, devastating natural disasters, high energy and other commodity prices, and ongoing geopolitical instability. Our company showed steady growth throughout the year, with good cash flows from all business channels combining with modest investment returns to generate record assets under management, revenues, earnings, and stockholders' equity. In

December, the Directors increased the quarterly dividend on our common stock by 22%, maintaining a record of consecutive annual increases since the company became publicly owned in 1986. ■ Our competitive position and reputation within the industry continue to be outstanding thanks to the efforts of all our associates, the level of service we provide, and the solid performance of the mutual funds and investment portfolios that we manage. Despite the narrowly focused and generally lackluster market environment, 70% of our funds surpassed their Lipper average for the one-year period ended December 31, 2005, 75% for the three-year period, and 80% and 73% for the 5- and 10-year periods, respectively. In addition, 59% of our rated mutual funds ended the year with an overall rating of four or five stars from Morningstar, compared with 32.5% for the overall industry. ■ **FINANCIAL HIGHLIGHTS** Net income for 2005 was \$431 million and diluted earnings per share was \$3.15. These two records compare with \$337 million and \$2.51, respectively, in 2004. Investment advisory revenues rose 20%, or \$207 million, in 2005 versus 2004 on increased assets under management due to market appreciation and positive cash inflows. The \$269.5 billion of assets under management as of December 31, 2005, included \$170.2 billion in the T. Rowe Price mutual funds distributed in the United States and \$99.3 billion in other managed investment portfolios consisting of institutional separate accounts, sub-advised funds, sponsored mutual funds that are offered to non-U.S. investors, and variable annuity portfolios. Average mutual fund assets under management were \$156 billion, up \$28 billion, or 22%, from the average for 2004. Average assets in other managed portfolios were \$91 billion in 2005, up \$12 billion from the previous year. ■ Operating expenses increased \$105 million, or 14%, from the previous year to \$857 million. Increases in compensation and related employment costs, in advertising and promotion costs, and in other operating expenses were the primary reasons for the increase. At year-end, the firm employed 4,372 associates, up 6% since the beginning of 2005 to accommodate increased volume-related

business demands across the firm. *For further financial details, please consult Management's Discussion and Analysis starting on page 16 of this report.* ■ **MARKET ENVIRONMENT AND ASSET FLOWS** U.S. stocks produced a third consecutive year of positive returns in 2005, but gains were modest compared with the prior two years as the S&P 500 Stock Index returned 4.9% (including dividends) following gains of 28.7% and 10.9% in 2003 and 2004, respectively. Equities sagged through April as investors worried about inflation and rising short-term interest rates. The Federal Reserve raised the federal funds target rate in eight quarter-point increments—from 2.25% to 4.25%, a level not seen in four years. Despite soaring energy costs—oil reached \$70 per barrel after Hurricane Katrina severely disrupted energy production along the Gulf Coast—stocks gradually worked their way higher as the year progressed, supported by firm economic and corporate earnings growth and merger activity. Non-U.S. stocks outperformed domestic stocks in 2005, even though a stronger U.S. dollar eroded returns to U.S. investors. ■ U.S. bonds trailed domestic stocks in 2005. Returns were modestly positive, as falling bond prices partially offset income. Short-term interest rates rose in tandem with the fed funds rate, but intermediate-term rates rose to a lesser extent, and long-term rates were fairly steady. As a result, the difference between short- and long-term rates narrowed significantly. In fact, as the year drew to a close, 10-year Treasury yields slipped below shorter-term yields and ended the year slightly below the two-year yield. This happens rarely because investors usually expect to be compensated with higher yields for their longer-term risk, and this “inversion” sometimes precedes a period of slower economic growth. For the year, long-term Treasury bonds performed best, while municipal, high-yield, and mortgage-backed securities produced smaller gains. Investment-grade corporate bonds lagged, as did short- and intermediate-term issues in general. The Lehman Brothers U.S. Aggregate Index, which measures the performance of domestic investment-grade taxable bonds, returned 2.4%. ■ Even with the lackluster market environment, our funds and portfolios achieved net cash inflows of \$16.1 billion for the year, with \$12.5 billion added to the mutual funds and \$3.6 billion to our other managed investment portfolios. The \$34.3 billion increase in assets under management also included net market appreciation and income of \$18.2 billion. ■ Net cash inflows were spread among the funds, with the U.S. stock funds adding \$9.7 billion, the international stock funds adding \$2.1 billion, and the bond and money market funds adding \$0.7 billion. The Growth Stock Fund led all funds with \$3.2 billion of net inflows for the year. The Capital Appreciation, Equity Income, New Era, and Value Funds rounded out the top five funds, each adding more than \$800 million of net inflows



Sources of Net Revenues 2005



Assets Under Management 2005

during the year and together accounting for \$5.0 billion of the net inflows to the funds in 2005. Cash inflows during 2005 also included nearly \$400 million resulting from the July merger of the TD Waterhouse Index Funds into four of the T. Rowe Price index funds. ■ In addition, our series of target-date Retirement Funds—which are designed to provide shareholders with single, diversified portfolios that invest in underlying T. Rowe Price funds and automatically shift asset allocations between funds as the investor ages—continue to be a significant part of our asset growth. Our growth in mutual fund assets under management included net inflows originating in the Retirement Funds of \$4.3 billion for 2005. Total assets in the Retirement Funds reached \$8.4 billion at the end of December, an increase of \$4.8 billion over the course of 2005. ■ **MANAGEMENT TRANSITION** In October, Vice Chairman James Riepe announced his retirement from the firm at the end of 2005. Jim has been a prominent leader in our firm and our industry over the past 24 years and has made substantial contributions to the firm’s growth and stature, both nationally and globally. A 36-year veteran of the mutual fund industry, Jim has been one of its most visible and prominent leaders. He recently completed his second term as chairman of the Board of Governors of the Investment Company Institute, the national trade association for the mutual fund industry, and has served for 19 years on its Executive Committee. He was a member of the Board of Governors of the NASD and former chairman of its Investment Companies Committee. During his tenure at T. Rowe Price, the firm expanded its distribution efforts to institutions, individuals, financial intermediaries, and, more recently, institutions and intermediaries based outside the U.S. His leadership will be missed, but he has built an extremely capable and experienced team that is well prepared to develop and execute our business strategies. We thank him for his service to the firm and wish him well in his future endeavors. ■ Jim’s retirement is part of a planned management transition, and his responsibilities have been handed on to Edward C. Bernard. Ed has worked directly with Jim since

joining the firm in 1988, with oversight of T. Rowe Price's distribution activities for individual investors and financial intermediaries, as well as all corporate marketing and communications functions. He has been involved in a wide range of the firm's distribution and servicing activities during his tenure, and is actively involved in oversight of the firm's mutual funds. He has served on the firm's Board of Directors since 1999 and the Management Committee since 2000. ■ **SUMMARY AND OUTLOOK** We are optimistic heading into 2006 and believe the financial markets can make moderate progress. The market ended the year on a weak note, largely because investors grew concerned that narrowing bond yields were signaling that economic growth could slow in 2006. The Federal Reserve appears to be nearing the end of its rate hike cycle, however, and the economy remains fundamentally sound, with inflation contained and growth at sustainable levels. The price of oil continues to fluctuate widely but has moderated from its high following last year's natural disasters, which should help keep inflation under control. And we all hope that the geopolitical uncertainties that have weighed on the markets will ease. ■ Over the short term the financial markets heavily influence our results. However, over the long term our results will be determined by how we perform for our clients. We continue to pursue an ongoing expansion of our business, making significant investments in facilities and equipment by completing our disaster recovery center, expanding our technology center, and beginning the renovation of our leased corporate offices in downtown Baltimore. We also believe it is critically important to attract and retain the best people, and we are investing in hiring and retaining dedicated and talented associates. Additionally, our strong capital position gives us considerable flexibility to meet the challenges ahead. Most of all, we remain committed to the disciplined culture, focused on our clients' interests, that has guided the company since its founding by Thomas Rowe Price, Jr. We believe this heritage helps drive our investment management excellence and world-class service and positions T. Rowe Price to be a successful participant in the long-term growth of our industry.

Sincerely,



George A. Roche
Chairman and President
February 16, 2006



Collaboration

Leveraging the wisdom of many

The business of investing is complex, uncertain, and competitive—as much for T. Rowe Price as for our clients. Success in this industry requires talent and experience in every phase of operations. Historically, T. Rowe Price has found that the special demands of this industry draw people who operate best in respectful environments that allow them to focus on their best skills. This is why collaboration is central to T. Rowe Price’s culture.

T. Rowe Price believes that, regardless of how talented any individual is, no one person has the breadth of knowledge needed to manage this business’s challenges successfully over long periods of time. However, when working in concert, talented, experienced people bring insight and focus to our business and ensure a measured response to the inevitable surprises.

Teamwork pervades the entire organization, starting at the top. For over 20 years, T. Rowe Price has been managed not by a single individual, but by a Management Committee, a group of senior leaders who set strategic direction and policy.

The Management Committee is composed of some of the firm’s most experienced and accomplished associates. However, its members have long recognized that the most valuable insights into business challenges usually come from those associates who are closest to the markets, the portfolios, or the firm’s clients. For that reason, the Management Committee seeks talented associates with a drive for excellence throughout the organization to act as crucial resources in business decisions.

This approach to teamwork and decision-making filters throughout the firm and is evident in all operational areas. In the investment management area, for example, investment professionals are rewarded not only for their individual performance, but also for their effectiveness in sharing ideas and promoting good results across the firm.

We ultimately think that consistent, superior quality—across all business areas and for all clients—is the hallmark of a strong organization. The shared wisdom that results from the collaboration of experienced professionals is the preeminent tool we use to achieve this goal.

The Team Concept at Work: *The Management Committee (through 2005)*

	Date of Hire	Years With T. Rowe Price
George A. Roche	1/22/1968	37
James A.C. Kennedy	8/14/1978	27
David J.L. Warren	6/1/1981	24
James S. Riepe	12/30/1981	24
Brian C. Rogers	6/28/1982	23
Mary J. Miller	4/27/1983	22
Edward C. Bernard	3/7/1988	17



Discipline

Embracing changing markets with a consistent approach

Whether managing money or serving our clients and investors, T. Rowe Price adheres to disciplines we believe can result in consistent accomplishment over the long haul.

Discipline is critical to the firm's investment management approach. Investment styles routinely cycle in and out of favor, and it can be tempting to chase the market's best performers—often just before they fall back to earth. That approach has a history of leading to disappointing outcomes for investors.

Over nearly 70 years of investing, T. Rowe Price has come to believe that investors are better served by time-tested strategies. These include adhering to sound fundamentals, managing risk effectively, paying reasonable prices for securities, and staying true to style regardless of short-term fluctuations. The investment divisions have Steering Committees that oversee all portfolios and assess the quality of their investment practices against these standards. For this reason, discipline underscores all T. Rowe Price portfolios.

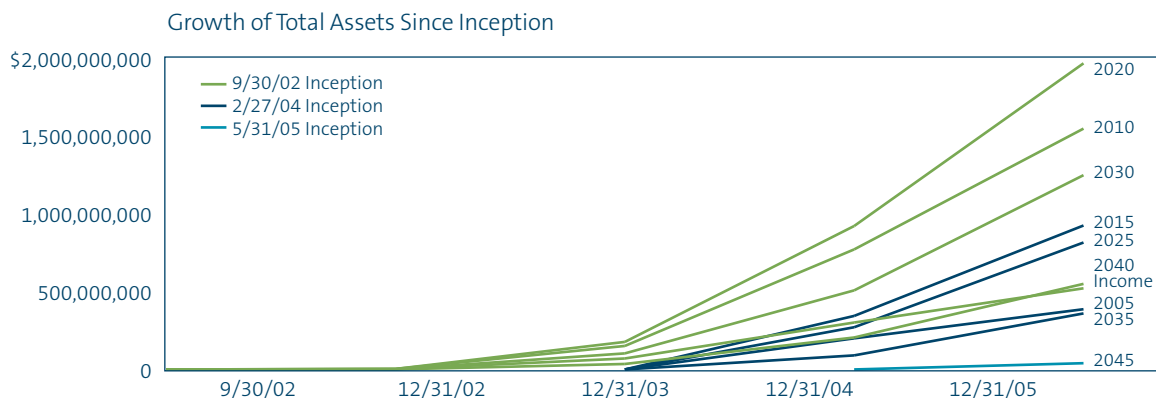
Discipline is also evident in the firm's business strategy. As a relatively low-cost provider of investment management services, we have no choice but to exercise prudence and careful oversight in our financial decisions. But we have also learned that, over time, client needs change and must be met with a continuous effort to innovate and improve service.

In recent years, for example, the firm has invested significantly in an enhanced infrastructure to support client needs in the growing intermediary and global institutional businesses. Yet the firm as a whole has maintained a more moderate pace of expense growth by controlling costs in other areas and carefully assessing the impact of its expenditures.

In an environment of rapid change, discipline can help investors make better choices. T. Rowe Price believes that our disciplined approach has helped us recognize and avoid the kinds of short-term fads or inappropriate business practices that can ultimately harm client interests.

The Retirement Funds: *Innovation in Action*

T. Rowe Price constantly endeavors to enhance the value we create for clients. Example: the Retirement Funds. These portfolios radically simplify retirement planning by targeting specific retirement dates. We analyzed historical market behavior and actual investment outcomes to determine what portfolio combinations might work best. If the growth of total assets of these funds is any indication, investors find value in innovations that better meet their needs.





Accountability

Maintaining standards that earn client trust

Teamwork has many advantages, but its benefits depend upon individuals taking ownership of results. In a performance-oriented business, accountability is crucial to long-term success.

Nowhere is accountability more necessary than in the investment management process. And so the firm has developed a unique approach to managing money that creates accountability through a combination of teamwork and strong leadership.

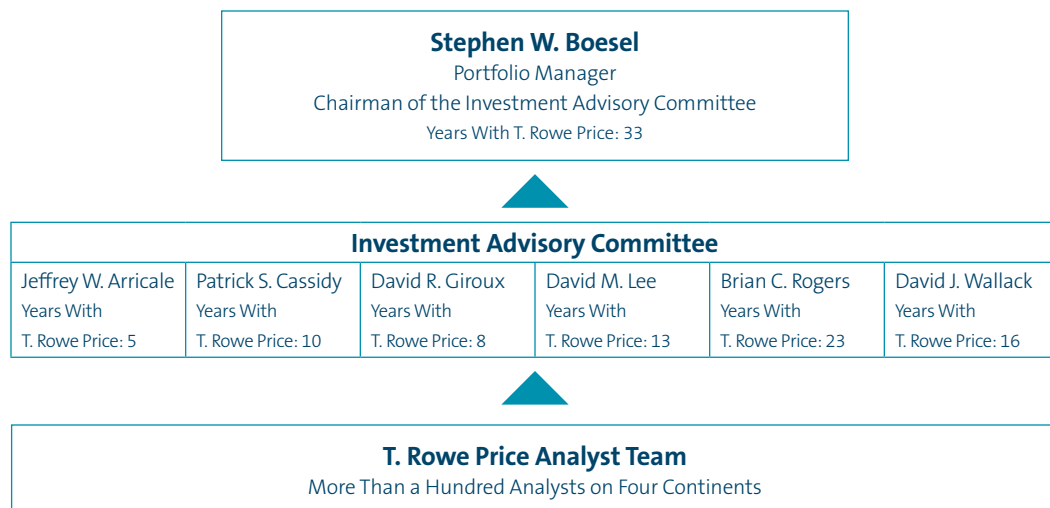
Each investment strategy, portfolio, and fund has an advisory committee—a group of investment staff that has special knowledge, skills, and experience relevant to the particular strategy. It also has a clearly identified leader or leadership team that is ultimately responsible for results. The identified portfolio manager or managers chair the committee and take responsibility for all final decisions.

Collaboration meets responsibility in the firm's client service environment as well. The everyday demands of client service require large teams with a broad variety of skills. However, T. Rowe Price empowers experienced individuals with direct accountability for the client relationship. These leaders rely on insight from their teams, as well as objective feedback from outside research firms, to reach for higher standards than our competitors. Throughout the company, individual effort is also extensively measured and strong performers are identified and rewarded.

At T. Rowe Price, accountability means stretching beyond the confines of your role to take personal responsibility for helping clients achieve success. By acting as clients would want us to act—ethically, effectively, and proactively—we aim to build solid relationships with our clients that persist.

Teamwork Meets Accountability: *Management of the T. Rowe Price Capital Appreciation Fund*

The multilayered structure used by the Capital Appreciation Fund—and all the firm's funds—has helped keep its strategy intact as individual managers have changed. The fund's record reflects this consistency: it is the only U.S. equity fund to record positive calendar year returns for each of the past 15 years ended 12/31/05, despite having multiple managers. When Stephen Boesel retires in June 2006, Jeffrey Arricale and David Giroux, long-time members of the Investment Advisory Committee, will take over.





Perspective

Informed by the past and focused on investors' long-term interests

The day-to-day information flow in investment markets is dominated by issues and events that are short term in nature. Yet our clients' investment goals are predominantly long term in nature and achieving them requires a long-term perspective—regarding both the past and the future.

T. Rowe Price's culture is rooted in the lessons of history. With an average of 18 years of investment experience—among the longest in our industry—the firm's portfolio managers have seen firsthand how short-term trends may eventually break down and harm investor interests. Leaders with experience and strong track records are evident in all areas of the business. These individuals carry forward business practices that can stand up to the challenges of continuously changing markets.

While always informed by the past, the firm never forgets that its clients' financial needs and goals stretch far into the future. Our decisions as a company—be they investment oriented, service oriented, or business oriented—must contribute to our ability to create value for clients over the very long term.

This perspective helps simplify decisions such as when to close a specific investment strategy to new investors. Any investment management company wants to grow assets under management. But history indicates that some investment strategies cannot maintain good performance when assets under management pass a certain size or when the pace of new investment flows is too high. Electing to close those strategies improves the odds that existing clients will enjoy excellent long-term results and helps create lasting relationships that benefit both the clients and the company.

Over the long term, it's not strictly an investment company's abilities that make a difference for investors, but how a company conducts itself. T. Rowe Price's culture of collaboration, accountability, discipline, and perspective is more than just a good way to do business. We believe it's the best way to meet our obligations to clients. And it fosters a sense of confidence—for our business, our associates, and our clients.

T. Rowe Price Fund Performance: *Five Years Ended December 31, 2005*

	Total Funds	Number Outperforming Lipper Average	Percentage Outperforming Lipper Average
U.S. Equity	43	33	77%
International Equity	15	11	73
Total Equity	58	44	76%
Money Market (Taxable and Tax-Free)	7	7	100%
Taxable U.S. Income	11	10	91
International Income	3	1	33
Tax-Free U.S. Income	14	12	86
Total Fixed Income	35	30	86%
Total Funds	93	74	80%

Note: Blended asset funds are included with U.S. equity.
Data sources: T. Rowe Price, Lipper Inc.

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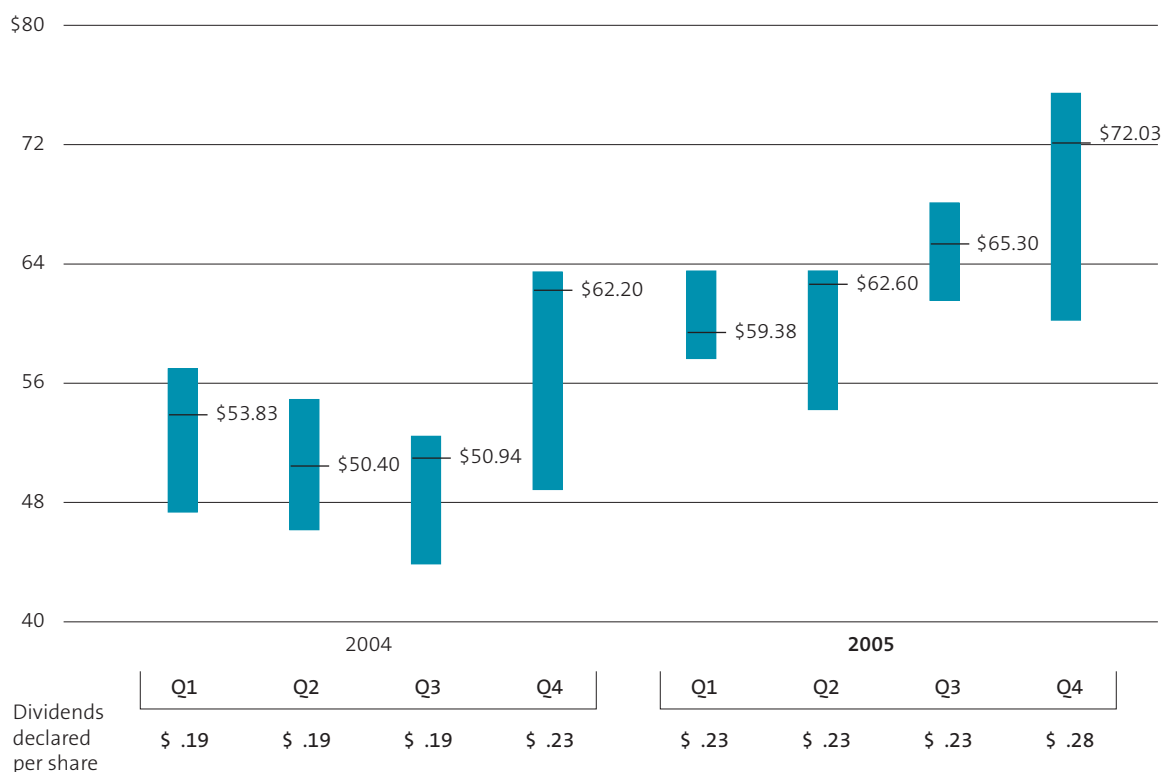
Selected Consolidated Financial Data

(in millions, except per-share data)

	2001	2002	2003	2004	2005
Net revenues	\$ 995	\$ 924	\$ 996	\$ 1,277	\$ 1,512
Net operating income	\$ 311	\$ 321	\$ 365	\$ 525	\$ 655
Net income	\$ 196	\$ 194	\$ 227	\$ 337	\$ 431
Net cash provided by operating activities	\$ 290	\$ 269	\$ 297	\$ 374	\$ 539
Basic earnings per share	\$ 1.59	\$ 1.58	\$ 1.84	\$ 2.65	\$ 3.31
Diluted earnings per share	\$ 1.52	\$ 1.52	\$ 1.77	\$ 2.51	\$ 3.15
Cash dividends declared per share	\$.61	\$.65	\$.70	\$.80	\$.97
Weighted average shares outstanding	123.1	122.9	123.4	127.4	130.3
Weighted average shares outstanding - assuming dilution	129.0	127.7	128.3	134.1	136.6
Balance sheet data at December 31:					
Total assets	\$ 1,313	\$ 1,370	\$ 1,547	\$ 1,929	\$ 2,311
Debt	\$ 104	\$ 56	\$ —	\$ —	\$ —
Stockholders' equity	\$ 1,078	\$ 1,134	\$ 1,329	\$ 1,697	\$ 2,036
Assets under management at					
December 31 (in billions)	\$ 156.3	\$ 140.6	\$ 190.0	\$ 235.2	\$ 269.5

Common Stock

Stock Prices: Quarterly Ranges With Closing Price Indicated



The common stock of T. Rowe Price Group trades on The Nasdaq Stock Market® under the symbol TROW.

Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL.

Our revenues and net income are derived primarily from investment advisory services provided to U.S. individual and institutional investors in our sponsored mutual funds and other managed investment portfolios. Investment advisory clients outside the United States account for 5% of our assets under management at December 31, 2005.

We manage a broad range of U.S. and international stock, bond, and money market mutual funds and other investment portfolios which meet the varied needs and objectives of individual and institutional investors. Investment advisory revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management impact our revenues and results of operations.

Financial market results in the United States during 2005 were mixed with the three major stock market indexes falling below end of 2004 levels for much of the year. There were periods of strength, however, as all three indexes reached four-year highs before falling back late in the year. Investor concerns about rising interest rates and record high fuel prices were compounded by the hurricane damage to the Gulf Coast region of the United States. Military action, terrorism, and the uncertainties surrounding the strength of the U.S. economy also continued to weigh on the financial markets. The S&P 500 closed 2005 with the best performance among the indexes, posting a modest 3% return for the year. The NASDAQ index, which is heavily weighted with technology companies, ended the year up only 1.4% while the Dow Jones Industrials closed down .6% for the year.

Foreign equity markets were stronger in 2005, with the Dow Jones Latin America, Asia/Pacific, and Europe Indexes all outperforming their U.S. counterparts. Lower global interest rates, higher corporate profits, and stronger economic conditions, including those in emerging markets, broadly presented favorable conditions for the financial markets outside the United States.

As for fixed income securities, yields for 10-year U.S. Treasuries rose only 4% to close 2005 at 4.39%. By year-end, the yield curve had inverted with short-term rates exceeding long-term rates and investors worried about the possibility of a pending economic downturn. The Federal Reserve continued its series of .25% increases in 2005, pushing the target short-term rate up 200 basis points over the course of the year to 4.25%. As 2006 began, the Federal Reserve signaled that its series of tightening moves was slowing and nearing an end.

Despite this less than robust financial environment in 2005, total assets under our management ended 2005 at a record \$269.5 billion, up \$34.3 billion during the year. Strong relative investment performance and brand awareness contributed significantly to investors entrusting \$16.1 billion of net cash inflows to our management in 2005, down from the \$20.7 billion record net cash inflows in 2004. Higher market valuations and income increased assets under our management by \$18.2 billion during 2005.

Assets under management at December 31, 2005, include \$208.3 billion in equity securities and \$61.2 billion in bond and money market holdings. The underlying investment portfolios consist of \$170.2 billion in the T. Rowe Price mutual funds distributed in the United States and \$99.3 billion in other investment portfolios that we manage, including separately managed accounts, sub-advised funds, and other sponsored investment funds offered to investors outside the U.S. and through variable annuity life insurance plans.

In an improving market environment for 2006, we would expect to increase our expenditures to attract new investment advisory clients and additional investments from our existing clients. These efforts may involve significant costs that precede the recognition of any future revenues that we may realize from increases to our assets under management.

RESULTS OF OPERATIONS.

2005 versus 2004. Investment advisory revenues were up 20%, or nearly \$207 million, to more than \$1.2 billion due to the \$40.2 billion increase in average assets under management. Net revenues increased \$235 million to \$1.5 billion. Net operating income increased nearly 25% to \$655 million from \$525 million. Net income increased nearly \$94 million to almost \$431 million, up 28% from \$337 million. Diluted earnings per share increased 25.5% from \$2.51 to \$3.15.

Investment advisory revenues earned from the T. Rowe Price mutual funds distributed in the United States increased \$164.2 million to \$900 million. Average mutual fund assets were \$156.2 billion during 2005, \$28.1 billion, or 22%, higher than the \$128.1 billion average during 2004. Mutual fund assets ended 2005 at \$170.2 billion, up \$24.7 billion during the year. Additions to the U.S. mutual funds from the financial intermediary, individual direct and defined contribution retirement plan channels were \$12.5 billion, basically unchanged from our 2004 experience when \$12.7 billion was added to the funds. Investors added \$9.7 billion into the U.S. stock funds, \$2.1 billion into our international stock funds, and \$.7 billion into our bond and money market funds. The Growth Stock, Capital Appreciation and Equity Income funds each added more than \$1 billion of net investor inflows and, together, accounted for \$6.5 billion of the funds' net

inflows. Cash inflows during 2005 also included nearly \$400 million resulting from the merger of the TD Waterhouse Index Funds into four of the T. Rowe Price index funds. Higher market valuations and income, net of dividends not reinvested, added \$12.2 billion to fund assets in 2005.

Investment advisory revenues earned on the other investment portfolios that we manage increased \$42.4 million to \$335 million. Average assets in these portfolios were \$90.9 billion, up \$12.1 billion, or 15%, from \$78.8 billion in 2004. Ending assets in these portfolios were \$99.3 billion, up \$9.6 billion from the beginning of 2005. Market gains and income added \$6.0 billion while net investor inflows were \$3.6 billion, down from \$8.0 billion in 2004. Net inflows from subadvised and separate account clients investing in U.S. securities more than offset the net outflows from investors in some of our international investment portfolios.

Administrative fees and other income increased \$28.3 million to \$276 million. The change in these revenues includes \$23.9 million from our servicing activities including shareholder account and transaction volume in our transfer agent and defined contribution plan recordkeeping services for the mutual funds and their investors. Additionally, revenues increased \$4.4 million from 12b-1 distribution fees received on greater assets under management in the Advisor and R classes of our sponsored mutual fund shares. These changes in administrative fees are generally offset by similar changes in related operating expenses that we incur to provide these services and distribute the Advisor and R classes of mutual fund shares through third party financial intermediaries.

Operating expenses in 2005 were \$105.4 million more than in 2004. Our largest expense, compensation and related costs, increased \$64.5 million, or 14%, from 2004. The number of our associates, their total compensation, and the costs of their employee benefits have all increased. Our bonus compensation is based on our operating results for the year, which for 2005 reflect our strong relative and risk-adjusted investment performance, continued growth in assets under management including new investment inflows, and sustained high-quality investor services. Base salaries for our associates are increased modestly at the beginning of each year, and we increased our average staff size 7% versus 2004, primarily to handle increased volume-related activities and growth. At December 31, 2005, we employed 4,372 associates, up 3% from the 2005 average staffing level.

Advertising and promotion expenditures were up 16% or \$11.9 million versus 2004. We expect our advertising and promotion expenditures in the first quarter of 2006 will be up about \$3 million versus the comparable 2005 first quarter. While market conditions will dictate the exact level of our spending, we expect that our advertising and promotion expenditures for 2006 will be 5% to 10% higher than in 2005. We vary our level of spending based on market conditions and investor demand as well as our efforts to expand our investor base in the United States and abroad.

Occupancy and facility costs together with depreciation expense increased more than \$10.2 million. Our costs for rented office facilities, including increased space, and related maintenance and operating costs have increased along with our staff size and business needs. Longer-lived buildings and non-depreciable land account for nearly two-thirds of the net book value of our property and equipment at December 31, 2005.

Other operating expenses increased \$18.8 million, including \$4.4 million of distribution expenses recognized on greater assets under management sourced from financial intermediaries who distribute our Advisor and R classes of mutual fund shares. These distribution costs are offset by an equal increase in our administrative revenues recognized from 12b-1 fees as discussed above. The cost of information services increased \$7.3 million from 2004, primarily because of our decision to pay for non-broker-dealer third-party investment research and related services beginning in 2005. We previously made modest use of fully permissible payments by brokers to obtain these services. Other operating expenses also rose in 2005 to include a \$2 million increase in charitable contributions to our corporate foundation and to meet increased business demands.

Our net non-operating income, which includes the recognition of investment gains and losses as well as interest income and credit facility expenses, increased \$15.9 million to \$24.4 million. Larger money market and other mutual fund investment balances along with higher interest rates added \$12.2 million to our investment income. Other net investment gains added \$3.1 million, including \$1.8 million realized as a result of the third-party acquisition of an entity in which we had invested. Credit facility costs were down \$6 million as we reduced the size and ongoing cost of our credit facility in mid-2004.

The 2005 provision for income taxes as a percentage of pretax income is 36.6%, down from 36.8% in 2004 due largely to the \$1.4 million reversal of the valuation allowance for foreign net operating loss carryforwards that is discussed in Note 3 to the financial statements. We currently expect our effective tax rate to rise to 37.2% in 2006 with the adoption of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R).

2004 versus 2003. Both net revenues and total revenues increased more than \$281 million to nearly \$1.3 billion. Net operating income increased \$160 million to \$525 million from \$365 million. Net income increased about \$110 million to \$337 million, up more than 48% from \$227.5 million in 2003. Diluted earnings per share increased nearly 42% from \$1.77 to \$2.51.

Investment advisory revenues were up 32% or \$251 million in 2004 compared to 2003. Increased assets under management drove the change as average mutual fund assets were more than \$128 billion, almost \$29 billion higher than the \$99.4 billion average in 2003. Average assets in other managed portfolios were almost \$79 billion in 2004, up more than \$18 billion versus the average of \$60.5 billion in 2003. Total average assets under management increased \$47.0 billion during 2004 to end the year at nearly \$207 billion.

Investment advisory revenues earned from the T. Rowe Price mutual funds distributed in the United States increased \$178 million. Mutual fund assets ended 2004 at \$145.5 billion, up \$28 billion from the beginning of the year. Market appreciation and income, net of dividends paid and not reinvested, added \$15.3 billion to mutual fund assets during 2004 and net investor inflows added another \$12.7 billion. Net cash flows during 2004 were supported broadly by the financial intermediary, individual direct, and defined contribution retirement plan channels, and were concentrated in the U.S. domestic stock mutual funds. The Mid-Cap Value, Equity Income, Growth Stock, Capital Appreciation, and Mid-Cap Growth funds each added more than \$1 billion of net investor inflows and, together, accounted for \$9.5 billion of the funds' net inflows in 2004. Bond and money market funds added \$1 billion of net investor flows while the international stock funds had net outflows of less than \$500 million.

Investment advisory revenues earned on the other investment portfolios that we manage increased more than \$73 million to almost \$293 million in 2004. Ending assets in these portfolios were \$89.7 billion, up \$17.2 billion since the beginning of the year. Net inflows to these portfolios were \$8 billion while market appreciation and income added \$9.2 billion in 2004. Investment activity through financial intermediaries in the United States, Japan and Europe, and new institutional investors, including assignments from Europe and Australia, were responsible for these new investment dollars.

Administrative fees and other income increased \$30 million during 2004 to nearly \$248 million. The change in these revenues includes \$20 million from our mutual fund transfer agent services, including our defined contribution plan recordkeeping service. Additionally, revenues increased \$7.5 million from 12b-1 distribution fees received on greater assets under management in the Advisor and R classes of our sponsored mutual fund shares.

Operating expenses in 2004 were \$121 million more than in the prior year. Our largest expense, compensation and related costs, increased 20% or \$75 million from 2003. The number of our associates, their compensation, and the costs of their employee benefits have all increased. Our 2004 bonus program was higher than the prior year based on our better operating results and the strong relative investment performance that our investment managers achieved. Base salaries for our associates were increased modestly on January 1, and we added more than 350 associates during 2004, primarily to handle volume-related activities and business growth. At December 31, 2004, we employed 4,139 associates.

Advertising and promotion expenditures during 2004 were up \$15 million compared to 2003. We vary our promotional spending based on market conditions and investor demand as well as our efforts to expand our investor base in the United States and abroad.

Depreciation and amortization expense decreased \$5 million in 2004, offsetting the increase of \$3.9 million in other occupancy and facility costs. Longer-lived buildings and non-depreciable land account for two-thirds of the net book value of our property and equipment at December 31, 2004. Costs of rented facilities and related operating costs were higher in 2004.

Other operating expenses in 2004 increased \$32.4 million, including \$7.5 million paid based on greater assets under management that are sourced through financial intermediaries that distribute our Advisor and R classes of mutual fund shares. These costs are funded from an equal increase in our administrative revenues recognized from 12b-1 fees as discussed above. For 2004, we increased our charitable contribution to our corporate foundation by \$6 million. Other operating expenses this year have risen to meet increased business demands. They include, among other things, travel costs, information services, and professional fees for legal, audit, and consulting services and regulatory compliance.

Overall, net operating income for 2004 increased \$160 million, or 44%, from 2003.

Our net non-operating income increased \$8 million from 2003 to \$8.5 million. Greater cash balances and higher interest rates in 2004 added \$2.5 million, greater returns on fund investments added \$1.6 million, and gains recognized from the sale of investments in sponsored mutual funds added \$1.2 million. Foreign currency balances produced exchange rate gains of more than \$1 million in 2004.

compared with losses of \$1 million on our yen-denominated debt before it was repaid in late 2003. Interest and related credit facility costs were down \$.7 million in 2004 as we repaid all outstanding debt in 2003 and reduced the size and cost of our credit facilities on an ongoing basis in 2004.

The 2004 provision for income taxes as a percentage of pretax income is 36.8% for 2004, down 1% from 2003. Greater tax-exempt and non-taxable dividend income, use of foreign net operating loss carryforwards, and settlements of prior year taxes at lower rates all contributed to this lower rate.

CAPITAL RESOURCES AND LIQUIDITY.

During 2005, stockholders' equity increased from \$1.7 billion to \$2.0 billion. Available liquid assets, including our mutual fund investments, exceed \$1 billion at December 31, 2005. A \$300 million undrawn, committed credit facility expiring in June 2007 is also available to the company.

Operating activities provided cash flows of \$539 million in 2005, up \$165 million versus 2004. Net income accounted for nearly \$94 million of the increase while timing differences in the cash settlements of our assets and liabilities added \$66 million. Net cash used in investing activities totaled nearly \$92 million, up \$16 million from 2004. Capital spending for property and equipment was \$52 million in 2005, up nearly \$9 million from 2004 levels. Our mutual fund net investments were \$37 million in 2005, an increase of \$5 million from 2004. Net cash used in financing activities totaled \$144 million in 2005, up \$109 million from 2004. We expended \$76 million in 2005 to repurchase 1.3 million shares of our common stock compared to \$18 million for 400,000 shares in 2004. We also distributed \$23 million more to our stockholders in 2005 based on our larger per-share quarterly dividend and collected \$27 million less from option exercises that, at a lower rate in 2005, resulted in 1.8 million fewer shares being issued versus in 2004.

Comparatively, operating activities provided cash flows of \$374 million in 2004, up \$77 million from 2003, including \$110 million of increased net income. Net cash used in investing activities totaled \$76 million and net cash used in financing activities totaled \$35 million in 2004.

Net cash expended in investing activities increased \$22 million in 2004 versus 2003. Our net cash investments in sponsored mutual funds increased \$25 million and our capital expenditures increased \$11 million. Offsetting these amounts was \$11 million of lower net savings bank investments due to lower net depositor inflows in 2004. Net cash used in financing activities decreased \$83 million versus 2003. Increased stock option exercises due to our higher common stock valuations generated \$48 million of greater cash proceeds in 2004. In 2003 we also repaid our last outstanding debt of nearly \$57 million. Offsetting these changes were the larger \$11 million of new savings bank deposits received in 2003 and \$12.5 million more in dividends paid in 2004.

Property and equipment expenditures in 2006, including those for the build-out of our expanded corporate and business continuity facilities and supporting operations, are anticipated to be about \$90 million and are expected to be funded from operating cash flows, including lessor payments associated with leasehold improvements.

CONTRACTUAL OBLIGATIONS.

The following table (in millions) presents a summary of our future obligations under the terms of existing operating leases and other contractual cash purchase commitments at December 31, 2005. Other purchase commitments include contractual amounts that will be due for the purchase of goods or services to be used in our operations and may be cancelable at earlier times than those indicated under certain conditions that may involve termination fees. Because these obligations are of a normal recurring nature, we expect that we will fund them from future cash flows from operations. The information presented does not include operating expenses or capital expenditures that will be committed in the normal course of operations in 2006 and future years.

	Total	2006	2007-8	2009-10	Later
Noncancelable operating leases	\$ 219	\$ 21	\$ 37	\$ 37	\$ 124
Other purchase commitments	201	126	46	23	6
	\$ 420	\$ 147	\$ 83	\$ 60	\$ 130

We also have outstanding commitments to fund additional equity investments totaling \$6.7 million at December 31, 2005.

CRITICAL ACCOUNTING POLICIES.

The preparation of financial statements often requires the selection of specific accounting methods and policies from among several acceptable alternatives. Further, significant estimates and judgments may be required in selecting and applying those methods and policies in the recognition of the assets and liabilities in our balance sheet, the revenues and expenses in our statement of income, and the information that is contained in our significant accounting policies and notes to the financial statements. Making these estimates and judgments requires the analysis of information concerning events that may not yet be complete and of facts and circumstances that may change over time. Accordingly, actual amounts or future results can differ materially from those estimates that we include currently in our consolidated financial statements and notes.

We present those significant accounting policies used in the preparation of our consolidated financial statements as an integral part of those statements within this 2005 Annual Report. In the following discussion, we highlight and explain further certain of those policies that are most critical to the preparation and understanding of our financial statements.

Other than temporary impairments of available-for-sale securities. We classify our investment holdings in sponsored mutual funds and the debt securities held for investment by our savings bank subsidiary as available-for-sale. At the end of each quarter, we mark the carrying amount of each investment holding to fair value and recognize an unrealized gain or loss in other comprehensive income within stockholders' equity. We next review each individual security position that has an unrealized loss or impairment to determine if that impairment is other than temporary.

A mutual fund holding that has had an unrealized loss for more than six months is presumed to have an other than temporary impairment and a loss is recognized in our statement of income unless there is persuasive evidence, such as an increase in value subsequent to quarter end, to overcome that presumption. We may also recognize an other than temporary loss of less than six months in our statement of income if the particular circumstances of the underlying investment do not warrant our belief that a near-term recovery is possible.

A debt security held by our savings bank subsidiary that is impaired is considered to have an other than temporary loss that we recognize in our statement of income whenever we determine that we will probably not collect all contractual amounts due under the terms of the security based on the issuer's financial condition and our ability and intent to hold these investments until fair value recovers, which may mean until maturity, and to collect all contractual cash flows. Minor impairments of 5% or less that arise from changes in interest rates and not credit quality are generally considered temporary.

Goodwill. We evaluate the carrying amount of goodwill in our balance sheet for possible impairment on an annual basis in the third quarter of each year using a fair value approach. We attribute all goodwill to our single reportable business segment and reporting unit, our investment advisory business. Goodwill would be considered impaired whenever our historical carrying amount exceeds the fair value of our investment advisory business.

Our annual testing has demonstrated that the fair value of our investment advisory business exceeds the carrying amount (basically, our stockholders' equity) and, therefore, that no impairment exists. Should we reach a different conclusion in the future, additional work would be performed to ascertain the amount of the non-cash impairment charge to be recognized. We must also perform impairment testing at other times if an event or circumstance occurs indicating that it is more likely than not that an impairment has been incurred. The maximum future impairment of goodwill that we could incur is the amount recognized in our balance sheet, \$665.7 million.

Provision for income taxes. After compensation and related costs, our provision for income taxes on our earnings is our largest annual expense. We operate in several states and several countries through our various subsidiaries, and must allocate our income, expenses, and earnings under the various laws and regulations of each of these taxing jurisdictions. Accordingly, our provision for income taxes represents our total estimate of the liability that we have incurred for doing business each year in all of our locations. Annually, we file tax returns which represent our filing positions with each jurisdiction and settle our return liabilities. Each jurisdiction has the right to audit those returns and may take different positions with respect to income and expense allocations and taxable earnings determinations. From time-to-time, we may also provide for estimated liabilities associated with uncertain tax return filing positions that are subject to, or in the process of, being audited by various tax authorities. Because the determinations of our annual provisions are subject to judgments and estimates, it is likely that actual results will vary from those recognized in our financial statements. As a result, additions to, or reductions of, income tax expense will occur each year for prior reporting periods as our estimates change and actual tax returns and tax audits are settled. We recognize any such prior year adjustment in the discrete quarterly period in which it is determined.

Stock options. The summary of significant accounting policies includes certain pro forma disclosures as if a fair value based method had been used to recognize compensation expense associated with our stock option grants. Fair value methods use a valuation model for shorter-term, market-traded financial instruments to theoretically value stock option grants even though they are not available for trading purposes and are of longer duration. The Black-Scholes option pricing model that we use includes the input of certain variables that are dependent on future expectations, including the expected lives of our options from grant date to exercise date, the volatility of our underlying common shares in the market over that time period, and the rate of dividends that we will pay during that time. Our estimates of these variables are made for the purpose of using the valuation model to determine an expense for each reporting period and are not subsequently adjusted. Unlike most of our expenses, the resulting charge to earnings using a fair value based method is a non-cash charge that is never measured by or adjusted based on a cash outflow.

PENDING CHANGE IN ACCOUNTING FOR STOCK OPTION-BASED COMPENSATION.

On January 1, 2006, we will adopt the provisions of SFAS 123R, and begin recognizing stock option-based compensation expense in our 2006 consolidated statement of income using the fair value based method applied on a modified prospective basis. It is important to note that this change to the fair value based method will not diminish stockholders' equity.

The following table (in thousands) presents the future compensation expense attributable to the 9,458,900 nonvested options and 31,500 restricted shares outstanding at December 31, 2005. Future stock-based compensation expense is estimated in a manner similar to that used in making our historical pro forma disclosures discussed above, except that, in order to conform to the requirements of SFAS 123R, we have also included a reduction for estimated future forfeitures of our stock incentive awards. Estimated future compensation expense will change to reflect future option grants including reloads, future share awards, changes in estimated forfeitures, and adjustments for actual forfeitures. The estimated income tax benefits presented will also vary as compensation expense changes and employees disqualify their incentive stock options, as well as to reflect changes in our effective income tax rate.

	Compensation Expense	Income Tax Benefits	Net Income Effect
First quarter 2006	\$ 13,109	\$ (4,200)	\$ 8,909
Second quarter 2006	13,210	(4,235)	8,975
Third quarter 2006	13,012	(4,191)	8,821
Fourth quarter 2006	9,692	(3,066)	6,626
2007	27,986	(8,638)	19,348
2008 through 2010	24,093	(6,662)	17,431
Total	\$ 101,102	\$ (30,992)	\$ 70,110

See our Summary of Significant Accounting Policies and Note 4 to our financial statements on pages 29 and 34, respectively, of this report for more information.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our revenues and net income are based primarily on the value of assets under our management. Accordingly, declines in financial market values directly and negatively impact our investment advisory revenues and net income.

We invest in our sponsored mutual funds, which are market risk sensitive financial instruments held for purposes other than trading; we do not invest in derivative financial or commodity instruments. Mutual fund investments have inherent market risk in the form of equity price risk; that is, the potential future loss of value that would result from a decline in the fair values of the mutual fund shares. Each fund and its underlying net assets are also subject to market risk which may arise from changes in equity prices, credit ratings, foreign currency exchange rates, and interest rates.

The following table (in thousands of dollars) presents the equity price risk from investments in sponsored mutual funds by assuming a hypothetical decline in the fair values of mutual fund shares. This potential future loss of value, before any income tax benefits, reflects the valuation of mutual fund investments at year end using each fund's lowest fair value per share during 2005. In considering this presentation, it is important to note that: all funds did not experience their lowest fair value per share on the same day; it is likely that the composition of the mutual fund investment portfolio would be changed if adverse market conditions persisted; and we could experience future losses in excess of those presented below.

	Fair Value at December 31, 2005	% of Portfolio	Potential Lower Value	% of Portfolio	Potential Loss	
Stock funds	\$ 185,877	70	\$ 159,317	68	\$ 26,560	14%
Bond funds	78,361	30	76,167	32	2,194	3%
	\$ 264,238	100	\$ 235,484	100	\$ 28,754	11%

The comparable potential loss of value presented in our 2004 annual report was \$29 million on sponsored mutual fund investments of \$215 million at December 31, 2004. During 2005, we actually experienced net unrealized gains of \$12 million.

Investments in mutual funds generally moderate market risk because funds, by their nature, are diversified investment portfolios that invest in a number of different financial instruments. T. Rowe Price further manages its exposure to market risk by diversifying its investments among many domestic and international funds. In addition, investment holdings may be altered from time to time, in response to changes in market risks and other factors, as deemed appropriate by management.

The investment portfolio and customer deposit liabilities of our savings bank subsidiary are subject to interest rate risk. If interest rates change 1%, the change in the net value of these assets and liabilities would not be material.

We also have other investments of \$7.5 million at December 31, 2005 that are included in our balance sheet in other assets. We are at risk for losses on these investments should market conditions deteriorate; however, our risk of future loss on these investments cannot exceed the amount recognized in our balance sheet. Additionally, we recognize our yen investment in a 10% interest of Daiwa SB Investments (Japan) at \$15 million using the historical cost basis of accounting. Our market risk on this investment is primarily limited to foreign currency exchange rate fluctuations between the U.S. dollar and the Japanese yen.

We operate in several foreign countries, most prominent among which is Great Britain. We incur operating expenses and have foreign currency-denominated assets and liabilities associated with these operations, though our revenue stream is predominately realized in U.S. dollar receipts. We do not believe that foreign currency fluctuations materially impact our results of operations.

FORWARD-LOOKING INFORMATION.

From time to time, information or statements provided by or on behalf of T. Rowe Price, including those within this report, may contain certain forward-looking information, including information or anticipated information relating to changes in our revenues and net income, changes in the amount and composition of our assets under management, our expense levels, and our expectations regarding financial markets and other conditions. Readers are cautioned that any forward-looking information provided by or on behalf of T. Rowe Price is not a guarantee of future performance. Actual results may differ materially from those in forward-looking information because of various factors including, but not limited to, those discussed below and in Item 1A of our Form 10-K Annual Report under the caption Risk Factors. Further, forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of unanticipated events.

Our future revenues and results of operations will fluctuate primarily due to changes in the total value and composition of assets under our management. Such changes result from many factors including, among other things: cash inflows and outflows in the T. Rowe Price mutual funds and other managed investment portfolios; fluctuations in the financial markets around the world that result in appreciation or depreciation of the assets under our management; our introduction of new mutual funds and investment portfolios; and changes in retirement savings trends favoring participant-directed investments and defined contribution plans. The ability to attract and retain investors' assets under our management is dependent on investor sentiment and confidence; the relative investment performance of the Price mutual funds and other managed investment portfolios as compared to competing offerings and market indexes; the ability to maintain our investment management and administrative fees at appropriate levels; competitive conditions in the mutual fund, asset management, and broader financial services sectors; and our level of success in implementing our strategy to expand our business. Our revenues are substantially dependent on fees earned under contracts with the Price funds and could be adversely affected if the independent directors of one or more of the Price funds terminated or significantly altered the terms of the investment management or related administrative services agreements.

Our future results are also dependent upon the level of our expenses, which are subject to fluctuation for the following or other reasons: changes in the level of our advertising expenses in response to market conditions, including our efforts to expand our investment advisory business to investors outside the United States and to further penetrate our distribution channels within the United States; variations in the level of total compensation expense due to, among other things, bonuses, stock option grants, stock awards, changes in our employee count and mix, and competitive factors; any goodwill impairment that may arise; fluctuation in foreign currency exchange rates applicable to the costs of our international operations; expenses and capital costs, such as technology assets, depreciation, amortization, and research and development, incurred to maintain and enhance our administrative and operating services infrastructure; unanticipated costs that may be incurred to protect investor accounts and the goodwill of our clients; and disruptions of services, including those provided by third parties, such as facilities, communications, power, and the mutual fund transfer agent and accounting systems.

Our business is also subject to substantial governmental regulation, and changes in legal, regulatory, accounting, tax, and compliance requirements may have a substantial effect on our operations and results, including but not limited to effects on costs that we incur and effects on investor interest in mutual funds and investing in general, or in particular classes of mutual funds or other investments.

Consolidated Balance Sheets

(in thousands, except share data)

	December 31,	2004	2005
ASSETS			
Cash and cash equivalents (Note 1)		\$ 499,750	\$ 803,589
Accounts receivable and accrued revenue (Note 5)		158,342	175,030
Investments in sponsored mutual funds (Note 1)		215,159	264,238
Debt securities held by savings bank subsidiary (Note 1)		114,075	114,837
Property and equipment (Note 2)		203,807	214,790
Goodwill		665,692	665,692
Other assets (Note 7)		72,000	72,370
Total assets		\$ 1,928,825	\$ 2,310,546
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities			
Accounts payable and accrued expenses		\$ 54,172	\$ 62,539
Accrued compensation and related costs		37,799	55,555
Income taxes payable (Note 3)		9,327	15,651
Dividends payable		29,800	36,870
Customer deposits at savings bank subsidiary (Note 7)		100,427	103,829
Total liabilities		231,525	274,444
Commitments and contingent liabilities (Notes 6 and 7)			
Stockholders' equity (Notes 4 and 7)			
Preferred stock, undesignated, \$.20 par value - authorized and unissued 20,000,000 shares		—	—
Common stock, \$.20 par value - authorized 500,000,000 shares; issued 129,607,697 shares in 2004 and 131,678,371 shares in 2005		25,922	26,336
Additional capital in excess of par value		250,764	279,680
Retained earnings		1,378,948	1,683,273
Accumulated other comprehensive income		41,666	48,544
Deferred stock-based compensation expense		—	(1,731)
Total stockholders' equity		1,697,300	2,036,102
		\$ 1,928,825	\$ 2,310,546

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Income

(in thousands, except per-share amounts)

	Year Ended December 31,		
	2003	2004	2005
REVENUES			
Investment advisory fees (Note 5)	\$ 777,462	\$ 1,028,831	\$ 1,235,499
Administrative fees and other income (Note 5)	217,483	247,743	276,037
Investment income of savings bank subsidiary	3,910	3,775	4,279
Total revenues	998,855	1,280,349	1,515,815
Interest expense on savings bank deposits	3,288	3,300	3,651
Net revenues	995,567	1,277,049	1,512,164
OPERATING EXPENSES			
Compensation and related costs (Notes 2 and 7)	382,956	457,905	522,374
Advertising and promotion	59,005	74,268	86,125
Depreciation and amortization of property and equipment	45,289	40,018	42,272
Occupancy and facility costs (Note 7)	62,538	66,420	74,430
Other operating expenses	80,739	113,159	131,935
	630,527	751,770	857,136
NET OPERATING INCOME	365,040	525,279	655,028
Other investment income (Note 1)	2,175	9,496	24,744
Other interest and credit facility expenses (Note 6)	1,699	992	381
Net non-operating income	476	8,504	24,363
Income before income taxes	365,516	533,783	679,391
Provision for income taxes (Note 3)	138,029	196,523	248,462
NET INCOME	\$ 227,487	\$ 337,260	\$ 430,929
EARNINGS PER SHARE			
Basic	\$ 1.84	\$ 2.65	\$ 3.31
Diluted	\$ 1.77	2.51	\$ 3.15

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)

Year Ended December 31,	2003	2004	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 227,487	\$ 337,260	\$ 430,929
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of property and equipment	45,289	40,018	42,272
Stock-based compensation expense	—	—	3,164
Other changes in assets and liabilities	24,179	(2,998)	63,117
Net cash provided by operating activities	296,955	374,280	539,482
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in sponsored mutual funds	(17,423)	(38,406)	(39,657)
Dispositions of sponsored mutual funds	10,677	6,897	2,735
Investments in debt securities by savings bank subsidiary	(78,590)	(41,357)	(31,661)
Proceeds from debt securities held by savings bank subsidiary	58,213	36,690	29,051
Additions to property and equipment	(31,742)	(43,069)	(51,802)
Other investment activity	5,206	3,380	(297)
Net cash used in investing activities	(53,659)	(75,865)	(91,631)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchases of common stock	(19,963)	(18,334)	(75,853)
Stock options exercised	27,169	75,149	47,973
Debt principal repaid	(56,699)	—	—
Dividends paid to stockholders	(83,672)	(96,164)	(119,534)
Change in savings bank subsidiary deposits	14,984	4,151	3,402
Net cash used in financing activities	(118,181)	(35,198)	(144,012)
CASH AND CASH EQUIVALENTS			
Net increase during year	125,115	263,217	303,839
At beginning of year	111,418	236,533	499,750
At end of year	\$ 236,533	\$ 499,750	\$ 803,589

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(dollars in thousands)

	Common Stock	Additional Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Deferred Stock-Based Compensation Expense	Total Stockholders' Equity
BALANCE AT DECEMBER 31, 2002, 122,648,696 COMMON SHARES	\$ 24,530	\$ 80,744	\$ 1,019,925	\$ 8,641	\$ —	\$ 1,133,840
Comprehensive income						
Net income			227,487			
Change in unrealized security holding gains, net of taxes				20,114		
Total comprehensive income						247,601
3,071,188 common shares issued upon option exercises under stock-based compensation plans	614	53,539				54,153
787,000 common shares repurchased	(157)	(2,858)	(16,948)			(19,963)
Dividends declared			(86,551)			(86,551)
BALANCE AT DECEMBER 31, 2003, 124,932,884 COMMON SHARES	24,987	131,425	1,143,913	28,755	—	1,329,080
Comprehensive income						
Net income			337,260			
Change in unrealized security holding gains, net of taxes				12,911		
Total comprehensive income						350,171
5,074,813 common shares issued upon option exercises under stock-based compensation plans	1,015	137,593				138,608
400,000 common shares repurchased	(80)	(18,254)				(18,334)
Dividends declared			(102,225)			(102,225)
BALANCE AT DECEMBER 31, 2004, 129,607,697 COMMON SHARES	25,922	250,764	1,378,948	41,666	—	1,697,300
Comprehensive income						
Net income			430,929			
Change in unrealized security holding gains, net of taxes				6,878		
Total comprehensive income						437,807
Common shares issued under stock-based compensation plans						
38,000 common shares	8	2,832				2,840
31,500 restricted common shares	6	2,049			(2,055)	—
3,301,174 common shares upon option exercises	660	99,628				100,288
Amortization of deferred stock- based compensation expense					324	324
1,300,000 common shares repurchased	(260)	(75,593)				(75,853)
Dividends declared			(126,604)			(126,604)
BALANCE AT DECEMBER 31, 2005, 131,678,371 COMMON SHARES	\$ 26,336	\$ 279,680	\$ 1,683,273	\$ 48,544	\$ (1,731)	\$ 2,036,102

The accompanying notes are an integral part of the consolidated financial statements.

Summary of Significant Accounting Policies

T. Rowe Price Group derives its consolidated revenues and net income primarily from investment advisory services that its subsidiaries provide to individual and institutional investors in the sponsored T. Rowe Price mutual funds and other investment portfolios. We also provide our investment advisory clients with related administrative services, including mutual fund transfer agent, accounting and shareholder services; participant recordkeeping and transfer agent services for defined contribution retirement plans; discount brokerage; and trust services. The investors that we serve are primarily domiciled in the United States of America.

Investment advisory revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management impact our revenues and results of operations.

BASIS OF PREPARATION.

These consolidated financial statements have been prepared by our management in accordance with accounting principles generally accepted in the United States which require the use of estimates. Actual results may vary from those estimates.

Our financial statements include the accounts of all subsidiaries in which we have a majority or controlling interest. All material intercompany accounts and transactions are eliminated in consolidation.

We are not the primary beneficiary of two variable interest entities that are high-yield collateralized bond obligations (CBOs) and do not consolidate them into our financial statements. The CBOs are non-recourse, limited liability companies in which we hold a portion, though not a majority, of the interests in their residual returns. We are also the collateral manager of each CBO and receive investment advisory fees for performance of that service. At December 31, 2005, the CBOs had assets of \$533 million. We do not have any exposure to future losses from these CBOs because we have fully recovered our carrying amount, after previously recognized other than temporary impairments in 2001 and 2002.

CASH EQUIVALENTS.

Cash equivalents consist primarily of short-term, highly liquid investments in sponsored money market mutual funds. The cost of these funds is equivalent to fair value.

INVESTMENTS.

Investments in sponsored mutual funds and debt securities held by our savings bank subsidiary are classified as available-for-sale and are reported at fair value. Changes in net unrealized security holding gains are recognized in accumulated other comprehensive income.

We also hold other investments that are included in other assets and are recognized using the cost or equity methods of accounting, as appropriate.

We review the carrying amount of each investment on a quarterly basis and recognize an impairment in our statement of income whenever an unrealized loss is considered other than temporary.

CONCENTRATIONS OF RISK.

Concentration of credit risk in accounts receivable is believed to be minimal in that our clients generally have substantial assets, including those in the investment portfolios that we manage for them.

Our investments in sponsored mutual funds expose us to market risk in the form of equity price risk; that is, the potential future loss of value that would result from a decline in the fair values of the mutual funds. Each fund and its underlying net assets are also subject to market risk which may arise from changes in equity prices, credit ratings, foreign currency exchange rates, and interest rates.

Investments by our savings bank subsidiary in debt securities expose us to market risk which may arise from changes in credit ratings and interest rates.

PROPERTY AND EQUIPMENT.

Property and equipment is stated at cost net of accumulated depreciation and amortization computed using the straight-line method. Provisions for depreciation and amortization are based on the following weighted average estimated useful lives: computer and communications software and equipment, 3.3 years; buildings, 31.5 years; leasehold improvements, 7.7 years; furniture and other equipment, 4.9 years; and leased land, 99 years.

GOODWILL.

We evaluate goodwill for possible impairment using the fair value approach during the third quarter of each year. Our evaluations have not indicated that an impairment exists. We operate in one reportable business segment—that of the investment advisory business—and all goodwill is attributed to that segment.

REVENUE RECOGNITION.

Fees for investment advisory services which are based on assets under management and related administrative services that we provide to investment advisory clients are recognized in the period that our services are provided. Administrative revenues from distribution of our sponsored mutual funds' Advisor and R class shares, and the corresponding operating expense for payments to third-party financial intermediaries that distribute those share classes, are recognized in the period that they are earned from the mutual funds (that is, the same period that the related funds recognize their expense).

ADVERTISING.

Costs of advertising are expensed the first time that the advertising takes place.

EARNINGS PER SHARE.

Basic earnings per share excludes the dilutive effect of outstanding stock options and nonvested restricted stock, and is computed by dividing net income by the weighted average common shares outstanding of 123,423,000 in 2003, 127,419,000 in 2004, and 130,266,000 in 2005. Diluted earnings per share reflects the potential dilution that could occur if outstanding stock options were exercised and restricted stock vests. It is computed by increasing the denominator of the basic calculation by potential dilutive common shares, determined using the treasury stock method, of 4,866,000 in 2003, 6,716,000 in 2004, and 6,332,000 in 2005.

COMPREHENSIVE INCOME.

Total comprehensive income is reported in our consolidated statements of stockholders' equity and includes net income and the change in unrealized security holding gains, net of income taxes.

STOCK OPTIONS AND AWARDS.

Our stockholders have approved seven stock-based compensation plans (the 1990, 1993, 1996, 2001, and 2004 Stock Incentive Plans and the 1995 and 1998 Director Stock Option Plans). Under these plans, we have granted qualified incentive and nonqualified fixed stock options with a maximum term of 10 years to employees and directors. These option grants have been accounted for using the intrinsic value based method. Vesting of employee options is based solely on the individual continuing to render service and generally occurs over a five-year graded schedule. The exercise price of each option granted is equivalent to the market price of the common stock at the date of grant. Accordingly, no compensation expense related to stock option grants has been recognized in our consolidated statements of income.

The following disclosures are made as if we had applied the fair value based method to account for our stock option grants. Forfeitures of options are recognized in these disclosures during the year in which they occurred.

	2003	2004	2005
Net income, as reported	\$ 227,487	\$ 337,260	\$ 430,929
Additional stock option-based compensation expense estimated using the fair value based method	(37,028)	(42,631)	(59,829)
Related income tax benefits	11,248	14,167	19,566
Pro forma net income	\$ 201,707	\$ 308,796	\$ 390,666
Earnings per share			
Basic - as reported	\$ 1.84	\$ 2.65	\$ 3.31
Basic - pro forma	\$ 1.63	\$ 2.42	\$ 3.00
Diluted - as reported	\$ 1.77	\$ 2.51	\$ 3.15
Diluted - pro forma	\$ 1.59	\$ 2.31	\$ 2.85

In preparing the above information, we used the Black-Scholes option-pricing model to estimate the fair value of each option grant, including reloads, as follows:

	2003	Weighted-Average 2004	2005	Range 2005
Grant-date fair value per option awarded, including reload grants	\$ 13.96	\$ 18.34	\$ 19.14	\$.53 to 24.66
Assumptions used:				
Expected life in years	5.5	5.2	5.5	.1 to 8.1
Expected volatility	35%	33%	29%	6 to 32%
Dividend yield	1.5%	1.7%	1.7%	1.7 to 1.8%
Risk-free interest rate	3.6%	3.7%	4.2%	2.8 to 4.5%

The weighted-average assumptions noted above for expected lives are based on the vesting period for each option grant and our historical experience with respect to the average holding period from vesting to option exercise. The assumptions for expected volatility and dividend yield are based on recent historical experience for our common shares over the same time periods as our expected lives. Risk-free interest rates are set using grant-date U.S. Treasury yield curves for the same periods as our expected lives.

At December 31, 2005, we have 31,500 outstanding restricted shares of our common stock that were awarded to our employees in October 2005 at the grant date fair value of \$65.24 per share. These shares vest 50% in each of December 2006 and 2007, and must be returned to the company should employment terminate before vesting. In December 2005, we also awarded our employees 38,000 unrestricted shares at the grant date fair value of \$74.73 per share. Compensation expense of \$3,164,000 related to these 69,500 shares has been recognized in our 2005 consolidated statement of income.

On January 1, 2006, we will adopt the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), and begin recognizing stock option-based compensation expense in our 2006 consolidated statement of income using the fair value based method applied on a modified prospective basis. It is important to note that this change to the fair value based method will not diminish stockholders' equity nor will it change the accounting for our stock awards.

The following table (in thousands) presents the future compensation expense to be recognized over the vesting period of the 9,458,900 nonvested options and 31,500 restricted shares outstanding at December 31, 2005. Future stock-based compensation expense has been estimated in a manner similar to that used in making our historical pro forma disclosures, except that, in order to conform to the requirements of SFAS 123R, we have also included a reduction for estimated future forfeitures of our stock incentive awards. Estimated future compensation expense will change to reflect future option grants including reloads, future share awards, changes in estimated forfeitures, and adjustments for actual forfeitures. The estimated income tax benefits presented will also vary as compensation expense changes and employees disqualify their incentive stock options, as well as to reflect changes in our effective income tax rate.

	Compensation Expense	Income Tax Benefits	Net Income Effect
First quarter 2006	\$ 13,109	\$ (4,200)	\$ 8,909
Second quarter 2006	13,210	(4,235)	8,975
Third quarter 2006	13,012	(4,191)	8,821
Fourth quarter 2006	9,692	(3,066)	6,626
2007	27,986	(8,638)	19,348
2008 through 2010	24,093	(6,662)	17,431
Total	\$ 101,102	\$ (30,992)	\$ 70,110

Notes to Consolidated Financial Statements

NOTE 1 - INVESTMENTS.

MUTUAL FUNDS.

Cash equivalent investments in our sponsored money market mutual funds aggregate \$469,934,000 at December 31, 2004, and \$768,129,000 at December 31, 2005.

Investments in our other sponsored mutual funds (in thousands) at December 31 include:

	Aggregate Cost	Unrealized Holding Gains	Aggregate Fair Value
2004			
Stock funds	\$ 90,850	\$ 43,595	\$ 134,445
Bond funds	59,820	20,894	80,714
	\$ 150,670	\$ 64,489	\$215,159
2005			
Stock funds	\$ 127,553	\$ 58,324	\$ 185,877
Bond funds	60,071	18,290	78,361
	\$ 187,624	\$ 76,614	\$ 264,238

The following table reconciles our unrealized holding gains on investments in sponsored mutual funds (in thousands) to that recognized in other comprehensive income.

	2003	2004	2005
Unrealized holding gains	\$ 32,365	\$ 21,367	\$ 12,157
Less gains (losses) realized in net income using average cost	(332)	839	32
	32,697	20,528	12,125
Deferred income taxes	(11,447)	(7,230)	(4,275)
Unrealized holding gains recognized in other comprehensive income	\$ 21,250	\$ 13,298	\$ 7,850

Dividends earned on our investments in sponsored mutual funds, including money market mutual funds, totaled \$2,624,000 in 2003, \$6,716,000 in 2004, and \$22,090,000 in 2005. At December 31, 2005, our mutual fund holdings include an aggregate unrealized loss of \$2,000; there were no individual mutual fund holdings with an unrealized loss at December 31, 2004.

DEBT SECURITIES.

Our savings bank subsidiary holds investments in marketable debt securities, including mortgage- and other asset-backed securities, that are accounted for as available-for-sale. We generally hold these securities to their maturity which correlates to the maturities of our customer deposits. The following table (in thousands) details the components of these investments at year end.

	2004		2005	
	Fair Value	Unrealized Gain (Loss)	Fair Value	Unrealized Gain (Loss)
Investments with temporary impairment				
Of less than 12 months (57 securities in 2005)	\$ 36,436	\$ (298)	\$ 47,704	\$ (639)
Of 12 months or more (38 securities in 2005)	16,001	(577)	41,932	(1,401)
	52,437	(875)	89,636	(2,040)
Investments with unrealized holding gains	61,638	375	25,201	79
Balance at December 31	\$ 114,075	\$ (500)	\$ 114,837	\$ (1,961)
Aggregate cost	\$ 114,575		\$ 116,798	

The unrealized losses in these investments were generally caused by interest rate increases and not changes in credit quality. We have the ability and intent to hold these investments until a recovery of fair value, which may mean until maturity, and to collect all contractual cash flows. Accordingly, impairment of these investments is considered temporary.

The following table reconciles our unrealized holding losses on the savings bank portfolio (in thousands) to that recognized in other comprehensive income.

	2003	2004	2005
Unrealized holding losses	\$ (1,750)	\$ (643)	\$ (1,466)
Less gains (losses) realized in net income	129	(3)	(5)
	(1,879)	(640)	(1,461)
Deferred tax benefits	743	253	489
Unrealized holding losses recognized in other comprehensive income	\$ (1,136)	\$ (387)	\$ (972)

NOTE 2 - PROPERTY AND EQUIPMENT.

Property and equipment (in thousands) at December 31 consists of:

	2004	2005
Computer and communications software and equipment	\$ 202,641	\$ 206,300
Buildings and leasehold improvements	169,416	181,496
Furniture and other equipment	58,683	59,778
Land owned and leased	21,503	21,503
	452,243	469,077
Less accumulated depreciation and amortization	248,436	254,287
	\$ 203,807	\$ 214,790

Compensation and related costs attributable to the development of computer software for internal use totaling \$7,034,000 in 2003, \$7,299,000 in 2004, and \$6,160,000 in 2005 have been capitalized.

NOTE 3 - INCOME TAXES.

The provision for income taxes (in thousands) consists of:

	2003	2004	2005
Current income taxes			
U.S. federal and foreign	\$ 128,380	\$ 177,982	\$ 228,159
State and local	13,045	19,099	27,421
Deferred income tax benefits	(3,396)	(558)	(7,118)
	\$ 138,029	\$ 196,523	\$ 248,462

Deferred income taxes arise from temporary differences between taxable income for financial statement and income tax return purposes. Significant temporary differences in 2003 included deferred tax benefits of \$7.2 million related to accrued compensation offset by \$3.2 million related to investment income. Deferred tax benefits in 2004 include \$4.1 million related to investment income offset by deferred taxes of \$1.9 million related to accrued compensation.

Deferred tax benefits in 2005 include \$5.3 million related to property and equipment offset by deferred taxes of \$1.5 million related to accrued compensation. Deferred benefits in 2005 also include \$3.8 million arising from foreign net operating loss carryforwards, including \$2.4 million from 2005 operations and \$1.4 million from the reversal of a previously provided valuation allowance on prior year losses. During 2005, we developed a tax-planning strategy that makes it more likely than not that we would be able to realize a substantial portion of this deferred tax benefit.

Our net deferred tax liability is included in income taxes payable and includes the following components at December 31.

	2004	2005
Deferred tax liabilities		
Arising from unrealized holding gains	\$ 22,322	\$ 26,108
Other	1,069	1,659
	23,391	27,767
Deferred tax assets		
Related to investment income	9,898	10,088
Related to property and equipment	—	5,268
Related to accrued compensation	6,435	4,957
Foreign net operating loss carryforwards that do not expire	—	3,799
Other	71	—
	16,404	24,112
Net deferred tax liability	\$ 6,987	\$ 3,655

Cash outflows from operating activities include income taxes paid of \$100,284,000 in 2003, \$164,643,000 in 2004, and \$188,018,000 in 2005. The income tax benefit arising from exercises of our stock options reduced the income taxes that would have otherwise been payable by \$26,984,000 in 2003, \$63,459,000 in 2004, and \$52,315,000 in 2005. These amounts have been added to stockholders' equity as part of additional capital in excess of par value.

The following table reconciles the statutory federal income tax rate to the effective income tax rate.

	2003	2004	2005
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
Current state income taxes, net of federal income tax benefits	2.3	2.3	2.4
Other items	.5	(.5)	(.8)
Effective income tax rate	37.8%	36.8%	36.6%

NOTE 4 - COMMON STOCK AND STOCK-BASED COMPENSATION PROGRAMS.

SHARES AUTHORIZED FOR STOCK-BASED COMPENSATION PROGRAMS.

At December 31, 2005, 33,922,121 shares of unissued common stock were reserved for issuance under our stock-based compensation plans. Additionally, 1,680,000 shares are reserved for issuance under a plan whereby substantially all employees may acquire common stock through payroll deductions at prevailing market prices. We believe that our stock-based compensation programs align the interests of our employees and directors with those of our common stockholders.

REPURCHASE AUTHORIZATIONS.

As of December 31, 2005, the Board of Directors has authorized the future repurchase of up to 4,146,010 common shares.

DIVIDENDS.

Cash dividends declared per share were \$.70 in 2003, \$.80 in 2004, and \$.97 in 2005.

STOCK OPTIONS.

The following table summarizes the status of and changes in our stock option grants during the past three years.

	Options	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
Outstanding at beginning of 2003	27,943,856	\$ 26.25	16,759,556	\$ 23.50
Annual grants	3,355,000	43.24		
Reload grants	444,147	41.01		
Exercised	(3,981,406)	16.16		
Forfeited or cancelled	(335,820)	31.31		
Outstanding at end of 2003	27,425,777	29.98	16,607,977	\$ 27.38
Annual grants	3,373,750	61.31		
Reload grants	818,683	53.98		
Exercised	(6,656,743)	24.24		
Forfeited or cancelled	(831,065)	33.07		
Outstanding at end of 2004	24,130,402	36.65	14,161,852	\$ 31.82
Annual grants	3,243,700	65.20		
Reload grants	625,989	65.74		
Exercised	(4,587,814)	28.75		
Forfeited or cancelled	(463,853)	47.11		
Outstanding at end of 2005	22,948,424	\$ 42.84	13,489,524	\$ 36.26

The total intrinsic value of options exercised was \$92.4 million in 2003, \$193.4 million in 2004, and \$165.4 million in 2005. At December 31, 2005, the aggregate intrinsic value of options outstanding was \$669.8 million and of options exercisable was \$482.5 million. Information regarding the exercise prices and lives of stock options outstanding at December 31, 2005 follows.

Range of exercise prices	Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Exercisable	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)
\$14.25 to 19.88	751,400	\$ 17.98	.9	751,400	\$ 17.98	.9
\$25.36 to 43.70	14,765,181	34.05	5.3	11,048,881	33.82	4.7
\$43.84 to 53.90	333,942	49.85	4.4	298,342	49.52	3.9
\$54.57 to 74.70	7,097,901	63.44	8.8	1,390,901	62.75	6.3
\$14.25 to 74.70	22,948,424	\$ 42.84	6.2	13,489,524	\$ 36.26	4.7

NOTE 5 - INFORMATION ABOUT REVENUES AND SERVICES.

Revenues (in thousands) from advisory services provided under agreements with sponsored mutual funds and other investment clients include:

	2003	2004	2005
Sponsored mutual funds in the U.S.			
Stock	\$ 434,423	\$ 602,220	\$ 758,346
Bond and money market	123,879	133,953	142,057
Other portfolios	558,302	736,173	900,403
Total investment advisory fees	\$ 777,462	\$ 1,028,831	\$ 1,235,499

The following table summarizes the various investment portfolios and assets under management (in billions) on which advisory fees are earned.

	Average During			December 31,	
	2003	2004	2005	2004	2005
Sponsored mutual funds in the U.S.					
Stock	\$ 71.2	\$ 98.1	\$ 124.1	\$ 114.3	\$ 137.7
Bond and money market	28.2	30.0	32.1	31.2	32.5
	99.4	128.1	156.2	145.5	170.2
Other portfolios	60.5	78.8	90.9	89.7	99.3
	\$ 159.9	\$ 206.9	\$ 247.1	\$ 235.2	\$ 269.5

Fees for advisory-related administrative services provided to our sponsored mutual funds were \$162,853,000 in 2003, \$188,523,000 in 2004, and \$211,346,000 in 2005. Accounts receivable from the mutual funds aggregate \$88,659,000 and \$104,537,000 at December 31, 2004 and 2005, respectively. We provide all services to the sponsored U.S. mutual funds under contracts that are subject to periodic review and approval by each of the funds' boards. Regulations require that the funds' shareholders also approve material changes to the investment advisory contracts.

NOTE 6 – BORROWINGS AND CREDIT FACILITY.

We fully repaid the remaining balances of our yen- and dollar-denominated bank borrowings during 2003. Foreign currency losses arising from the yen borrowing of \$988,000 in 2003 are included in non-operating investment income.

In 2004, we replaced two existing credit facilities with a new three-year, \$300 million syndicated credit facility among eight banks for which JPMorgan Chase Bank serves as administrative agent. The interest rate on borrowings under this facility will float .27% to .575% above the Eurodollar base rate depending on our financial condition. At December 31, 2005, we are in compliance with the covenants contained in our credit facility agreement.

NOTE 7 - OTHER DISCLOSURES.

We occupy certain office facilities and rent computer and other equipment under noncancelable operating leases. Related rental expense was \$19,710,000 in 2003, \$21,292,000 in 2004, and \$23,492,000 in 2005. Future minimum rental payments under these leases aggregate \$21,033,000 in 2006, \$19,047,000 in 2007, \$18,371,000 in 2008, \$18,493,000 in 2009, \$18,673,000 in 2010 and \$123,705,000 in later years.

Customer deposits at our savings bank subsidiary have defined maturities of up to five years. The estimated fair value of these customer deposits, based on discounting their expected cash flows at maturity using current interest rates offered for deposits with the same date of maturity, was \$102.4 million at December 31, 2004 and \$103.9 million at December 31, 2005.

Investments accounted for under the cost method are included in other assets and total \$19,860,000 at December 31, 2005. At December 31, 2005, we had outstanding commitments to fund additional investments totaling \$6.7 million.

Our consolidated stockholders' equity at December 31, 2005 includes \$43 million which is restricted as to use by various regulations and agreements arising in the ordinary course of our business.

From time to time, various claims against us arise in the ordinary course of business, including employment-related claims. In the opinion of management, after consultation with counsel, it is unlikely that any adverse determination in one or more pending claims would have a material adverse effect on our financial position or results of operations.

Expenses for our defined contribution retirement plans were \$24,815,000 in 2003, \$32,777,000 in 2004, and \$36,954,000 in 2005.

NOTE 8 - SUPPLEMENTARY QUARTERLY FINANCIAL DATA (Unaudited).

(in thousands)	Net Revenues	Net Income	Basic Earnings Per Share	Diluted Earnings Per Share
2004				
1st quarter	\$ 305,651	\$ 77,339	\$.61	\$.58
2nd quarter	309,672	80,264	.63	.60
3rd quarter	316,228	82,525	.65	.62
4th quarter	345,498	97,132	.75	.71
2005				
1st quarter	\$ 357,071	\$ 94,297	\$.72	\$.69
2nd quarter	363,546	102,749	.79	.76
3rd quarter	388,703	116,335	.89	.85
4th quarter	402,844	117,548	.90	.85

The sum of quarterly earnings per share may not equal annual earnings per share because the computations are done independently.

Report of Management on Internal Control Over Financial Reporting

To the Stockholders of T. Rowe Price Group, Inc.:

We, together with other members of management of T. Rowe Price Group, are responsible for establishing and maintaining adequate internal control over the company's financial reporting. Internal control over financial reporting is the process designed under our supervision, and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

There are inherent limitations in the effectiveness of internal control over financial reporting, including the possibility that misstatements may not be prevented or detected. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of internal controls can change with circumstances.

Management has evaluated the effectiveness of internal control over financial reporting as of December 31, 2005 in relation to criteria described in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment, we believe that the company's internal control over financial reporting was effective as of December 31, 2005.

KPMG LLP, an independent registered public accounting firm, has audited our financial statements that are included in this annual report and expressed an unqualified opinion thereon. KPMG LLP has also expressed an unqualified opinion on management's assessment of, and the effective operation of, our internal control over financial reporting as of December 31, 2005.

February 9, 2006



George A. Roche
President and Chief Executive Officer



Kenneth V. Moreland
Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

T. Rowe Price Group, Inc.:

We have audited the accompanying consolidated balance sheets of T. Rowe Price Group, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of T. Rowe Price Group, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of T. Rowe Price Group, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 9, 2006, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Baltimore, Maryland

February 9, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

T. Rowe Price Group, Inc.:

We have audited management's assessment, included in their accompanying report on internal control over financial reporting, that T. Rowe Price Group, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). T. Rowe Price Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that T. Rowe Price Group, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, T. Rowe Price Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of T. Rowe Price Group, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated February 9, 2006, expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Baltimore, Maryland

February 9, 2006

Corporate Headquarters

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Amsterdam, Netherlands
Singapore
Stockholm, Sweden
London, United Kingdom

United States:
Long Beach, California
San Francisco, California
Colorado Springs, Colorado
Tampa, Florida
Baltimore, Maryland
Owings Mills, Maryland

Additional Information

SEC Form 10-K

A copy is available, at no charge,
by sending a written request to:

Barbara A. Van Horn
Secretary
T. Rowe Price Group, Inc.
100 East Pratt Street
Baltimore, Maryland 21202
Fax (410) 345-3223

A copy is available on our
Web site: www.troweprice.com

Transfer Agent and Registrar

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161 North Concord Exchange
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Send shareholder inquiries to:

Wells Fargo Bank, N.A.
Shareowner Services
P.O. Box 64854
St. Paul, Minnesota 55164-0854

Independent Registered Public Accounting Firm

KPMG LLP
Baltimore, Maryland

Annual Meeting

April 26, 2006
Hyatt Regency Hotel
300 Light Street
Baltimore, Maryland 21202

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President, T. Rowe Price
Investment Services

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Partner, McGuireWoods LLP



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