

PUTNAM PREMIER INCOME TRUST

Form N-30D

March 14, 2003

Putnam  
Premier  
Income  
Trust

SEMIANNUAL REPORT ON PERFORMANCE AND OUTLOOK

1-31-03

[GRAPHIC OMITTED: WATCH]

[SCALE LOGO OMITTED]

FROM THE TRUSTEES

[GRAPHIC OMITTED: PHOTO OF JOHN A. HILL AND GEORGE PUTNAM III]

Dear Fellow Shareholder:

Over the six months ended January 31, 2003, changing market conditions and shifts in investor sentiment demonstrated the value of Putnam Premier Income Trust's diversified approach to fixed-income investing. The fund's solid returns for the period reflect its ability to benefit from strengths in different sectors of the bond market, as well as the success of the strategic positioning devised by the management team.

For example, during the period, underperformance in the high-yield corporate bond sector initially dampened performance, but was offset by the strength of the fund's U.S. government securities holdings. Later in the period, the high-yield sector recovered and made a valuable contribution to the fund's returns.

Timely moves such as these enabled your fund to outperform its primary benchmark index at net asset value. Details can be found on page 7. In the following report, your fund's management team provides additional details about their strategy, as well as their outlook for the remainder of the fiscal year.

Meanwhile, we would like you to know how much we appreciate your continued confidence in Putnam, especially as we continue to work our way through one of the most challenging periods in recent investment history. We believe those who maintain a long-term focus and a diversified approach to investing should eventually be rewarded for their patience.

Respectfully yours,

/S/ JOHN A. HILL

/S/ GEORGE PUTNAM, III

John A. Hill  
Chairman of the Trustees  
March 19, 2003

George Putnam, III  
President of the Funds

REPORT FROM FUND MANAGEMENT

FUND HIGHLIGHTS

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- \* For the first six months of its 2003 fiscal year, Putnam Premier Income Trust had a total return at net asset value (NAV) of 8.24%. The fund's return at market price was 13.20%.
- \* With greater demand in the marketplace for higher-yielding investments, the fund's market price return exceeded its return at NAV.
- \* At NAV, the fund outperformed its primary benchmark, the Lehman Government Bond Index, which returned 4.87% during the six-month period.
- \* The fund slightly underperformed at NAV the average return for the Lipper Flexible Income Funds (closed-end) category, which was 8.78%.
- \* See the Performance Summary on page 7 for complete fund performance, comparative index performance, and Lipper data.

### \* PERFORMANCE COMMENTARY

The fund's solid returns were due to strategic underweighting of U.S. investment-grade bonds, which underperformed during the period, and the fund's overweighting of higher-yielding, lower-rated bonds, such as U.S. high-yield corporate bonds. These securities performed strongly from October through January.

### Fund Profile

Putnam Premier Income Trust is designed for investors seeking a high level of current income. The fund maintains flexibility across three sectors -- U.S. government and agencies, high-yield corporate, and international -- to seek maximum current income without undue risk to capital. The fund may be appropriate for investors seeking a higher level of income who can accept a moderately higher level of risk.

The fund's results should be considered in the context of a generally favorable period for the bond market, especially for those sectors with greater credit risk, which performed well during the final three and a half months of the period. The fund was well served by its sector diversification. The fund's U.S. investment-grade bonds performed well at the outset, benefiting from a weak stock market and a significant flight to quality. Beginning in mid October, however, lower-rated high-yield corporate bonds outperformed, and the fund's holdings of these securities benefited from this trend.

### \* MARKET OVERVIEW

The bond market experienced a turning point in mid October 2002, which occurred approximately at the midpoint of the fund's semi annual period. In the summer and early fall of 2002, a number of factors contributed to a highly risk-averse psychology in the market: media reports of corporate malfeasance, the prospect of war in Iraq, poor earnings, high default rates, and a significant weakening in the economy. These factors caused investors to flock to high-quality bonds, such as U.S. Treasuries, and to shun equities, U.S. corporate investment-grade bonds, and U.S. corporate high-yield bonds.

As the fourth quarter of calendar 2002 approached, investor sentiment changed. In the fourth quarter, a brighter outlook for profits and the economy also helped boost corporate investment-grade and high-yield bonds -- as well as equities -- contributing to strong returns for these fixed-income sectors from mid October through the end of January 2003. U.S. Treasuries, by comparison, did not fare as well during this period.

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Overseas, the European bond markets were generally strong throughout the period, as anemic growth (especially in France and Germany) and low inflation boosted bond returns. In addition, a significant increase in the value of the euro versus the dollar over the past 18 months has helped boost European bond returns for U.S. investors. Some emerging markets performed well, such as Russia, Mexico, and Bulgaria, while others experienced sharp declines due to economic and political woes, including Argentina, Venezuela, and Brazil.

### MARKET SECTOR PERFORMANCE, SIX MONTHS ENDED 1/31/03

#### Equities

|  |        |
|--|--------|
| Standard & Poor's 500 Index (broad market) | -5.26% |
|--|--------|

|  |        |
|--|--------|
| Nasdaq Composite Index (technology stocks) | -0.55% |
|--|--------|

|  |        |
|--|--------|
| Russell 2000 Index (small- and mid-cap stocks) | -4.44% |
|--|--------|

#### Bonds

|                              |       |
|------------------------------|-------|
| Lehman Government Bond Index | 4.87% |
|------------------------------|-------|

|                                     |        |
|-------------------------------------|--------|
| SSB Non-U.S. World Govt. Bond Index | 10.47% |
|-------------------------------------|--------|

|                                   |       |
|-----------------------------------|-------|
| JP Morgan Global High Yield Index | 8.10% |
|-----------------------------------|-------|

Indexes assume reinvestment of all distributions and do not account for fees. Securities and performance of a fund and an index will differ. You cannot invest directly in an index.

#### \* STRATEGY OVERVIEW

As a multi-sector fixed-income fund, Putnam Premier Income Trust's strategy worked well during the fund's semiannual period because conditions in the bond market changed drastically. As a result, the different sectors within the fund benefited at different times as market conditions varied.

During the first 10 weeks of the period, the fund's high-quality holdings performed well, offsetting the underperformance of the corporate high-yield holdings. During the latter 14 weeks of the period, when the Treasury market saw an enormous rise in yields in October and experienced a great deal of volatility thereafter, the fund's corporate high-yield holdings bolstered returns. Finally, throughout the period, the fund's foreign bonds -- in both the emerging-markets and investment-grade sectors -- performed well, exemplifying the value of geographic diversification.

A notable sector change during the period was a reduction in the fund's mortgage-backed securities (MBS) holdings and a corresponding increase in the fund's corporate investment-grade bonds.

While we believe the fund's strategy worked well during the period, it may have caused the fund to underperform other similar funds within its Lipper peer group category. For example, if the fund's emerging-markets sector weighting had been larger, the fund would have benefited more fully from the strength of these markets in the fourth calendar quarter of 2002. Similarly, within emerging markets, the fund missed the strong returns in Brazil that occurred after that country's elections in October.

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[GRAPHIC OMITTED: horizontal bar chart FUND SECTOR WEIGHTINGS]

### FUND SECTOR WEIGHTINGS\*

|                             | as of 7/31/02 | as of 1/31/03 |
|-----------------------------|---------------|---------------|
| U.S.<br>investment grade    | 32.02%        | 34.49%        |
| Corporate<br>high yield     | 45.39%        | 44.15%        |
| Foreign<br>investment grade | 14.13%        | 13.91%        |
| Emerging markets            | 8.46%         | 7.45%         |

Footnote reads:

\*This chart shows how the fund's sector weighings have changed over the past six months. Weighings are shown a a percentage of net assets. Holdings will vary over time.

### \* PERFORMANCE OVERVIEW BY SECTOR

Prior to mid October, the fund's performance was hurt by the fund's large weighting (nearly 50%) in high-yield corporate bonds. Since it is a multi-sector fund, however, the underperformance of this sector was offset by strong performance among the fund's U.S. Treasury and mortgage-backed securities (MBS) holdings. (The fund's MBS holdings consist primarily of "structured" products, including government agency bonds, asset-backed securities, commercial MBSs, and collateralized mortgage obligations.) In addition, the fund's foreign investment-grade bonds in Germany and France performed well because of weakness in those economies and the strength of the euro. In addition, the fund's holdings in Sweden, Canada, and New Zealand had solid performance during the period.

In emerging markets, the fund's performance benefited from being invested in countries that performed well, such as Russia, Mexico, and Bulgaria, and from reduced weightings in countries like Argentina, Venezuela, and Brazil, which experienced difficulties. Brazilian bonds performed well after that country's elections, and we did not capture those gains, but in general we were pleased with our security selection within the emerging-markets sector.

[GRAPHIC OMITTED: TOP SECTOR HOLDINGS]

### TOP SECTOR HOLDINGS\*

U.S. investment-grade

Federal National Mortgage Association,  
7.5%, 8/25/42

U.S. Treasury Bonds, 7.5%, 11/15/16

Federal National Mortgage Association  
TBA, 7.0%, 2/1/33

High-yield

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HMH Properties, Inc. company guaranty  
Series B, 7.875%, 2008

Echostar DBS Corp. senior notes,  
10.375%, 2007

Pioneer Natural Resources Co. company  
guaranty, 9.625%, 2010

International

Sweden (government of) bonds Ser.  
1044, 3.5%, 2006

Sweden (government of) bonds Ser.  
1037, 8.0%, 2007

Canada (government of) bonds 6.0%, 2011

Footnote reads:

\*These holdings represented 13.3% of the fund's net assets as of 1/31/03.  
Portfolio holdings will vary over time.

During the first 10 weeks of the period, the fund's weighting in U.S. corporate investment-grade bonds was near zero. However, after the Treasury yield spike in mid October, and the more hopeful outlook for this beleaguered sector, we began adding high-grade corporate bonds to the portfolio. The increase in this weighting benefited performance, as the sector performed very well during the final 14 weeks of the period.

The increase in corporate investment-grade bonds corresponded with a decrease in the fund's holdings of structured fixed-income investments, including commercial MBSs, collateralized mortgage obligations, government agency bonds, and asset-backed securities. We felt that the strong performance of these securities for much of the year had run its course, and we invested the proceeds from these sales in corporate investment-grade bonds.

The fund held a large weighting in corporate high-yield securities throughout the period, as we believed that this sector was due for recovery and should outperform over the next several years. While risks remain significant for this sector, with an uncertain economic recovery, weak corporate spending, high default rates, and slow profit growth, we are managing these risks by maintaining a high level of diversity and not investing too much in any one holding. The fund's large high-yield weighting was a major factor in its strong performance during the period because high-yield bonds outperformed most other fixed-income sectors from mid October through the end of January. Please note that all sector weightings discussed in this report are subject to review in accordance with the fund's investment strategy and may vary in the future.

\* THE FUND'S MANAGEMENT TEAM

The fund is managed by the Putnam Core Fixed-Income Team. The members of this team are D. William Kohli (Portfolio Leader), David Waldman (Portfolio Member), Carl Bell, Rob Bloenker, Andrea Burke, Kevin Cronin, Steve Horner, James Prusko, Michael Salm, and John Van Tassel.

THE OUTLOOK FOR YOUR FUND

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The following commentary reflects anticipated developments that could affect your fund over the next six months, as well as your management team's plans for responding to them.

Looking toward the remainder of 2003, we believe that European government and government agency bonds will continue to outperform U.S. Treasuries, and that the euro will continue rising versus the dollar. As a result, we anticipate maintaining an overweighted position in Europe and de-emphasizing U.S. Treasuries. We also anticipate that we will keep the fund's high-yield exposure at current levels because of our positive views on this sector. Several factors support this view: Default rates are beginning to decrease, companies are retiring debt, and investors are seeking securities with greater yield potential.

We are reducing the fund's corporate investment-grade weighting, as we believe that there are too many uncertainties surrounding the U.S. economy and among individual bonds in this sector. Finally, we have shortened the fund's duration as a precautionary measure against a rise in interest rates this year. (Duration is a measure of interest-rate sensitivity; the shorter a fund's duration, the less sensitive it will be to changes in interest rates.) We anticipate that the other sector weightings will remain the same, but, as always, will make adjustments as conditions warrant.

The views expressed in this report are exclusively those of Putnam Management as of 1/31/03. They are not meant as investment advice. Although the described holdings were viewed favorably as of 1/31/03, there is no guarantee the fund will continue to hold these securities in the future. International investing involves certain risks, such as currency fluctuations, economic instability, and political developments. Lower-rated bonds may offer higher yields in return for more risk. Mutual funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk.

### A NOTE ABOUT DUPLICATE MAILINGS

In response to investors' requests, the SEC has modified mailing regulations for proxy statements, semiannual and annual reports, and prospectuses. Putnam is now able to send a single copy of these materials to customers who share the same address. This change will automatically apply to all shareholders except those who notify us. If you would prefer to receive your own copy, please call Putnam at 1-800-225-1581.

### PERFORMANCE SUMMARY

This section provides information about your fund's performance during the semiannual period, which ended January 31, 2003. In accordance with NASD requirements, we also include performance for the most current calendar quarter-end. Performance should always be considered in light of a fund's investment strategy. A profile of your fund's strategy appears on the first page of the Report from Fund Management. Terms used in this section are defined on page 8.

#### TOTAL RETURN FOR PERIODS ENDED 1/31/03

|          | NAV   | Market price |
|----------|-------|--------------|
| 6 months | 8.24% | 13.20%       |
| 1 year   | 7.59  | 12.72        |

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|                                 |       |       |
|---------------------------------|-------|-------|
| 5 years                         | 15.81 | 19.89 |
| Annual average                  | 2.98  | 3.70  |
| 10 years                        | 83.73 | 94.87 |
| Annual average                  | 6.27  | 6.90  |
| Life of fund<br>(since 2/29/88) |       |       |
| Annual average                  | 7.80  | 7.37  |

COMPARATIVE INDEX RETURNS FOR PERIODS ENDED 1/31/03

|                                 | Lehman<br>Government<br>Bond Index | SSB Non-U.S.<br>World Govt.<br>Bond Index | JP Morgan<br>Global<br>High Yield<br>Index* | CSFB<br>High Yield<br>Index |
|---------------------------------|------------------------------------|---|---|-----------------------------|
| 6 months                        | 4.87%                              | 10.47%                                    | 8.10%                                       | 8.86%                       |
| 1 year                          | 10.51                              | 27.68                                     | 4.04  | 4.94                        |
| 5 years                         | 42.91                              | 29.63                                     | 6.67  | 8.48                        |
| Annual average                  | 7.40                               | 5.33                                      | 1.30  | 1.64                        |
| 10 years                        | 102.40                             | 87.13                                     | --  | 87.95                       |
| Annual average                  | 7.31                               | 6.47                                      | --  | 6.51                        |
| Life of fund<br>(since 2/29/88) |                                    |   |   |                             |
| Annual average                  | 8.23                               | 6.92                                      | --  | 8.22                        |

Past performance does not indicate future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate and you may have a gain or a loss when you sell your shares. Performance does not reflect taxes on reinvested distributions.

\* This comparative index replaced the CSFB High Yield Index on 12/30/02 because, in Putnam Management's opinion, the securities tracked by this index more accurately reflect the types of securities generally held by the fund. The JP Morgan Global High Yield Index's inception date was 12/31/93.

+ Over the 6-month, and 1-, 5-, and 10-year periods ended 1/31/03, there were 12, 12, 12, and 9 funds, respectively, in this Lipper category.

PRICE AND DISTRIBUTION INFORMATION 6 MONTHS ENDED 1/31/03

|                        |          |
|------------------------|----------|
| Distributions (number) | 6        |
| Income                 | \$0.2700 |

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|                                |          |              |
|--------------------------------|----------|--------------|
| Capital gains                  | --       |              |
| Total                          | \$0.2700 |              |
| Share value:                   | NAV      | Market price |
| 7/31/02                        | \$6.22   | \$6.03       |
| 1/31/03                        | 6.45     | 6.54         |
| Current return (end of period) |          |              |
| Current dividend rate 1        | 8.37%    | 8.26%        |

1 Income portion of most recent distribution, annualized and divided by NAV or market price at end of period.

TOTAL RETURN FOR PERIODS ENDED 12/31/02  
(most recent calendar quarter)

|                                 | NAV   | Market price |
|---------------------------------|-------|--------------|
| 6 months                        | 4.74% | 1.91%        |
| 1 year                          | 6.43  | 10.93        |
| 5 years                         | 14.93 | 13.82        |
| Annual average                  | 2.82  | 2.62         |
| 10 years                        | 83.97 | 88.16        |
| Annual average                  | 6.29  | 6.53         |
| Life of fund<br>(since 2/29/88) |       |              |
| Annual average                  | 7.71  | 6.89         |

Past performance does not indicate future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate and you may have a gain or a loss when you sell your shares. Performance does not reflect taxes on reinvested distributions.

TERMS AND DEFINITIONS

Total return shows how the value of the fund's shares changed over time, assuming you held the shares through the entire period and reinvested all distributions in the fund.

Net asset value (NAV) is the value of all your fund's assets, minus any liabilities, divided by the number of outstanding common shares.

Market price is the current trading price of one share of the fund. Market prices are set by transactions between buyers and sellers on the New York Stock Exchange.

COMPARATIVE BENCHMARKS

Lehman Government Bond Index is an unmanaged index of U.S. Treasury and



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agency securities.

NASDAQ Composite Index is an unmanaged index that tracks broad market performance of those securities sold on the NASDAQ exchange. Since this index includes many companies in the technology sector, where market trends change quickly, this index can be volatile.

Credit Suisse First Boston (CSFB) High Yield Index is an unmanaged index of high-yield debt securities.

JP Morgan Global High Yield Index is an unmanaged index that is designed to mirror the investable universe of the U.S. dollar-denominated global high-yield corporate debt market, including domestic and international issues.

Russell 2000 Index is an unmanaged index of common stocks that generally measure performance of small to midsize companies within the Russell 3000 Index.

Salomon Smith Barney (SSB) Non-U.S. World Government Bond Index is an unmanaged index of government bonds issued by 10 countries.

Standard & Poor's 500 Index is an unmanaged index of common stock performance.

Lipper Inc. is a third-party industry ranking entity that ranks funds (without sales charges) with similar current investment styles or objectives as determined by Lipper.

Indexes assume reinvestment of all distributions and do not account for fees. Securities and performance of a fund and an index will differ. You cannot invest directly in an index.

### A GUIDE TO THE FINANCIAL STATEMENTS

These sections of the report, as well as the accompanying Notes, constitute the fund's financial statements.

The fund's portfolio lists all the fund's investments and their values as of the last day of the reporting period. Holdings are organized by asset type and industry sector, country, or state to show areas of concentration and diversification.

Statement of assets and liabilities shows how the fund's net assets and share price are determined. All investment and noninvestment assets are added together. Any unpaid expenses and other liabilities are subtracted from this total. The result is divided by the number of shares to determine the net asset value per share, which is calculated separately for each class of shares. (For funds with preferred shares, the amount subtracted from total assets includes the net assets allocated to remarketed preferred shares.)

Statement of operations shows the fund's net investment gain or loss. This is done by first adding up all the fund's earnings -- from dividends and interest income -- and subtracting its operating expenses to determine net investment income (or loss). Then, any net gain or loss the fund realized on the sales of its holdings -- as well as any unrealized gains or losses over the period -- is added to or subtracted from the net investment result to determine the fund's net gain or loss for the fiscal period.

Statement of changes in net assets shows how the fund's net assets were

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affected by distributions to shareholders and by changes in the number of the fund's shares. It lists distributions and their sources (net investment income or realized capital gains) over the current reporting period and the most recent fiscal year-end. The distributions listed here may not match the sources listed in the Statement of operations because the distributions are determined on a tax basis and may be paid in a different period from the one in which they were earned.

Financial highlights provide an overview of the fund's investment results, per-share distributions, expense ratios, net investment income ratios, and portfolio turnover in one summary table, reflecting the five most recent reporting periods. In a semiannual report, the highlight table also includes the current reporting period. For open-end funds, a separate table is provided for each share class.

### THE FUND'S PORTFOLIO January 31, 2003 (Unaudited)

#### CORPORATE BONDS AND NOTES (48.4%) (a) PRINCIPAL AMOUNT

##### Advertising and Marketing Services (0.1%)

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\$1,188,235 Interact Operating Co. notes 14s, 2003  
(In default) (NON) (PIK)  
780,000 Lamar Media Corp. 144A sr. sub. notes 7 1/4s, 2013

##### Automotive (1.0%)

---

|     |  |   |
|-----|--|---|
|     |  | 265,000 American Axle & Manufacturing, Inc. company guaranty<br>9 3/4s, 2009                        |
|     |  | 700,000 Collins & Aikman Products, Inc. company guaranty<br>11 1/2s, 2006                           |
|     |  | 1,370,000 Collins & Aikman Products, Inc. company guaranty<br>10 3/4s, 2011                         |
|     |  | 255,000 Dana Corp. notes 10 1/8s, 2010  |
|     |  | 370,000 Dana Corp. notes 9s, 2011   |
|     |  | 160,000 Dana Corp. notes 7s, 2029   |
|     |  | 405,000 Dana Corp. notes 6 1/2s, 2009   |
|     |  | 490,000 Dana Corp. notes 6 1/4s, 2004   |
| EUR |  | 170,000 Dana Corp. sr. notes 9s, 2011   |
|     |  | \$230,000 Delco Remy International, Inc. company guaranty 11s, 2009                                 |
|     |  | 280,000 Delco Remy International, Inc. company guaranty 10 5/8s, 2006                               |
|     |  | 100,000 Delco Remy International, Inc. sr. notes 8 5/8s, 2007                                       |
|     |  | 890,000 Dura Operating Corp. company guaranty Ser. B, 8 5/8s, 2012                                  |
|     |  | 965,000 Dura Operating Corp. company guaranty Ser. D, 9s, 2009                                      |
|     |  | 730,000 Exide Corp. sr. notes 10s, 2005 (In default) (NON)  |
|     |  | 200,000 Federal Mogul Corp. notes 7 7/8s, 2010 (In default) (NON)                                   |
|     |  | 610,000 Federal Mogul Corp. notes 7 3/4s, 2006 (In default) (NON)                                   |
|     |  | 200,000 Hayes Lemmerz International, Inc. 144A company guaranty<br>11 7/8s, 2006 (In default) (NON) |
|     |  | 1,090,000 Lear Corp. company guaranty Ser. B, 8.11s, 2009   |
|     |  | 1,160,000 Lear Corp. company guaranty Ser. B, 7.96s, 2005   |
| EUR |  | 285,000 Lear Corp. sr. notes 8 1/8s, 2008   |
|     |  | \$368,000 Tenneco Automotive, Inc. company guaranty Ser. B,<br>11 5/8s, 2009                        |

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### Basic Materials (6.1%)

|     |             |  |
|-----|-------------|--|
|     | 15,000      | Abitibi-Consolidated Finance LP company guaranty<br>7 7/8s, 2009   |
|     | 1,340,000   | Acetex Corp. sr. notes 10 7/8s, 2009 (Canada)  |
|     | 165,000     | Airgas, Inc. company guaranty 9 1/8s, 2011   |
|     | 1,210,000   | AK Steel Corp. company guaranty 7 7/8s, 2009   |
|     | 785,000     | AK Steel Corp. company guaranty 7 3/4s, 2012   |
|     | 249,698     | Appleton Papers, Inc. bank term loan FRN 4.64s, 2006<br>(acquired 6/4/02, cost \$250,635) (RES)                                    |
|     | 1,460,000   | Appleton Papers, Inc. company guaranty Ser. B, 12 1/2s, 2008   |
|     | 1,500,000   | ARCO Chemical Co. debs. 9.8s, 2020   |
|     | 1,135,000   | Avecia Group PLC company guaranty 11s, 2009<br>(United Kingdom)  |
|     | 850,000     | Better Minerals & Aggregates Co. company guaranty 13s, 2009  |
|     | 740,000     | Compass Minerals Group, Inc. company guaranty 10s, 2011  |
|     | 1,250,000   | Doe Run Resources Corp. company guaranty Ser. B, 11 1/4s,<br>2005 (In default) (NON)   |
|     | 180,000     | Doe Run Resources Corp. company guaranty Ser. B(a),<br>11 1/4s, 2005 (In default) (NON)  |
|     | 420,000     | Doe Run Resources Corp. company guaranty FRN Ser. B,<br>8.119s, 2003 (In default) (NON)  |
|     | 1,065,000   | Dow Chemical Co. (The) notes 5 3/4s, 2009  |
|     | 255,000     | Equistar Chemicals LP notes 8 3/4s, 2009   |
|     | 1,930,000   | Equistar Chemicals LP/Equistar Funding Corp. company<br>guaranty 10 1/8s, 2008   |
|     | 370,000     | Ferro Corp. sr. notes 9 1/8s, 2009   |
| EUR | 300,000     | Fort James Corp. company guaranty 4 3/4s, 2004   |
|     | \$1,125,000 | Four M Corp. sr. notes Ser. B, 12s, 2006   |
|     | 1,105,000   | Georgia-Pacific Corp. debs. 9 1/2s, 2011   |
|     | 990,000     | Georgia-Pacific Corp. notes 8 7/8s, 2031   |
|     | 160,000     | Georgia-Pacific Corp. notes 7 1/2s, 2006   |
|     | 290,000     | Georgia-Pacific Corp. 144A sr. notes 8 7/8s, 2010  |
|     | 235,000     | Haynes International, Inc. sr. notes 11 5/8s, 2004   |
|     | 300,000     | Hercules, Inc. bank term loan FRN Ser. B, 4.66s, 2007<br>(acquired 12/17/02, cost \$299,250) (RES)                                 |
|     | 2,065,000   | Hercules, Inc. company guaranty 11 1/8s, 2007  |
|     | 577,119     | Huntsman Corp. bank term loan FRN Ser. A, 6.004s, 2007<br>(acquired various dates from 3/1/02 to 7/17/02,<br>cost \$467,029) (RES) |
|     | 276,850     | Huntsman Corp. bank term loan FRN Ser. B, 7.438s, 2007<br>(acquired various dates from 3/1/02 to 7/17/02,<br>cost \$224,038) (RES) |
|     | 1,655,000   | Huntsman ICI Chemicals, Inc. company guaranty<br>10 1/8s, 2009   |
|     | 2,025,000   | Huntsman ICI Holdings sr. disc. notes zero %, 2009   |
| EUR | 695,000     | Huntsman International, LLC sr. sub. notes Ser. EXCH,<br>10 1/8s, 2009   |
|     | \$500,000   | IMC Global, Inc. company guaranty Ser. B, 11 1/4s, 2011  |
|     | 832,000     | IMC Global, Inc. company guaranty Ser. B, 10 7/8s, 2008  |
|     | 320,000     | IMC Global, Inc. 144A sr. notes 11 1/4s, 2011  |
|     | 1,910,000   | ISP Chemco, Inc. company guaranty Ser. B, 10 1/4s, 2011  |
|     | 320,000     | ISP Holdings, Inc. sec. sr. notes Ser. B, 10 5/8s, 2009  |
|     | 80,000      | Kaiser Aluminum & Chemical Corp. sr. notes Ser. B,<br>10 7/8s, 2006 (In default) (NON)   |
|     | 2,360,000   | Kaiser Aluminum & Chemical Corp. sr. sub. notes<br>12 3/4s, 2049 (In default) (NON)  |
|     | 60,000      | Louisiana-Pacific Corp. sr. notes 8 7/8s, 2010   |
|     | 472,000     | Louisiana-Pacific Corp. sr. sub. notes 10 7/8s, 2008   |

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|     |           |  |
|-----|-----------|--|
|     | 445,000   | Lyondell Chemical Co. bonds 11 1/8s, 2012  |
|     | 250,000   | Lyondell Chemical Co. notes Ser. A, 9 5/8s, 2007   |
|     | 95,000    | Lyondell Chemical Co. sec. notes Ser. B, 9 7/8s, 2007  |
|     | 1,040,000 | Lyondell Chemical Co. sr. sub. notes 10 7/8s, 2009   |
|     | 850,000   | Lyondell Chemical Co. 144A sec. notes 9 1/2s, 2008   |
| EUR | 1,110,000 | MDP Acquisitions PLC sr. notes Ser. REGS, 10 1/8s, 2012 (Ireland)  |
| EUR | 310,000   | Messer Griesheim Holdings AG sr. notes 10 3/8s, 2011 (Germany)   |
| \$  | 1,610,000 | Millennium America, Inc. company guaranty 9 1/4s, 2008   |
|     | 455,000   | Millennium America, Inc. company guaranty 7s, 2006   |
|     | 630,000   | Nortek, Inc. sr. notes Ser. B, 8 7/8s, 2008  |
|     | 120,000   | Nortek, Inc. sr. sub. notes Ser. B, 9 7/8s, 2011   |
|     | 460,000   | Nortek, Inc. 144A sr. notes Ser. B, 9 1/8s, 2007   |
|     | 630,000   | Noveon, Inc. company guaranty Ser. B, 11s, 2011  |
|     | 1,315,000 | OM Group, Inc. company guaranty 9 1/4s, 2011   |
|     | 670,000   | Oregon Steel Mills, Inc. company guaranty 10s, 2009  |
|     | 484,000   | P&L Coal Holdings Corp. company guaranty Ser. B, 9 5/8s, 2008  |
|     | 1,630,000 | Pacifica Papers, Inc. sr. notes 10s, 2009 (Canada)   |
|     | 609,379   | PCI Chemicals Canada sec. sr. notes 10s, 2008 (Canada)   |
|     | 260,000   | Phelps Dodge Corp. sr. notes 8 3/4s, 2011  |
|     | 203,126   | Pioneer Cos., Inc. sec. FRN 4.9s, 2006   |
|     | 330,000   | Polymer Group, Inc. company guaranty Ser. B, 9s, 2007 (In default) (NON)                                       |
|     | 160,000   | Polymer Group, Inc. company guaranty Ser. B, 8 3/4s, 2008 (In default) (NON)                                   |
|     | 1,095,000 | Potlatch Corp. company guaranty 10s, 2011  |
|     | 1,620,000 | Premium Standard Farms, Inc. sr. notes 9 1/4s, 2011  |
|     | 398,000   | Riverwood International Corp. bank term loan FRN Ser. C, 4.492s, 2007 (acquired 4/24/02, cost \$406,181) (RES) |
|     | 400,000   | Riverwood International Corp. bank term loan FRN Ser. C, 3.861s, 2008 (acquired 4/24/02, cost \$400,000) (RES) |
|     | 2,355,000 | Riverwood International Corp. company guaranty 10 7/8s, 2008   |
|     | 1,210,000 | Royster-Clark, Inc. 1st mtge. 10 1/4s, 2009  |
|     | 830,000   | Salt Holdings Corp. 144A sr. notes stepped-coupon zero % (12 3/4s, 12/15/07), 2012 (STP)                       |
|     | 365,000   | Smurfit-Stone Container Corp. company guaranty 8 1/4s, 2012  |
|     | 1,040,000 | Solutia, Inc. company guaranty 11 1/4s, 2009   |
|     | 1,340,000 | Steel Dynamics, Inc. company guaranty 9 1/2s, 2009   |
|     | 194,941   | Sterling Chemicals, Inc. sec. notes 10s, 2007 (PIK)  |
|     | 1,090,000 | Stone Container Corp. sr. notes 9 3/4s, 2011   |
|     | 490,000   | Stone Container Corp. sr. notes 9 1/4s, 2008   |
|     | 1,050,000 | Stone Container Corp. sr. notes 8 3/8s, 2012   |
|     | 460,000   | Stone Container Corp. 144A company guaranty 11 1/2s, 2006 (Canada)   |
|     | 1,210,000 | Tembec Industries, Inc. company guaranty 8 5/8s, 2009 (Canada)   |
|     | 210,000   | Tembec Industries, Inc. company guaranty 8 1/2s, 2011 (Canada)   |
|     | 70,000    | Texas Petrochemical Corp. sr. sub. notes 11 1/8s, 2006   |
|     | 280,000   | Texas Petrochemical Corp. sr. sub. notes Ser. B, 11 1/8s, 2006   |
|     | 515,000   | Ucar Finance, Inc. company guaranty 10 1/4s, 2012  |
|     | 50,000    | United States Steel, LLC sr. notes 10 3/4s, 2008   |
|     | 710,000   | WCI Steel, Inc. sr. notes Ser. B, 10s, 2004  |
|     | 55,000    | Weirton Steel Corp. sr. notes FRN 10s, 2008  |
|     | 1,290,000 | Wheeling-Pittsburgh Steel Corp. sr. notes 9 1/4s, 2007 (In default) (NON)                                      |
|     | 570,000   | WHX Corp. sr. notes 10 1/2s, 2005  |

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### Building Materials (0.5%)

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1,510,000 American Standard Cos., Inc. company guaranty 7 5/8s, 2010  
 100,000 American Standard Cos., Inc. company guaranty 7 1/8s, 2003  
 445,000 Atrium Cos., Inc. company guaranty Ser. B, 10 1/2s, 2009  
 450,000 Building Materials Corp. company guaranty 8s, 2008  
 1,230,000 Dayton Superior Corp. company guaranty 13s, 2009  
 246,875 NCI Building Systems, Inc. bank term loan FRN Ser. B, 4.4s,  
 2008 (acquired 9/4/02, cost \$246,875) (RES)  
 1,960,000 Owens Corning bonds 7 1/2s, 2018 (In default) (NON)  
 1,185,000 Owens Corning notes 7 1/2s, 2005 (In default) (NON)

### Capital Goods (4.5%)

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350,000 Advanced Glass Fiber Yarns bank term loan FRN Ser. A,  
 6 3/4s, 2004 (acquired 9/12/02, cost \$245,237) (RES)  
 310,000 Advanced Glass Fiber Yarns sr. sub. notes 9 7/8s, 2009  
 (In default) (NON)  
 968,000 AEP Industries, Inc. sr. sub. notes 9 7/8s, 2007  
 362,600 Alliant Techsystems, Inc. bank term loan FRN Ser. C, 3.688s,  
 2009 (acquired 5/7/02, cost \$362,600) (RES)  
 54,358 Allied Waste Industries, Inc. bank term loan FRN 4.438s, 2007  
 (acquired 2/27/02, cost \$53,679) (RES)  
 450,509 Allied Waste Industries, Inc. bank term loan FRN 4.188s, 2006  
 (acquired various dates from 10/22/01 to 2/27/02,  
 cost \$443,167) (RES)  
 800,000 Allied Waste North America, Inc. company guaranty Ser. B,  
 10s, 2009  
 545,000 Allied Waste North America, Inc. company guaranty Ser. B,  
 8 7/8s, 2008  
 1,610,000 Allied Waste North America, Inc. company guaranty Ser. B,  
 8 1/2s, 2008  
 105,000 Allied Waste North America, Inc. company guaranty Ser. B,  
 7 7/8s, 2009  
 1,975,000 Allied Waste North America, Inc. 144A company guaranty  
 9 1/4s, 2012  
 280,000 Amkor Technologies, Inc. sr. notes 9 1/4s, 2006  
 540,000 Amkor Technologies, Inc. Structured Notes (issued by STEERS  
 Credit Linked Trust 2000) 12.58s, 2005  
 880,000 Applied Extrusion Technologies, Inc. company guaranty Ser. B,  
 10 3/4s, 2011  
 120,000 Argo-Tech Corp. company guaranty Ser. D, 8 5/8s, 2007  
 1,750,000 Argo-Tech Corp. 144A company guaranty 8 5/8s, 2007  
 900,000 BE Aerospace, Inc. sr. sub. notes 9 1/2s, 2008  
 185,000 BE Aerospace, Inc. sr. sub. notes Ser. B, 8 7/8s, 2011  
 1,400,000 BE Aerospace, Inc. sr. sub. notes Ser. B, 8s, 2008  
 770,000 Berry Plastics Corp. company guaranty 10 3/4s, 2012  
 1,635,000 Blount, Inc. company guaranty 13s, 2009  
 390,000 Blount, Inc. company guaranty 7s, 2005  
 770,000 Briggs & Stratton company guaranty 8 7/8s, 2011  
 2,300,000 Browning-Ferris Industries, Inc. debs. 7.4s, 2035  
 880,000 Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008  
 187,500 Casella Waste Systems, Inc. bank term loan FRN Ser. B, 4.63s,  
 2010 (acquired 1/22/03, cost \$187,500) (RES)  
 EUR 160,000 Crown Cork & Seal Finance SA company guaranty 6s,  
 2004 (France)  
 \$1,310,000 Decrane Aircraft Holdings Co. company guaranty Ser. B,  
 12s, 2008  
 850,000 Earle M. Jorgensen Co. sec. notes 9 3/4s, 2012

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129,570 Flowserve Corp. bank term loan FRN Ser. C, 4.188s, 2009  
 (acquired 4/30/02, cost \$129,570) (RES)  
 705,000 Flowserve Corp. company guaranty 12 1/4s, 2010  
 EUR 135,000 Flowserve Finance BV company guaranty 12 1/4s,  
 2010 (Netherlands)  
 \$135,000 Fonda Group, Inc. sr. sub. notes Ser. B, 9 1/2s, 2007  
 1,030,000 Hexcel Corp. sr. sub. notes 9 3/4s, 2009  
 730,000 High Voltage Engineering Corp. sr. notes 10 3/4s, 2004  
 775,000 IESI Corp. company guaranty 10 1/4s, 2012  
 650,000 Insilco Holding Co. sr. disc. notes stepped-coupon zero %  
 (14s, 8/15/03), 2008 (In default) (NON) (STP)  
 490,000 Jackson Products, Inc. company guaranty Ser. B, 9 1/2s, 2005  
 600,000 Jordan Industries, Inc. sr. notes Ser. D, 10 3/8s, 2007  
 420,000 K&F Industries, Inc. sr. sub. notes Ser. B, 9 1/4s, 2007  
 520,000 K&F Industries, Inc. 144A sr. sub. notes 9 5/8s, 2010  
 1,310,000 L-3 Communications Corp. sr. sub. notes 8 1/2s, 2008  
 1,000,000 L-3 Communications Corp. Structured Notes, 8.82s, 2009  
 (Issued by COUNTS Trust, Series 2001)  
 555,000 Laidlaw, Inc. debs. 8 3/4s, 2025 (Canada) (In default) (NON)  
 170,000 Laidlaw, Inc. debs. 8 1/4s, 2023 (Canada) (In default) (NON)  
 1,750,000 Laidlaw, Inc. notes 7.65s, 2006 (Canada) (In default) (NON)  
 445,000 Manitowoc Co., Inc. (The) 144A sr. sub. notes 10 1/2s, 2012  
 472,438 Michigan Electric Transmission Co./Michigan Electric  
 Transmission, Inc. bank term loan FRN Ser. B, 3.84s, 2007  
 (acquired various dates from 4/22/02 to 5/3/02,  
 cost \$474,688) (RES)  
 570,000 Moog, Inc. sr. sub. notes Ser. B, 10s, 2006  
 1,435,000 Motors and Gears, Inc. sr. notes Ser. D, 10 3/4s, 2006  
 1,455,000 Owens-Brockway Glass company guaranty 8 7/8s, 2009  
 765,000 Owens-Brockway Glass 144A sec. sr. notes 8 3/4s, 2012  
 190,000 Owens-Brockway Glass 144A sec. sr. notes 8 3/4s, 2012  
 330,000 Owens-Illinois, Inc. sr. notes 8.1s, 2007  
 825,000 Pliant Corp. company guaranty 13s, 2010  
 195,000 Pliant Corp. sr. sub. notes 13s, 2010  
 415,000 Remington Arms Co., Inc. 144A company guaranty  
 10 1/2s, 2011  
 410,000 Rexnord Corp. 144A sr. sub. notes 10 1/8s, 2012  
 930,000 Roller Bearing Co. of America company guaranty Ser. B,  
 9 5/8s, 2007  
 63,961 SPX Corp. bank term loan FRN Ser. B, 3.688s, 2009  
 (acquired 7/23/02, cost \$63,961) (RES)  
 106,548 SPX Corp. bank term loan FRN Ser. C, 3.938s, 2010  
 (acquired 7/23/02, cost \$106,548) (RES)  
 335,000 Sweetheart Cup Co. sr. sub. notes 10 1/2s, 2003  
 1,490,000 Tekni-Plex, Inc. company guaranty Ser. B, 12 3/4s, 2010  
 185,000 Terex Corp. company guaranty 8 7/8s, 2008  
 1,025,000 Terex Corp. company guaranty Ser. B, 10 3/8s, 2011  
 370,000 Terex Corp. company guaranty Ser. D, 8 7/8s, 2008  
 298,558 Trimas Corp. bank term loan FRN 4.438s, 2009 (acquired 6/5/02,  
 cost \$298,558) (RES)  
 205,000 Trimas Corp. 144A company guaranty 9 7/8s, 2012  
 605,000 Trimas Corp. 144A sr. sub. notes 9 7/8s, 2012  
 416,258 United Defense Industries, Inc. bank term loan FRN Ser. B, 3.6s,  
 2009 (acquired various dates from 10/19/01 to 7/1/02,  
 cost \$416,289) (RES)

### Commercial and Consumer Services (0.2%)

189,225 Coinmach Corp. bank term loan FRN Ser. B, 4.525s, 2009  
 (acquired 1/31/02, cost \$188,988) (RES)

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1,660,000 Coinmach Corp. sr. notes 9s, 2010

### Communication Services (3.6%)

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375,000 Bell Actimedia bank term loan FRN Ser. C, 5.688s, 2010  
(acquired 11/26/02, cost \$371,250) (RES)

550,000 Airgate PCS, Inc. sr. sub. notes stepped-coupon zero %  
(13 1/2s, 10/1/04), 2009 (STP)

890,000 Alamosa Delaware, Inc. company guaranty 13 5/8s, 2011

400,000 Alamosa Delaware, Inc. company guaranty 12 1/2s, 2011

2,228,000 Alamosa PCS Holdings, Inc. company guaranty stepped-coupon  
zero % (12 7/8s, 2/15/05), 2010 (STP)

1,510,000 American Cellular Corp. company guaranty 9 1/2s, 2009

660,000 American Tower Corp. sr. notes 9 3/8s, 2009

550,000 Arch Communications, Inc. sr. notes 13 3/4s, 2008 (In default) (NON)

770,000 Asia Global Crossing, Ltd. sr. notes 13 3/8s, 2010 (Bermuda)  
(In default) (NON)

456,760 Colo.com, Inc. 144A sr. notes 13 7/8s, 2010 (In default) (NON)

1,140,000 Crown Castle International Corp. sr. disc. notes stepped-coupon  
zero % (10 3/8s, 5/15/04), 2011 (STP)

1,060,000 Crown Castle International Corp. sr. notes 9 3/8s, 2011

150,000 Crown Castle International Corp. sr. notes 9s, 2011

3,080,000 Cybernet Internet Services International, Inc. 144A sr. disc. notes  
stepped-coupon zero % (13s, 8/15/04), 2009 (Denmark)  
(In default) (NON) (STP)

1,220,000 Dobson/Sygnnet Communications, Inc. sr. notes 12 1/4s, 2008

380,000 Firstworld Communication Corp. sr. disc. notes stepped-coupon  
zero % (13s, 4/15/03), 2008 (In default) (NON) (STP)

413,112 Globix Corp. company guaranty 11s, 2008 (PIK)

220,000 Horizon PCS, Inc. company guaranty 13 3/4s, 2011

125,538 Hughes Electronics bank term loan FRN 5.86s, 2003  
(acquired 11/21/02, cost \$123,655) (RES)

90,000 Intermedia Communications, Inc. sr. notes Ser. B, 8.6s, 2008  
(In default) (NON)

1,270,000 iPCS, Inc. sr. disc. notes stepped-coupon zero %  
(14s, 7/15/05), 2010 (STP)

705,000 IWO Holdings, Inc. company guaranty 14s, 2011

810,000 Leap Wireless International, Inc. company guaranty  
12 1/2s, 2010

260,000 Metrocall, Inc. sr. sub. notes 9 3/4s, 2007 (In default) (NON)

450,000 Metromedia Fiber Network, Inc. sr. notes 10s, 2009  
(In default) (NON)

1,070,000 Metromedia Fiber Network, Inc. sr. notes Ser. B, 10s,  
2008 (In default) (NON)

1,260,000 Microcell Telecommunications sr. disc. notes Ser. B, 14s,  
2006 (Canada) (In default) (NON)

320,000 Millicom International Cellular SA sr. disc. notes 13 1/2s,  
2006 (Luxembourg)

975,000 Nextel Communications, Inc. bank term loan FRN Ser. A,  
2.688s, 2007 (acquired 11/1/02, cost \$850,688) (RES)

187,031 Nextel Communications, Inc. bank term loan FRN Ser. B,  
4.813s, 2008 (acquired 12/19/02, cost \$172,957) (RES)

187,031 Nextel Communications, Inc. bank term loan FRN Ser. C,  
5.063s, 2008 (acquired 12/19/02, cost \$172,957) (RES)

1,495,000 Nextel Communications, Inc. sr. disc. notes 9 3/4s, 2007

25,000 Nextel Communications, Inc. sr. disc. notes stepped-coupon  
zero % (9.95s, 2/15/03), 2008 (STP)

1,230,000 Nextel Communications, Inc. sr. notes 12s, 2008

2,075,000 Nextel Communications, Inc. sr. notes 9 3/8s, 2009

80,000 Nextel Communications, Inc. 144A sr. disc. notes zero %, 2007

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2,205,000 Nextel Partners, Inc. sr. disc. notes stepped-coupon zero %  
(14s, 2/1/04), 2009 (STP)  
270,000 Nextel Partners, Inc. sr. notes 12 1/2s, 2009  
990,000 Orbital Imaging Corp. sr. notes Ser. B, 11 5/8s, 2005  
(In default) (NON)  
690,000 PanAmSat Corp. bank term loan FRN Ser. B, 4.84s, 2009  
(acquired 2/21/02, cost \$689,138) (RES)  
1,160,000 PanAmSat Corp. company guaranty 8 1/2s, 2012  
10,000 Qwest Capital Funding, Inc. company guaranty 7 3/4s, 2006  
1,060,000 Qwest Capital Funding, Inc. company guaranty 7 1/4s, 2011  
270,000 Qwest Capital Funding, Inc. company guaranty 6 3/8s, 2008  
680,000 Qwest Communications International, Inc. sr. notes Ser. B,  
7 1/4s, 2008  
1,210,000 Qwest Corp. 144A notes 8 7/8s, 2012  
2,807,000 Qwest Services Corp. 144A notes 13 1/2s, 2010  
168,564 Rhythms Netconnections, Inc. sr. notes Ser. B, 14s, 2010  
(In default) (NON)  
1,075,000 Rogers Cantel, Ltd. sr. sub. notes 8.8s, 2007 (Canada)  
450,000 Rogers Wireless, Inc. sec. notes 9 5/8s, 2011 (Canada)  
420,000 Rural Cellular Corp. sr. sub. notes Ser. B, 9 5/8s, 2008  
152,000 Telecorp PCS, Inc. company guaranty 10 5/8s, 2010  
45,000 Telecorp PCS, Inc. company guaranty stepped-coupon  
zero % (11 5/8s, 4/15/04), 2009 (STP)  
2,940,000 Telus Corp. notes 8s, 2011 (Canada)  
1,625,000 Telus Corp. notes 7 1/2s, 2007 (Canada)  
300,000 Time Warner Telecom, Inc. bank term loan FRN Ser. B,  
5.45s, 2009 (acquired 1/15/03, cost \$262,500) (RES)  
855,000 Time Warner Telecom, Inc. sr. notes 10 1/8s, 2011  
470,000 Time Warner Telecom, Inc. sr. notes 9 3/4s, 2008  
130,000 Triton PCS, Inc. company guaranty 9 3/8s, 2011  
1,180,000 Triton PCS, Inc. company guaranty 8 3/4s, 2011  
500,000 Triton PCS, Inc. company guaranty zero %, 2008  
710,000 TSI Telecommunication Services, Inc. company guaranty  
Ser. B, 12 3/4s, 2009  
550,000 U S West, Inc. notes 5 5/8s, 2008  
2,310,000 UbiqTel Operating Co. company guaranty stepped-coupon  
zero % (14s, 4/15/05), 2010 (STP)  
1,250,000 US UnWired, Inc. company guaranty stepped-coupon  
Ser. B, zero % (13 3/8s, 11/1/04), 2009 (STP)  
210,000 US West Capital Funding, Inc. company guaranty 6 7/8s, 2028  
565,000 US West Capital Funding, Inc. company guaranty 6 1/4s, 2005

### Conglomerates (0.5%)

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230,000 Tyco International Group SA company guaranty  
6 3/4s, 2011 (Luxembourg)  
2,840,000 Tyco International Group SA company guaranty  
6 3/8s, 2006 (Luxembourg)  
310,000 Tyco International Group SA company guaranty  
6 3/8s, 2005 (Luxembourg)  
1,190,000 Tyco International Group SA notes 6 3/8s, 2011  
(Luxembourg)

### Consumer (0.6%)

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1,185,000 Icon Health & Fitness company guaranty 11 1/4s, 2012  
343,335 Jostens, Inc. bank term loan FRN Ser. C, 4.15s, 2009  
(acquired 7/30/02, cost \$343,335) (RES)



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1,230,000 Jostens, Inc. sr. sub. notes 12 3/4s, 2010  
2,330,000 Samsonite Corp. sr. sub. notes 10 3/4s, 2008

### Consumer Staples (8.2%)

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70,000 Acme Communications, Inc. sr. disc. notes Ser. B, 12s, 2005  
1,440,000 Acme Television company guaranty 10 7/8s, 2004  
256,985 Adams Outdoor Advertising bank term loan FRN Ser. B,  
4.87s, 2008 (acquired 8/1/01, cost \$256,663) (RES)  
110,000 Adelpia Communications Corp. notes Ser. B, 9 7/8s, 2005  
(In default) (NON)  
560,000 Adelpia Communications Corp. sr. notes 10 7/8s, 2010  
(In default) (NON)  
25,000 Adelpia Communications Corp. sr. notes 10 1/4s, 2011  
(In default) (NON)  
75,000 Adelpia Communications Corp. sr. notes 9 3/8s, 2009  
(In default) (NON)  
35,000 Adelpia Communications Corp. sr. notes 7 7/8s, 2009  
(In default) (NON)  
30,000 Adelpia Communications Corp. sr. notes Ser. B, 8 3/8s, 2008  
(In default) (NON)  
1,790,000 Adelpia Communications Corp. sr. notes Ser. B, 7 3/4s, 2009  
(In default) (NON)  
2,155,000 Affinity Group Holdings sr. notes 11s, 2007  
735,000 AMC Entertainment, Inc. sr. sub. notes 9 7/8s, 2012  
260,000 AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2011  
990,000 AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2009  
493,861 American Seafood Group, LLC bank term loan FRN Ser. B,  
4.667s, 2009 (acquired 4/11/02, cost \$493,367) (RES)  
314,237 AMF Bowling Worldwide bank term loan FRN Ser. B, 6.069s,  
2008 (acquired 3/1/02, cost \$313,452) (RES)  
444,117 Archibald Candy Corp. company guaranty 10s, 2007 (PIK)  
890,000 Armkel, LLC/Armkel Finance sr. sub. notes 9 1/2s, 2009  
315,000 Aurora Foods, Inc. sr. sub. notes Ser. B, 9 7/8s, 2007  
1,010,000 Aurora Foods, Inc. 144A sr. sub. notes Ser. D, 9 7/8s, 2007  
535,000 Brand Services, Inc. 144A sr. sub. notes 12s, 2012  
310,000 British Sky Broadcasting PLC company guaranty 8.2s, 2009  
(United Kingdom)  
2,320,000 British Sky Broadcasting PLC company guaranty 6 7/8s, 2009  
(United Kingdom)  
299,152 Carmike Cinemas, Inc. bank term loan FRN Ser. B, 7 3/4s, 2005  
(acquired 10/4/02, cost \$291,934) (RES)  
1,120,000 Century Cable Holdings bank term loan FRN 6 1/4s, 2009  
(acquired various dates from 5/22/02 to 6/11/02,  
cost \$980,796) (RES)  
2,200,000 Chancellor Media Corp. company guaranty 8s, 2008  
250,000 Charter Communications Holdings, LLC bank term loan FRN  
Ser. B, 4.12s, 2008 (acquired 1/9/03, cost \$217,188) (RES)  
235,000 Charter Communications Holdings, LLC/Capital Corp. sr. disc.  
notes stepped-coupon zero % (12 1/8s, 1/15/07), 2012 (STP)  
1,340,000 Charter Communications Holdings, LLC/Capital Corp. sr. disc.  
notes stepped-coupon zero % (11 3/4s, 5/15/06), 2011 (STP)  
865,000 Charter Communications Holdings, LLC/Capital Corp. sr. disc.  
notes stepped-coupon zero % (11 3/4s, 1/15/05), 2010 (STP)  
2,180,000 Charter Communications Holdings, LLC/Capital Corp.  
sr. notes 11 1/8s, 2011  
1,195,000 Charter Communications Holdings, LLC/Capital Corp.  
sr. notes 10 3/4s, 2009  
585,000 Charter Communications Holdings, LLC/Capital Corp.  
sr. notes 10 1/4s, 2010

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|     |             |  |
|-----|-------------|--|
|     | 1,060,000   | Charter Communications Holdings, LLC/Capital Corp.<br>sr. notes 10s, 2011  |
|     | 795,000     | Charter Communications Holdings, LLC/Capital Corp.<br>sr. notes 9 5/8s, 2009   |
|     | 140,000     | Charter Communications Holdings, LLC/Capital Corp.<br>sr. notes 8 5/8s, 2009   |
|     | 130,000     | Charter Communications Holdings, LLC/Capital Corp.<br>sr. notes 8 1/4s, 2007   |
|     | 1,805,000   | Cinemark USA, Inc. sr. sub. notes Ser. B, 8 1/2s, 2008   |
|     | 210,000     | Constellation Brands, Inc. company guaranty 8 1/2s, 2009   |
|     | 420,000     | Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008   |
|     | 595,000     | Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012   |
|     | 2,575,000   | CSC Holdings, Inc. sr. notes 7 7/8s, 2007  |
|     | 240,000     | Cumulus Media, Inc. bank term loan FRN Ser. B, 4.438s, 2007<br>(acquired 3/20/02, cost \$240,000) (RES)              |
|     | 240,000     | Dean Foods Co. sr. notes 6 5/8s, 2009  |
|     | 310,000     | Del Monte Corp. company guaranty Ser. B, 9 1/4s, 2011  |
|     | 780,000     | Del Monte Corp. 144A sr. sub. notes 8 5/8s, 2012   |
|     | 375,000     | Del Monte Foods Co. bank term loan FRN Ser. B, 5.117s, 2010<br>(acquired 12/16/02, cost \$373,125) (RES)             |
|     | 753,830     | Derby Cycle Corp. (The) sr. notes 10s, 2008 (In default) (NON)   |
| EUR | 2,042,070   | Derby Cycle Corp. (The) sr. notes 9 3/8s, 2008 (In default) (NON)  |
|     | \$3,586,000 | Diva Systems Corp. sr. disc. notes stepped-coupon Ser. B,<br>zero % (12 5/8s, 3/1/03), 2008 (In default) (NON) (STP) |
|     | 1,150,000   | Doane Pet Care Co. sr. sub. debs. 9 3/4s, 2007   |
|     | 585,000     | Dole Food Co. notes 6 3/8s, 2005   |
|     | 715,000     | Domino's, Inc. company guaranty Ser. B, 10 3/8s, 2009  |
|     | 560,000     | Eagle Family Foods company guaranty Ser. B, 8 3/4s, 2008   |
|     | 4,135,000   | Echostar DBS Corp. sr. notes 10 3/8s, 2007   |
|     | 1,565,000   | Echostar DBS Corp. sr. notes 9 3/8s, 2009  |
|     | 2,130,000   | Echostar DBS Corp. sr. notes 9 1/8s, 2009  |
|     | 450,000     | Emmis Communications Corp. bank term loan FRN Ser. C,<br>3 5/8s, 2009 (acquired 6/20/02, cost \$449,438) (RES)       |
|     | 335,000     | Emmis Communications Corp. company guaranty Ser. B,<br>8 1/8s, 2009  |
|     | 433,000     | Emmis Communications Corp. sr. disc. notes stepped-coupon<br>zero % (12 1/2s, 3/15/06), 2011 (STP)                   |
|     | 865,000     | Fleming Cos., Inc. company guaranty 10 1/8s, 2008  |
|     | 405,000     | Fleming Cos., Inc. company guaranty 9 7/8s, 2012   |
|     | 720,000     | Fleming Cos., Inc. sr. notes 9 1/4s, 2010  |
|     | 290,000     | French Fragrances, Inc. company guaranty Ser. D, 10 3/8s, 2007   |
|     | 325,000     | French Fragrances, Inc. sr. notes Ser. B, 10 3/8s, 2007  |
|     | 190,000     | Granite Broadcasting Corp. sr. sub. notes 10 3/8s, 2005  |
|     | 840,000     | Granite Broadcasting Corp. sr. sub. notes 9 3/8s, 2005   |
|     | 1,130,000   | Granite Broadcasting Corp. sr. sub. notes 8 7/8s, 2008   |
|     | 585,000     | Gray Television, Inc. company guaranty 9 1/4s, 2011  |
|     | 620,000     | Insight Communications Co., Inc. sr. disc. notes stepped-coupon<br>zero % (12 1/4s, 2/15/06), 2011 (STP)             |
|     | 105,000     | Insight Midwest LP/Insight Capital, Inc. bank term loan FRN<br>4.563s, 2009 (acquired 11/5/01, cost \$104,803) (RES) |
|     | 135,000     | Insight Midwest LP/Insight Capital, Inc. sr. notes 9 3/4s, 2009  |
|     | 49,000      | Knology, Inc. 144A sr. notes 12s, 2009 (PIK)   |
|     | 555,000     | Land O'Lakes, Inc. sr. notes 8 3/4s, 2011  |
|     | 1,390,000   | LIN Holdings Corp. sr. disc. notes stepped-coupon zero %<br>(10s, 3/1/03), 2008 (STP)                                |
|     | 170,000     | LIN Holdings Corp. 144A sr. disc. notes stepped-coupon zero %<br>(10s, 3/1/03), 2008 (STP)                           |
|     | 350,000     | LIN Television Corp. company guaranty 8s, 2008   |
|     | 450,000     | MGM Studios bank term loan FRN 4.39s, 2008 (acquired 6/10/02,<br>cost \$450,000) (RES)                               |
|     | 1,270,000   | News America Holdings, Inc. company guaranty 9 1/4s, 2013  |
|     | 1,560,000   | North Atlantic Trading Co. company guaranty Ser. B, 11s, 2004  |

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465,000 Olympus Cable bank term loan FRN Ser. B, 6 1/4s, 2010  
(acquired various dates from 6/20/02 to 11/6/02,  
cost \$374,206) (RES)

910,000 Outsourcing Solutions, Inc. sr. sub. notes Ser. B, 11s, 2006  
(In default) (NON)

510,000 Pegasus Satellite sr. notes 12 3/8s, 2006

298,500 Playtex Products, Inc. bank term loan FRN 3.63s, 2009  
(acquired 6/3/02, cost \$298,500) (RES)

865,000 Playtex Products, Inc. company guaranty 9 3/8s, 2011

630,000 Polaroid Corp. sr. notes 11 1/2s, 2006 (In default) (NON)

900,000 Premier International Foods PLC sr. notes 12s, 2009  
(United Kingdom)

365,000 Premier Parks, Inc. sr. disc. notes stepped-coupon zero %  
(10s, 4/1/03), 2008 (STP)

390,000 Premier Parks, Inc. sr. notes 10s, 2007

2,658,731 Quorum Broadcast Holdings, LLC notes stepped-coupon  
zero % (15s, 5/15/06), 2009 (STP)

1,355,000 RAB Enterprises, Inc. company guaranty 10 1/2s, 2005  
(In default) (NON)

182,333 Rayovac Corp. bank term loan FRN Ser. B, 5.134s, 2009  
(acquired 9/26/02, cost \$182,151) (RES)

502,000 RCN Corp. sr. disc. notes stepped-coupon Ser. B, zero %  
(9.8s, 2/15/03), 2008 (STP)

560,000 Regal Cinemas, Inc. company guaranty Ser. B, 9 3/8s, 2012

640,000 Revlon Consumer Products sr. notes 9s, 2006

500,000 Revlon Consumer Products sr. notes 8 1/8s, 2006

945,000 Rite Aid Corp. notes 7 1/8s, 2007

260,000 Rite Aid Corp. sr. notes 7 5/8s, 2005

780,000 Rogers Cablesystems, Ltd. sr. notes Ser. B, 10s, 2005 (Canada)

297,752 Roundy's, Inc. bank term loan FRN 4.165s, 2009  
(acquired 6/3/02, cost \$297,752) (RES)

760,000 Sbarro, Inc. company guaranty 11s, 2009

670,000 Scotts Co. (The) company guaranty 8 5/8s, 2009

459,967 Shoppers Drug Mart bank term loan FRN Ser. F, 3.417s,  
2009 (acquired various dates from 5/22/02 to 5/29/02,  
cost \$461,704) (RES)

1,120,000 Silver Cinemas, Inc. sr. sub. notes 10 1/2s, 2005 (In default) (NON)

300,000 Sinclair Broadcast Group, Inc. bank term loan FRN Ser. B,  
3.63s, 2010 (acquired 12/19/02, cost \$300,000) (RES)

440,000 Sinclair Broadcast Group, Inc. company guaranty 8 3/4s, 2011

525,000 Sinclair Broadcast Group, Inc. 144A company guaranty 8s, 2012

281,250 Six Flags, Inc. bank term loan FRN Ser. B, 3.63s, 2009  
(acquired 1/15/03, cost \$280,898) (RES)

210,000 Six Flags, Inc. sr. notes 9 1/2s, 2009

3,360,000 Six Flags, Inc. sr. notes 8 7/8s, 2010

80,000 Southland Corp. debs. Ser. A, 4 1/2s, 2004

190,000 Southland Corp. sr. sub. debs. 5s, 2003

324,855 Suiza Foods Corp. bank term loan FRN Ser. B, 3.65s, 2008  
(acquired 12/10/01, cost \$327,021) (RES)

1,840,000 TeleWest Communications PLC debs. 11s, 2007  
(United Kingdom) (In default) (NON)

300,000 TeleWest Communications PLC debs. 9 5/8s, 2006  
(United Kingdom) (In default) (NON)

255,000 TeleWest Communications PLC sr. notes Ser. S, 9 7/8s, 2010  
(United Kingdom) (In default) (NON)

105,000 TeleWest Communications PLC 144A sr. notes 11 1/4s, 2008  
(United Kingdom) (In default) (NON)

1,880,000 United Pan-Europe NV sr. disc. notes 12 1/2s, 2009 (Netherlands)  
(In default) (NON)

3,010,000 United Pan-Europe NV sr. disc. notes stepped-coupon zero %  
(13 3/4s, 2/1/05), 2010 (Netherlands) (In default) (NON) (STP)

180,000 United Pan-Europe NV 144A bonds 10 7/8s, 2009 (Netherlands)

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(In default) (NON)  
400,000 United Rentals (North America), Inc. company guaranty Ser. B, 10 3/4s, 2008  
1,220,000 Vlastic Foods International, Inc. sr. sub. notes Ser. B, 10 1/4s, 2009 (In default) (NON)  
945,000 Williams Scotsman, Inc. company guaranty 9 7/8s, 2007  
1,663,000 Young Broadcasting, Inc. company guaranty 10s, 2011  
113,000 Young Broadcasting, Inc. company guaranty Ser. B, 8 3/4s, 2007  
50,000 Yum! Brands, Inc. sr. notes 8 7/8s, 2011  
370,000 Yum! Brands, Inc. sr. notes 8 1/2s, 2006  
1,470,000 Yum! Brands, Inc. sr. notes 7.65s, 2008  
375,000 Yum! Brands, Inc. sr. notes 7.45s, 2005

### Energy (3.5%)

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990,000 Belco Oil & Gas Corp. sr. sub. notes Ser. B, 8 7/8s, 2007  
890,000 BRL Universal Equipment sec. notes 8 7/8s, 2008  
1,280,000 Chesapeake Energy Corp. company guaranty 9s, 2012  
1,055,000 Chesapeake Energy Corp. company guaranty 8 3/8s, 2008  
215,000 Chesapeake Energy Corp. sr. notes Ser. B, 8 1/2s, 2012  
1,220,000 Comstock Resources, Inc. company guaranty 11 1/4s, 2007  
180,000 Denbury Resources, Inc. company guaranty Ser. B, 9s, 2008  
975,000 Dresser, Inc. company guaranty 9 3/8s, 2011  
160,000 El Paso Energy Partners LP company guaranty Ser. B, 8 1/2s, 2011  
150,000 El Paso Energy Partners LP 144A company guaranty 8 1/2s, 2011  
560,000 Encore Acquisition Co. company guaranty 8 3/8s, 2012  
570,000 Forest Oil Corp. company guaranty 7 3/4s, 2014  
420,000 Forest Oil Corp. sr. notes 8s, 2011  
420,000 Forest Oil Corp. sr. notes 8s, 2008  
545,000 Hornbeck Offshore Services, Inc. sr. notes 10 5/8s, 2008  
450,000 Leviathan Gas Corp. company guaranty Ser. B, 10 3/8s, 2009  
215,000 Magnum Hunter Resources, Inc. company guaranty 9.6s, 2012  
670,000 Mission Resources Corp. company guaranty Ser. C, 10 7/8s, 2007  
980,000 Newfield Exploration Co. sr. notes 7 5/8s, 2011  
755,000 Parker Drilling Co. company guaranty Ser. B, 10 1/8s, 2009  
2,190,000 Petronas Capital, Ltd. 144A company guaranty 7 7/8s, 2022 (Malaysia)  
1,735,000 Petronas Capital, Ltd. 144A company guaranty 7s, 2012 (Malaysia)  
3,500,000 Pioneer Natural Resources Co. company guaranty 9 5/8s, 2010  
160,000 Pioneer Natural Resources Co. company guaranty 6 1/2s, 2008  
525,000 Plains All American Pipeline LP/Plains All American Finance Corp. company guaranty 7 3/4s, 2012  
800,000 Plans Exploration & Production Co. company guaranty Ser. B, 8 3/4s, 2012  
920,000 Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011  
1,110,000 Pride Petroleum Services, Inc. sr. notes 9 3/8s, 2007  
420,000 Seven Seas Petroleum, Inc. sr. notes Ser. B, 12 1/2s, 2005  
(In default) (NON)  
210,000 Stone Energy Corp. company guaranty 8 3/4s, 2007  
1,000,000 Stone Energy Corp. sr. sub. notes 8 1/4s, 2011  
460,000 Swift Energy Co. sr. sub. notes 10 1/4s, 2009  
660,000 Swift Energy Co. sr. sub. notes 9 3/8s, 2012  
1,030,000 Trico Marine Services, Inc. company guaranty 8 7/8s, 2012  
900,000 Vintage Petroleum, Inc. sr. notes 8 1/4s, 2012  
605,000 Vintage Petroleum, Inc. sr. sub. notes 9 3/4s, 2009  
205,000 Vintage Petroleum, Inc. sr. sub. notes 7 7/8s, 2011  
510,000 Westport Resources Corp. company guaranty 8 1/4s, 2011  
460,000 Westport Resources Corp. 144A sr. sub. notes 8 1/4s, 2011

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260,000 XTO Energy, Inc. sr. notes 7 1/2s, 2012  
440,000 XTO Energy, Inc. 144A sr. sub. notes Ser. B, 8 3/4s, 2009

### Financial (1.4%)

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1,470,000 Advanta Corp. 144A company guaranty Ser. B, 8.99s, 2026  
700,000 Chevy Chase Savings Bank, Inc. sub. debs. 9 1/4s, 2005  
42,576 Comdisco Holding Co., Inc./Comdisco, Inc. sec. notes Ser. B, 11s, 2005  
530,000 Conesco, Inc. 144A company guaranty 10 3/4s, 2009  
(In default) (NON)  
170,000 Crescent Real Estate Equities LP FRN 7 1/2s, 2007 (R)  
1,410,000 Crescent Real Estate Equities LP sr. notes 9 1/4s, 2009 (R)  
3,046,000 Finova Group, Inc. notes 7 1/2s, 2009  
331,920 Hilb, Rogal & Hamilton Co. bank term loan FRN 4.188s, 2007  
(acquired 6/20/02, cost \$331,920) (RES)  
420,000 Imperial Credit Industries, Inc. sec. notes 12s, 2005 (In default) (NON)  
980,000 iStar Financial, Inc. sr. notes 8 3/4s, 2008 (R)  
338,000 Nationwide Credit, Inc. sr. notes Ser. A, 10 1/4s, 2008 (In default) (NON)  
81,000 Ocwen Financial Corp. notes 11 7/8s, 2003  
1,070,000 Resource America, Inc. 144A sr. notes 12s, 2004  
2,890,000 Sovereign Bancorp, Inc. sr. notes 10 1/2s, 2006  
880,000 Superior Financial Corp. 144A sr. notes 8.65s, 2003  
612,243 Veridian Corp. bank term loan FRN 4.773s, 2008  
(acquired 9/20/02, cost \$612,243) (RES)  
760,000 Western Financial Bank sub. debs. 9 5/8s, 2012  
135,000 Yell Finance BV sr. notes 10 3/4s, 2011 (Netherlands)

### Gaming & Lottery (3.2%)

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650,000 Aladdin Gaming Holdings, LLC sr. disc. notes stepped-coupon  
Ser. B, zero % (13 1/2s, 3/1/03), 2010 (In default) (NON) (STP)  
470,000 Ameristar Casinos, Inc. company guaranty 10 3/4s, 2009  
900,000 Argosy Gaming Co. company guaranty 10 3/4s, 2009  
230,000 Argosy Gaming Co. sr. sub. notes 9s, 2011  
500,000 Borgata Resorts bank term loan FRN 5.501s, 2007  
(acquired 6/5/02, cost \$498,750) (RES)  
1,050,000 Boyd Gaming Corp. sr. sub. notes 8 3/4s, 2012  
420,000 Chumash Casino & Resort Enterprise 144A sr. notes 9s, 2010  
935,000 Herbst Gaming, Inc. sec. notes Ser. B, 10 3/4s, 2008  
310,000 Herbst Gaming, Inc. 144A sec. sr. notes 10 3/4s, 2008  
1,420,000 Hollywood Casino Corp. company guaranty 11 1/4s, 2007  
705,000 Hollywood Park, Inc. company guaranty Ser. B, 9 1/4s, 2007  
1,250,000 Horseshoe Gaming Holdings company guaranty 8 5/8s, 2009  
1,010,000 International Game Technology sr. notes 8 3/8s, 2009  
2,300,000 International Game Technology sr. notes 7 7/8s, 2004  
1,305,000 Majestic Investor Holdings/Capital Corp. company guaranty  
11.653s, 2007  
110,000 Mandalay Resort Group sr. notes 9 1/2s, 2008  
90,000 Mandalay Resort Group sr. sub. notes 9 3/8s, 2010  
2,730,000 MGM Mirage, Inc. company guaranty 8 1/2s, 2010  
680,000 Mirage Resorts, Inc. notes 6 3/4s, 2008  
75,000 Mohegan Tribal Gaming Authority sr. notes 8 1/8s, 2006  
1,090,000 Mohegan Tribal Gaming Authority sr. sub. notes 8 3/4s, 2009  
270,000 Mohegan Tribal Gaming Authority sr. sub. notes 8 3/8s, 2011  
980,000 Mohegan Tribal Gaming Authority sr. sub. notes 8s, 2012  
1,300,000 Park Place Entertainment Corp. sr. notes 7 1/2s, 2009  
655,000 Park Place Entertainment Corp. sr. sub. notes 8 7/8s, 2008

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155,000 Park Place Entertainment Corp. sr. sub. notes 8 1/8s, 2011  
200,000 Penn National Gaming, Inc. company guaranty Ser. B, 11 1/8s, 2008  
1,465,000 Penn National Gaming, Inc. sr. sub. notes 8 7/8s, 2010  
305,000 Pinnacle Entertainment, Inc. sr. sub. notes Ser. B, 9 1/2s, 2007  
1,040,000 Resorts International Hotel and Casino, Inc. company guaranty  
11 1/2s, 2009  
465,000 Riviera Holdings Corp. company guaranty 11s, 2010  
375,000 Scientific Gaming bank term loan FRN Ser. B, 4.85s, 2008  
(acquired 12/11/02, cost \$373,125) (RES)  
1,010,000 Station Casinos, Inc. sr. notes 8 3/8s, 2008  
50,000 Station Casinos, Inc. sr. sub. notes 9 7/8s, 2010  
570,000 Trump Atlantic City Associates company guaranty 11 1/4s, 2006  
130,000 Trump Castle Funding, Inc. sr. sub. notes 11 3/4s, 2003  
1,955,000 Venetian Casino Resort, LLC company guaranty 11s, 2010  
135,000 Wheeling Island Gaming, Inc. company guaranty 10 1/8s, 2009

### Health Care (3.9%)

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237,003 Accredo Health, Inc. bank term loan FRN Ser. B, 4.12s, 2009  
(acquired 3/20/02, cost \$236,766) (RES)  
225,000 Advanced Medical Optics, Inc. bank term loan FRN 4.64s, 2008  
(acquired 6/17/02, cost \$224,719) (RES)  
1,040,000 ALARIS Medical Systems, Inc. sec. notes Ser. B, 11 5/8s, 2006  
490,000 ALARIS Medical Systems, Inc. 144A company guaranty 9 3/4s, 2006  
350,000 ALARIS Medical, Inc. sr. disc. notes stepped-coupon zero %  
(11 1/8s, 8/1/03), 2008 (STP)  
2,392,600 Alderwoods Group, Inc. company guaranty 12 1/4s, 2009  
19,000 Alderwoods Group, Inc. company guaranty 11s, 2007  
966,000 Alliance Imaging, Inc. sr. sub. notes 10 3/8s, 2011  
780,000 AmerisourceBergen Corp. sr. notes 8 1/8s, 2008  
605,000 AmerisourceBergen Corp. 144A sr. notes 7 1/4s, 2012  
510,000 Bio-Rad Labs Corp. sr. sub. notes 11 5/8s, 2007  
1,210,000 Biovail Corp. sr. sub. notes 7 7/8s, 2010 (Canada)  
448,875 Community Health Systems, Inc. bank term loan FRN Ser. B,  
3.93s, 2010 (acquired 7/11/02, cost \$448,875) (RES)  
1,270,000 Conmed Corp. company guaranty 9s, 2008  
255,000 Dade Behring, Inc. company guaranty 11.91s, 2010  
444,607 DaVita, Inc. bank term loan FRN Ser. B, 4.604s, 2009  
(acquired 4/26/02, cost \$444,051) (RES)  
690,000 Extencicare Health Services, Inc. company guaranty  
9 1/2s, 2010  
52,272 Genesis Health Ventures, Inc. sec. notes FRN 6.38s, 2007  
835,000 Hanger Orthopedic Group, Inc. company guaranty  
10 3/8s, 2009  
205,000 Hanger Orthopedic Group, Inc. sr. sub. notes 11 1/4s, 2009  
920,000 HCA, Inc. debs. 7.19s, 2015  
750,000 HCA, Inc. med. term notes 7.69s, 2025  
520,000 HCA, Inc. notes 8 3/4s, 2010  
350,000 HCA, Inc. notes 8.36s, 2024  
1,385,000 HCA, Inc. notes 7s, 2007  
1,990,000 Healthsouth Corp. notes 7 5/8s, 2012  
840,000 Healthsouth Corp. sr. notes 8 1/2s, 2008  
340,000 Healthsouth Corp. sr. notes 8 3/8s, 2011  
5,000 Healthsouth Corp. sr. sub. notes 10 3/4s, 2008  
560,000 IASIS Healthcare Corp. company guaranty 13s, 2009  
1,260,000 Integrated Health Services, Inc. sr. sub. notes Ser. A, 9 1/2s, 2007  
(In default) (NON)  
620,000 Integrated Health Services, Inc. sr. sub. notes Ser. A, 9 1/4s, 2008  
(In default) (NON)  
257,899 Kinetic Concepts, Inc. bank term loan FRN Ser. C, 4.15s, 2005

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(acquired 11/5/01, cost \$258,221) (RES)

1,015,000 Kinetic Concepts, Inc. company guaranty Ser. B, 9 5/8s, 2007

1,855,000 Magellan Health Services, Inc. sr. sub. notes 9s, 2008 (In default) (NON)

365,000 Magellan Health Services, Inc. 144A sr. notes 9 3/8s, 2007

1,070,000 Mediq, Inc. company guaranty 11s, 2008 (In default) (NON)

940,000 Mediq, Inc. debs. stepped-coupon zero % (13s, 6/1/03), 2009  
(In default) (NON) (STP)

1,070,000 MedQuest, Inc. 144A sr. sub. notes 11 7/8s, 2012

2,690,000 Multicare Cos., Inc. sr. sub. notes 9s, 2007 (In default) (NON)

800,000 Omnicare, Inc. company guaranty Ser. B, 8 1/8s, 2011

1,575,000 PacifiCare Health Systems, Inc. company guaranty 10 3/4s, 2009

1,120,000 Rotech Healthcare, Inc. 144A sr. sub. notes 9 1/2s, 2012

390,000 Service Corp. International debs. 7 7/8s, 2013

115,000 Service Corp. International notes 7.7s, 2009

105,000 Service Corp. International notes 7.2s, 2006

155,000 Service Corp. International notes 6 1/2s, 2008

1,435,000 Service Corp. International notes 6s, 2005

370,000 Service Corp. International notes Ser. (a), 7.7s, 2009

1,010,000 Stewart Enterprises, Inc. notes 10 3/4s, 2008

360,000 Tenet Healthcare Corp. sr. notes 6 1/2s, 2012

555,000 Tenet Healthcare Corp. sr. notes 6 3/8s, 2011

180,000 Tenet Healthcare Corp. sr. notes 5 3/8s, 2006

2,785,000 Triad Hospitals Holdings company guaranty Ser. B, 11s, 2009

135,000 Triad Hospitals, Inc. company guaranty Ser. B, 8 3/4s, 2009

### Homebuilding (1.1%)

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610,000 Beazer Homes USA, Inc. company guaranty 8 5/8s, 2011

390,000 D.R. Horton, Inc. company guaranty 8 1/2s, 2012

10,000 D.R. Horton, Inc. company guaranty 8s, 2009

880,000 D.R. Horton, Inc. sr. notes 7 7/8s, 2011

780,000 Del Webb Corp. sr. sub. debs 9 3/8s, 2009

630,000 K. Hovnanian Enterprises, Inc. company guaranty 10 1/2s, 2007

155,000 K. Hovnanian Enterprises, Inc. company guaranty 8 7/8s, 2012

180,000 K. Hovnanian Enterprises, Inc. company guaranty 8s, 2012

860,000 KB Home sr. sub. notes 9 1/2s, 2011

320,000 Lennar Corp. company guaranty Ser. B, 9.95s, 2010

720,000 Lennar Corp. sr. notes 7 5/8s, 2009

120,000 M.D.C. Holdings, Inc. sr. notes 8 3/8s, 2008

1,130,000 Ryland Group, Inc. sr. notes 9 3/4s, 2010

180,000 Ryland Group, Inc. sr. sub. notes 8 1/4s, 2008

615,000 Schuler Homes, Inc. company guaranty 10 1/2s, 2011

50,000 Schuler Homes, Inc. company guaranty 9s, 2008

215,000 Standard Pacific Corp. sr. notes 9 1/2s, 2010

590,000 Toll Corp. company guaranty 8 1/8s, 2009

170,000 Toll Corp. sr. sub. notes 8 1/4s, 2011

100,000 WCI Communities, Inc. company guaranty 10 5/8s, 2011

840,000 WCI Communities, Inc. company guaranty 9 1/8s, 2012

### Household Furniture and Appliances (0.2%)

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1,000,000 Sealy Mattress Co. company guaranty Ser. B, zero %, 2002

1,220,000 Sealy Mattress Co. sr. sub. notes Ser. B, 9 7/8s, 2007

### Lodging/Tourism (1.6%)

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50,000 Capstar Hotel Co. sr. sub. notes 8 3/4s, 2007  
1,807,000 Felcor Lodging LP company guaranty 9 1/2s, 2008 (R)  
457,000 Felcor Lodging LP company guaranty 8 1/2s, 2008 (R)  
1,175,000 Hilton Hotels Corp. notes 7 5/8s, 2012  
6,720,000 HMM Properties, Inc. company guaranty Ser. B, 7 7/8s, 2008  
345,000 HMM Properties, Inc. sr. notes Ser. C, 8.45s, 2008  
920,000 ITT Corp. notes 6 3/4s, 2005  
2,085,000 John Q. Hammons Hotels LP/John Q. Hammons Hotels  
Finance Corp. III 1st mtge. Ser. B, 8 7/8s, 2012  
275,000 Meristar Hospitality Corp. company guaranty 9 1/8s, 2011 (R)  
720,000 RFS Partnership LP company guaranty 9 3/4s, 2012  
410,000 Starwood Hotels & Resorts Worldwide, Inc. 144A notes  
7 7/8s, 2012  
260,000 Starwood Hotels & Resorts Worldwide, Inc. 144A notes  
7 3/8s, 2007

### Publishing (1.9%)

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365,000 American Media, Inc. 144A sr. sub. notes 8 7/8s, 2011  
760,000 Garden State Newspapers, Inc. sr. sub. notes 8 5/8s, 2011  
290,000 Garden State Newspapers, Inc. sr. sub. notes Ser. B, 8 3/4s, 2009  
625,000 Hollinger International Publishing, Inc. 144A sr. notes 9s, 2010  
2,548,982 Hollinger Participation Trust 144A sr. notes 12 1/8s, 2010  
(Canada) (PIK)  
310,000 Houghton Mifflin Co. 144A sr. notes 9 7/8s, 2013  
1,135,000 Houghton Mifflin Co. 144A sr. notes 8 1/4s, 2011  
740,000 Key3media Group, Inc. company guaranty 11 1/4s, 2011  
(In default) (NON)  
680,000 Mail-Well I Corp. company guaranty 9 5/8s, 2012  
2,045,000 PRIMEDIA, Inc. company guaranty 8 7/8s, 2011  
470,000 PRIMEDIA, Inc. company guaranty 7 5/8s, 2008  
1,070,000 PRIMEDIA, Inc. company guaranty Ser. B, 8 1/2s, 2006  
300,000 Quebecor Media, Inc. sr. disc. notes stepped-coupon zero %  
(13 3/4s, 7/15/06), 2011 (Canada) (STP)  
1,380,000 Quebecor Media, Inc. sr. notes 11 1/8s, 2011 (Canada)  
375,000 RH Donnelley Finance Corp. I bank term loan FRN Ser. B,  
5.34s, 2010 (acquired 12/4/02, cost \$375,000) (RES)  
980,000 RH Donnelley Finance Corp. I 144A sr. notes 8 7/8s, 2010  
1,135,000 RH Donnelley Finance Corp. I 144A sr. sub. notes 10 7/8s, 2012  
960,000 Vertis, Inc. company guaranty Ser. B, 10 7/8s, 2009  
255,000 Vertis, Inc. 144A sr. notes 10 7/8s, 2009  
800,000 Von Hoffman Press, Inc. company guaranty 10 1/4s, 2009  
370,000 Von Hoffman Press, Inc. company guaranty FRN 10 3/8s, 2007  
439,126 Von Hoffman Press, Inc. debs. zero %, 2009 (PIK)

### Retail (1.0%)

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670,000 Amazon.com, Inc. sr. sub. notes stepped-coupon zero %  
(10s, 5/1/03), 2008 (STP)  
800,000 Asbury Automotive Group, Inc. company guaranty 9s, 2012  
1,240,000 Autonation, Inc. company guaranty 9s, 2008  
460,000 Gap, Inc. (The) notes 6.9s, 2007  
520,000 Hollywood Entertainment Corp. sr. sub. notes 9 5/8s, 2011  
210,000 JC Penney Co., Inc. debs. 7.95s, 2017  
105,000 JC Penney Co., Inc. debs. 7.65s, 2016  
620,000 JC Penney Co., Inc. debs. 7.4s, 2037  
1,000,000 JC Penney Co., Inc. notes 9s, 2012  
450,000 JC Penney Co., Inc. notes Ser. A MTN, 7.05s, 2005



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360,000 Kmart Corp. 144A notes 9 7/8s, 2008 (In default) (NON)  
2,190,000 Saks, Inc. company guaranty 8 1/4s, 2008  
715,000 United Auto Group, Inc. 144A sr. sub. notes 9 5/8s, 2012

### Technology (1.7%)

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880,000 AMI Semiconductor, Inc. 144A sr. sub. notes 10 3/4s, 2013  
270,000 Avaya, Inc. sec. sr. notes 11 1/8s, 2009  
135,000 Fairchild Semiconductor International, Inc. company guaranty  
10 3/8s, 2007  
305,000 Iron Mountain, Inc. company guaranty 8 5/8s, 2013  
370,000 Iron Mountain, Inc. company guaranty 8 1/8s, 2008 (Canada)  
1,890,000 Iron Mountain, Inc. sr. sub. notes 8 1/4s, 2011  
100,000 Lucent Technologies, Inc. debs. 6 1/2s, 2028  
3,360,000 Lucent Technologies, Inc. debs. 6.45s, 2029  
515,000 Lucent Technologies, Inc. notes 7 1/4s, 2006  
920,000 Micron Technology, Inc. notes 6 1/2s, 2005  
1,460,000 Nortel Networks Corp. notes 6 1/8s, 2006 (Canada)  
470,000 ON Semiconductor Corp. 144A company guaranty 12s, 2008  
370,000 SCG Holding & Semiconductor Corp. company guaranty  
12s, 2009  
855,000 Seagate Technology Hdd Holdings company guaranty 8s, 2009  
1,760,000 Sequa Corp. sr. notes 9s, 2009  
160,000 Sequa Corp. sr. notes Ser. B, 8 7/8s, 2008  
208,982 Telex Communications Group, Inc. sr. sub. notes Ser. A,  
zero %, 2006  
446,628 Titan Corp. (The) bank term loan FRN Ser. B, 4.352s, 2009  
(acquired various dates from 5/14/02 to 6/3/02,  
cost \$448,320) (RES)  
135,000 Unisys Corp. sr. notes 8 1/8s, 2006  
440,000 Unisys Corp. sr. notes 7 7/8s, 2008  
250,000 Unisys Corp. sr. notes 7 1/4s, 2005  
260,000 Xerox Cap Europe PLC company guaranty 5 7/8s, 2004  
(United Kingdom)  
785,000 Xerox Corp. notes 5 1/2s, 2003  
750,000 Xerox Corp. 144A sr. notes 9 3/4s, 2009  
EUR 270,000 Xerox Corp. 144A sr. notes 9 3/4s, 2009  
\$250,000 Xerox Credit Corp. sr. notes 6.1s, 2003

### Textiles (0.5%)

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780,000 Galey & Lord, Inc. company guaranty 9 1/8s, 2008 (In default) (NON)  
1,160,000 Levi Strauss & Co. sr. notes 11 5/8s, 2008  
1,035,000 Levi Strauss & Co. 144A sr. notes 12 1/4s, 2012  
695,000 Russell Corp. company guaranty 9 1/4s, 2010  
310,000 Tommy Hilfiger USA, Inc. company guaranty 6 1/2s, 2003  
1,200,000 Westpoint Stevens, Inc. sr. notes 7 7/8s, 2008  
850,000 William Carter Holdings Co. (The) company guaranty Ser. B,  
10 7/8s, 2011

### Transportation (1.1%)

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100,000 Air Canada Corp. sr. notes 10 1/4s, 2011 (Canada)  
1,340,093 Airbus Industries 144A sinking fund Ser. D, 12.266s, 2020  
585,000 Allied Holdings, Inc. company guaranty Ser. B, 8 5/8s, 2007  
1,360,000 Calair, LLC/Calair Capital Corp. company guaranty

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|           |  |
|-----------|--|
|           | 8 1/8s, 2008   |
| 450,000   | Continental Airlines, Inc. pass-through certificates Ser. D, 7.568s, 2006                  |
| 1,300,000 | CSX Corp. notes 6 1/4s, 2008   |
| 550,000   | Delta Air Lines, Inc. pass-through certificates Ser. 00-1, Class C, 7.779s, 2005           |
| 359,542   | Delta Air Lines, Inc. pass-through certificates Ser. C, 7.779s, 2012                       |
| EUR       | 500,000 Fixed-Link Finance BV sec. notes FRN Ser. B2-X, 7.85s, 2009 (Netherlands)          |
| \$252,547 | Ingram Industries bank term loan FRN 4.046s, 2008 (acquired 6/17/02, cost \$252,547) (RES) |
| 1,530,000 | Kansas City Southern Railway Co. company guaranty 9 1/2s, 2008                             |
| 1,230,000 | Navistar International Corp. company guaranty Ser. B, 9 3/8s, 2006                         |
| 575,000   | Navistar International Corp. sr. notes Ser. B, 8s, 2008                                    |
| 770,000   | Northwest Airlines, Inc. company guaranty 7 5/8s, 2005                                     |
| 1,170,000 | Northwest Airlines, Inc. sr. notes 9 7/8s, 2007  |
| 360,092   | NWA Trust sr. notes Ser. A, 9 1/4s, 2012   |
| 115,000   | RailAmerica Transportation company guaranty 12 7/8s, 2010                                  |
| 150,000   | Transportation Manufacturing Operations, Inc. company guaranty 11 1/4s, 2009               |
| 260,000   | Travel Centers of America, Inc. company guaranty 12 3/4s, 2009                             |
| 780,000   | US Air, Inc. pass-through certificates Ser. 93A3, 10 3/8s, 2013 (In default) (NON)         |

### Utilities & Power (2.0%)

---

|           |   |
|-----------|---|
| 375,000   | AES Corp. (The) sr. notes 8 7/8s, 2011  |
| 230,000   | AES Corp. (The) sr. notes 8 3/4s, 2008  |
| 1,300,000 | Allegheny Energy Supply 144A bonds 8 1/4s, 2012   |
| 365,000   | Allegheny Energy, Inc. notes 7 3/4s, 2005   |
| 340,000   | Calpine Canada Energy Finance company guaranty 8 1/2s, 2008 (Canada)  |
| 530,000   | Calpine Corp. sr. notes 10 1/2s, 2006   |
| 1,795,000 | Calpine Corp. sr. notes 8 5/8s, 2010  |
| 1,490,000 | Calpine Corp. sr. notes 8 1/2s, 2011  |
| 1,050,000 | Calpine Corp. sr. notes 7 7/8s, 2008  |
| 1,190,000 | CMS Energy Corp. sr. notes 8.9s, 2008   |
| 440,000   | CMS Energy Corp. sr. notes 8 1/2s, 2011   |
| 140,000   | CMS Panhandle Holding Corp. sr. notes 6 1/2s, 2009  |
| 880,000   | Consumers Energy bank term loan FRN 6.176s, 2004 (acquired various dates from 9/16/02 to 9/17/02, cost \$844,800) (RES) |
| 730,000   | Dynegy Holdings, Inc. sr. notes 6 7/8s, 2011  |
| 520,000   | Edison Mission Energy sr. notes 10s, 2008   |
| 530,000   | Edison Mission Energy sr. notes 9 7/8s, 2011  |
| 1,740,000 | Midland Funding II Corp. debs. Ser. B, 13 1/4s, 2006  |
| 340,000   | Mission Energy Holding Co. sec. notes 13 1/2s, 2008   |
| 186       | Northeast Utilities notes Ser. A, 8.58s, 2006   |
| 1,060,000 | Oncor Electric Delivery Co. 144A notes 6 3/8s, 2012   |
| 500,000   | Pacific Gas & Electric Co. 144A sr. notes 7 3/8s, 2005 (In default) (NON)   |
| 25,000    | Sierra Pacific Power Co. general ref. mtge. Ser. A, 8s, 2008  |
| 500,000   | Southern California Edison Co. bank term loan FRN 4.813s, 2005 (acquired 2/28/02, cost \$499,250) (RES)                 |
| 1,270,000 | Southern California Edison Co. notes 8.95s, 2003  |
| 130,000   | Southern California Edison Co. notes 6 3/8s, 2006   |
| 1,270,000 | Tiverton/Rumford Power Associates, LP 144A pass-through   |

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|           |  |
|-----------|--|
|           | certificates 9s, 2018  |
| 1,105,000 | Western Resources, Inc. 1st mtge. 7 7/8s, 2007                                 |
| 815,000   | Western Resources, Inc. sr. notes 9 3/4s, 2007                                 |
| 790,000   | Williams Cos., Inc. (The) FRN Ser. A, 6 3/4s, 2006                             |
| 365,000   | Williams Cos., Inc. (The) notes 9 1/4s, 2004                                   |
| 800,000   | Williams Cos., Inc. (The) notes 6 1/2s, 2006                                   |
| 1,651,000 | York Power Funding 144A notes 12s, 2007 (Cayman Islands)<br>(In default) (NON) |

Total Corporate Bonds and Notes (cost \$485,151,308)

FOREIGN GOVERNMENT BONDS AND NOTES (15.5%) (a)  
PRINCIPAL AMOUNT

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|     |             |   |
|-----|-------------|---|
| USD | 1,941,787   | Argentina (Republic of) unsub. Ser. 2018, 2.89s, 2018<br>(In default) (NON)           |
| USD | 2,630,000   | Brazil (Federal Republic of) bonds 10 1/8s, 2027                                      |
| USD | 3,685,000   | Bulgaria (Republic of) 144A bonds 8 1/4s, 2015  |
| CAD | 11,840,000  | Canada (Government of) bonds 6s, 2011   |
| CAD | 2,725,000   | Canada (Government of) bonds 5 1/2s, 2010   |
| CAD | 930,000     | Canada (Government of) bonds Ser. WL43, 5 3/4s, 2029                                  |
| USD | 1,300,000   | Chile (Republic of) bonds 5 1/2s, 2013  |
| USD | 1,875,000   | Colombia (Republic of) bonds 11 3/4s, 2020  |
| USD | 845,000     | Colombia (Republic of) bonds 10 3/8s, 2033  |
| USD | 1,665,000   | Colombia (Republic of) notes 10 3/4s, 2013  |
| EUR | 480,000     | Colombia (Republic of) notes Ser. E MTN, 11 1/2s, 2011                                |
| USD | 420,000     | Colombia (Republic of) unsub. 9 3/4s, 2009  |
| EUR | 755,000     | Colombia (Republic of) unsub. bonds Ser. 15A, 11 3/8s, 2008                           |
| USD | 820,000     | Costa Rica (Republic of) 144A notes 6.914s, 2008                                      |
| USD | 1,585,000   | Dominican Republic 144A notes 9.04s, 2013   |
| USD | 710,000     | Ecuador (Republic of) bonds Ser. REGS, 12s, 2012                                      |
| USD | 3,430,000   | Ecuador (Republic of) bonds stepped-coupon Ser. REGS,<br>6s (7s, 8/15/03), 2030 (STP) |
| EUR | 4,830,000   | France (Government of) bonds 5 1/2s, 2010   |
| EUR | 1,080,000   | France (Government of) deb. 4s, 2009  |
| EUR | 7,200,000   | Germany (Federal Republic of) bonds 5s, 2012  |
| EUR | 950,000     | Germany (Federal Republic of) bonds Ser. 94, 6 1/4s, 2024                             |
| EUR | 6,340,000   | Germany (Federal Republic of) bonds Ser. 97, 6s, 2007                                 |
| EUR | 530,000     | Italy (Government of) treasury bonds 4 3/4s, 2006                                     |
| NZD | 12,920,000  | New Zealand (Government of) bonds 6 1/2s, 2013  |
| NZD | 8,036,000   | New Zealand (Government of) bonds Ser. 709, 7s, 2009                                  |
| USD | 1,635,000   | Peru (Republic of) notes 9 7/8s, 2015   |
| USD | 1,470,000   | Peru (Republic of) notes 9 1/8s, 2008   |
| USD | 1,565,000   | Philippines (Republic of) bonds 9s, 2013  |
| USD | 3,040,000   | Russia (Federation of) unsub. 8 1/4s, 2010  |
| USD | 4,805,000   | Russia (Federation of) unsub. stepped-coupon 5s<br>(7 1/2s, 3/31/07), 2030 (STP)      |
| USD | 8,807,500   | Russia (Federation of) 144A unsub. stepped-coupon 5s<br>(7 1/2s, 3/31/07), 2030 (STP) |
| USD | 3,985,000   | South Africa (Republic of) notes 7 3/8s, 2012   |
| EUR | 710,000     | Spain (Kingdom of) bonds 5 3/4s, 2032   |
| EUR | 2,360,000   | Spain (Kingdom of) bonds 4.8s, 2006   |
| SEK | 76,070,000  | Sweden (Government of) bonds Ser. 1037, 8s, 2007                                      |
| SEK | 127,250,000 | Sweden (Government of) bonds Ser. 1044, 3 1/2s, 2006                                  |
| USD | 705,600     | Ukraine (Government of) sr. notes Ser. REGS, 11s, 2007                                |
| GBP | 4,420,000   | United Kingdom treasury bonds 10s, 2003   |
| GBP | 1,055,000   | United Kingdom treasury bonds 8 3/4s, 2017  |
| GBP | 1,100,000   | United Kingdom treasury bonds 5s, 2012  |
| GBP | 2,800,000   | United Kingdom treasury bonds 5s, 2004  |

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|     |           |  |
|-----|-----------|--|
| USD | 2,285,000 | United Mexican States bonds 11 3/8s, 2016        |
| USD | 1,855,000 | United Mexican States bonds Ser. MTN, 8.3s, 2031 |
| USD | 720,000   | United Mexican States notes Ser. A, 9 7/8s, 2010 |
| USD | 1,055,000 | Venezuela (Republic of) bonds 9 1/4s, 2027       |

Total Foreign Government Bonds and Notes  
(cost \$126,502,133)

### U.S. GOVERNMENT AND AGENCY OBLIGATIONS (10.3%) (a) PRINCIPAL AMOUNT

#### U.S. Government and Agency Mortgage Obligations (3.4%)

---

|  |            |   |
|--|------------|---|
|  | \$74,653   | Federal Home Loan Mortgage Corp. Pass-Through Certificates<br>7 1/2s, March 1, 2026 |
|  |            | Federal National Mortgage Association   |
|  | 14,693,000 | TBA, 7s, February 1, 2033   |
|  | 3,214,000  | TBA, 6 1/2s, February 1, 2032   |
|  | 53,000     | TBA, 6 1/2s, February 1, 2017   |
|  |            | Federal National Mortgage Association Pass-Through Certificates                     |
|  | 597,050    | 7 1/2s, with due dates from October 1, 2022 to January 1, 2030                      |
|  | 10,728,206 | 7s, with due dates from March 1, 2028 to June 1, 2032                               |
|  | 289,921    | 6 1/2s, January 1, 2028   |

#### U.S. Government and Agency Obligations (0.4%)

---

|  |           |                                     |
|--|-----------|-------------------------------------|
|  | 2,590,000 | Fannie Mae 7 1/4s, January 15, 2010 |
|--|-----------|-------------------------------------|

#### U.S. Treasury Obligations (6.5%)

---

|  |            |   |
|--|------------|---|
|  |            | U.S. Treasury Bonds                           |
|  | 21,600,000 | 7 1/2s, November 15, 2016 (SEG)               |
|  | 8,802,000  | 6 1/4s, May 15, 2030                          |
|  | 12,260,000 | 6 1/4s, August 15, 2023                       |
|  |            | U.S. Treasury Notes                           |
|  | 55,000     | 4s, November 15, 2012                         |
|  | 20,460,000 | U.S. Treasury Strip zero %, November 15, 2024 |

Total U.S. Government and Agency Obligations  
(cost \$88,983,618)

### COLLATERALIZED MORTGAGE OBLIGATIONS (10.2%) (a) PRINCIPAL AMOUNT

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|     |             |  |
|-----|-------------|--|
|     | \$432,429   | Arc Net Interest Margin Trust Ser. 02-5A, Class A, 7 3/4s, 2032                      |
|     | 592,176     | Arc Net Interest Margin Trust 144A Ser. 02-1A, Class A, 7 3/4s, 2032                 |
|     | 6,363,607   | Commercial Mortgage Acceptance Corp. Ser. 97-ML1,<br>Interest Only (IO), 0.94s, 2017 |
|     | 42,775,709  | Commercial Mortgage Asset Trust Ser. 99-C1, Class X, IO, 0.92s, 2020                 |
|     | 1,858,000   | Criimi Mae Commercial Mortgage Trust Ser. 98-C1,<br>Class A2, 7s, 2011               |
|     | \$2,814,000 | Criimi Mae Commercial Mortgage Trust 144A Ser. 98-C1,<br>Class B, 7s, 2011           |
|     | 66,499,981  | Deutsche Mortgage & Asset Receiving Corp. Ser. 98-C1,<br>Class X, IO, 1.19s, 2023    |
|     |             | Euro Loan Conduit 144A   |
| GBP | 462,778     | FRN Ser. 7A, Class D, 5.69s, 2006 (United Kingdom)                                   |

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GBP 462,778 FRN Ser. 7A, Class E, 7.44s, 2006 (United Kingdom)  
Fannie Mae  
\$4,637,587 Ser. 02-36, Class SJ, 16.744s, 2029  
401,925 Ser. 98-1, Class SA, IO, 13.2s, 2024  
4,295 Ser. 92-15, Class L, IO, 8s, 2022  
26,986,000 7 1/2s, 2042  
12,059,722 Ser. 02-9, Class MS, IO, 6 3/4s, 2032  
10,048,095 Ser. 02-36, Class QH, IO, 6.7s, 2029  
3,079,902 Ser. 02-29, Class SL, IO, 6.7s, 2029  
4,919,388 Ser. 02-52, Class SL, IO, 6.65s, 2032  
5,107,204 Ser. 02-63, Class SN, IO, 6.65s, 2032  
1,304,000 Ser. 01-58, Class HI, IO, 6 1/2s, 2026  
3,788,173 Ser. 93-251, Class Z, 6 1/2s, 2023  
4,851,593 Ser. 318, Class 2, IO, 6s, 2032  
2,232,888 Ser. 01-74, Class MI, IO, 6s, 2015  
608,304 Ser. 98-51, Class SG, 2.365s, 2022  
23,704,583 Ser. 00-T6, IO, 0.74s, 2030  
9,437,577 Ser. 318, Class 1, Principal Only (PO), zero %, 2032  
653,396 Ser. 99-51, Class N, PO, zero %, 2029  
562,231 Ser. 99-52, Class MO, PO, zero %, 2026  
154,605 Ser. 97-92, PO, zero %, 2025  
618,981 Ser. 96-5, Class PB, PO, zero %, 2024  
228,814 Ser. 93-159, Class D, PO, zero %, 2023  
1,127,953 Ser. 93-146, Class H, PO, zero %, 2023  
23,947,956 FFCA Secured Lending Corp. Ser. 00-1, Class X, IO, 1.7s, 2020  
Freddie Mac  
1,844,800 Ser. 2412, Class GS, FRN, 17.4s, 2032  
401,552 Ser. 2028, Class SG, IO, 13.4s, 2023  
1,759,150 Ser. 2478, Class SY, IO, 6.78s, 2021  
4,676,663 Ser. 2448, Class SE, IO, 6.73s, 2029  
3,799,300 Ser. 2448, Class SM, IO, 6.63s, 2032  
1,327,769 Ser. 1717, Class L, 6 1/2s, 2024  
2,008,400 Ser. 2515, Class IG, IO, 5.5s, 2032  
277,644 Ser. 2044, Class SG, IO, 4.84s, 2023  
1,899,711 Ser. 215, PO, zero %, 2031  
1,843,846 Ser. 2235, PO, zero %, 2030  
5 Ser. 2078, Class KC, PO, zero %, 2023  
1,575,000 GE Capital Mortgage Services, Inc. Ser. 98-11, Class 2A4,  
6 3/4s, 2028  
Government National Mortgage Association  
100,143 Ser. 02-49, Class QS, FRN, 17.5s, 2029  
2,990,654 Ser. 02-36, Class SD, IO, 6.79s, 2029  
4,478,666 Ser. 02-51, Class SA, IO, 6.74s, 2032  
6,331,267 Ser. 01-43, Class SJ, IO, 6.24s, 2029  
7,153,447 Ser. 01-43, Class SD, IO, 6.2s, 2028  
9,614,581 Ser. 02-47, Class SM, IO, 4.61s, 2032  
5,824,144 Ser. 02-63, Class ST, IO, 4.26s, 2024  
754,522 Ser. 98-2, Class EA, PO, zero %, 2028  
1,495,000 Granite Mortgages PLC FRN Ser. 01-1, Class 1C, 2.77s, 2041  
(United Kingdom)  
\$7,365,000 Holmes Financing PLC FRB Ser. 1, Class 2C, 2.53s, 2040  
14,244,865 Merrill Lynch Mortgage Investors, Inc. Ser. 96-C2, IO,  
1.95s, 2028  
9,307,350 Mortgage Capital Funding, Inc. Ser. 97-MC2, Class X, IO,  
1.55s, 2012  
25,668 Prudential Home Mortgage Securities Ser. 93-57, Class A4,  
5.9s, 2023  
747,052 Rural Housing Trust Ser. 87-1, Class D, 6.33s, 2026  
332,281 Sasco Arc Net Interest Margin Notes Ser. 02-BC10,  
Class A, 7 3/4s, 2033  
  
Total Collateralized Mortgage Obligations (cost \$94,356,177)

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ASSET-BACKED SECURITIES (5.0%) (a)  
PRINCIPAL AMOUNT

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|              |   |
|--------------|---|
|              | Amortizing Residential Collateral Trust   |
| \$40,426,364 | Ser. 02-BC1, Class A, IO, 6s, 2005  |
| 3,170,000    | Ser. 02-BC1, Class M2, FRN, 2.45s, 2032   |
| 924,071      | Arc Net Interest Margin Trust 144A Ser. 02-8A, Class A1, 7 3/4s, 2032             |
| 426,296      | Asset Backed Funding Corp. NIM Trust Ser. 02-WF1, 9.32s, 2032                     |
| 2,571,000    | Bank One Issuance Trust FRN Ser. 02-C1, Class C1, 2.33s, 2009                     |
|              | Bayview Financial Acquisition Trust   |
| 1,278,084    | Ser. 01-DA, Class M3, FRN, 2.75s, 2031  |
| 1,390,000    | Ser. 02-CA, Class A, IO, 10.5s, 2004  |
| 1,752,996    | CDC Mortgage Capital Trust Ser. 02-HE1, Class M, FRN, 2.6s, 2033                  |
| 463,000      | Chase Funding Net Interest Margin Ser. 03-1, 8 3/4s, 2036                         |
|              | Chase Funding Net Interest Margin 144A  |
| 327,212      | Ser. 02-1, Class Note, 8 1/2s, 2035   |
| 766,406      | Ser. 02-2, Class Note, 8 1/2s, 2035   |
| 217,371      | Ser. 02-C1, Class Note, 8 1/2s, 2035  |
|              | Conseco Finance Securitizations Corp.   |
| 346,000      | Ser. 00-2, Class A4, 8.48s, 2021  |
| 4,310,000    | Ser. 00-4, Class A6, 8.31s, 2032  |
| 1,535,000    | Ser. 00-6, Class M2, 8.2s, 2032   |
| 32,000       | Ser. 01-04, Class A4, 7.36s, 2019   |
| 18,000       | Ser. 01-3, Class A3, 5.79s, 2024  |
| 47,000       | Ser. 01-3, Class A4, 6.91s, 2033  |
| 1,436,000    | Ser. 01-4, Class B1, 9.4s, 2010   |
| 4,828,401    | Ser. 02-1, Class A, 6.681s, 2032  |
| 1,100,000    | Consumer Credit Reference IDX Securities Ser. 02-1A, Class A, FRB, 3.4s, 2007     |
| 1,301,780    | First Plus 144A Ser. 98-A, Class A, 8 1/2s, 2023                                  |
|              | Green Tree Financial Corp.  |
| 385,000      | Ser. 95-F, Class B2, 7.1s, 2021   |
| 45,000       | Ser. 99-5, Class A5, 7.86s, 2031  |
|              | Greenpoint Manufactured Housing   |
| 3,255,306    | Ser. 00-3, Class IA, 8.45s, 2031  |
| 50,000       | Ser. 99-5, Class A4, 7.59s, 2028  |
| 456,000      | GSAMP Trust Ser. 02-HE2N, Class Note, 8 1/4s, 2032                                |
| 371,867      | Home Equity Asset Trust Ser. 02-1N, Class A, 8s, 2032                             |
| 1,755,000    | LNR CDO, Ltd. Ser. 02-1A, Class FFL, 4.589s, 2037                                 |
| 1,457,253    | Madison Avenue Manufactured Housing Contract Ser. 02-A, Class B1, FRN, 4.6s, 2032 |
| 825,962      | Mid-State Trust Ser. 10, Class B, 7.54s, 2036                                     |
|              | Morgan Stanley Dean Witter Capital I  |
| 545,000      | Ser. 01-NC3, Class B1, FRN, 3.8s, 2031  |
| 2,318,000    | Ser. 01-NC4, Class B1, FRN, 3.85s, 2032   |
| 890,000      | Ser. 02-AM2, Class B1, FRN, 3.603s, 2032  |
| 1,051,000    | Ser. 02-NC3, Class M2, FRN, 2.653s, 2032  |
|              | Morgan Stanley Dean Witter Capital I 144A   |
| 222,221      | Ser. 01-AM1N, Class Note, 12 3/4s, 2032   |
| 704,900      | Ser. 01-NC4N, Class Note, 8 1/2s, 2032  |
| 328,503      | NovaStar Caps Trust Ser. 02-C1, Class A, 7.15s, 2031                              |
| 975,872      | Option One Mortgage Securities Corp. Ser. 02-2A, Class CFTS, 8.83s, 2032          |
| 813,079      | Option One Mortgage Securities Corp. 144A Ser. 02-1, Class CTFS, 6 3/4s, 2032     |
| 2,070,938    | Pass-Through Amortizing Credit Card Trust Ser. 02-1A,                             |

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Class A4FL, 7.339s, 2012  
7,400,000 Residential Asset Mortgage Products, Inc. Ser. 03-RZ1,  
Class A, IO, 5 3/4s, 2005  
544,000 TIAA Commercial Real Estate Securitization Ser. 02-1A,  
Class IV, 6.84s, 2037

Total Asset-Backed Securities (cost \$49,486,995)

### PREFERRED STOCKS (1.5%) (a) NUMBER OF SHARES

---

1,377 AmeriKing, Inc. \$3.25 cum. pfd. (In default) (NON) (PIK)  
62,400 California Federal Preferred Capital Corp. Ser. A, \$2.281 pfd.  
31,190 Chevy Chase Capital Corp. Ser. A, \$5.188 pfd.  
3,805 Chevy Chase Savings Bank, Inc. \$3.25 pfd.  
28,919 CSC Holdings, Inc. Ser. M, \$11.125 cum. pfd.  
1,185 Delta Financial Corp. Ser. A, \$10.00 cum. pfd.  
69,460 Diva Systems Corp. Ser. C, 6.00% cum. pfd.  
20,000 Doane Pet Care Co. \$7.125 pfd.  
1,118 Dobson Communications Corp. 13.00% pfd. (PIK)  
658 Dobson Communications Corp. 12.25% pfd. (PIK)  
540 First Republic Capital Corp. 144A 10.50% pfd.  
510 Granite Broadcasting Corp. 12.75% cum. pfd.  
69 Leiner Health Products Ser. C, zero % pfd. (NON)  
22,867 Lodgian, Inc. Ser. A, \$7.06 cum. pfd. (PIK)  
196 Metrocall Holdings, Inc. Ser. A, 15.00% cum. pfd.  
2 Nextel Communications, Inc. Ser. D, 13.00% cum. pfd. (PIK)  
1,156 Nextel Communications, Inc. Ser. E, 11.125% pfd. (PIK)  
1,703 North Atlantic Trading Co. 12.00% pfd. (PIK)  
17 NTL Europe, Inc. Ser. A, zero % cum. pfd.  
417 Paxson Communications Corp. 13.25% cum. pfd. (PIK)  
1,712 Rural Cellular Corp. 12.25% pfd. (PIK)

Total Preferred Stocks (cost \$17,264,096)

### BRADY BONDS (1.5%) (a) PRINCIPAL AMOUNT

---

\$4,500,000 Argentina (Republic of) govt. guaranty Ser. L-GP, 6s, 2023  
(In default) (NON)  
1,391,493 Brazil (Federal Republic of) bonds 8s, 2014  
1,065,000 Brazil (Federal Republic of) government guaranty  
Ser. 30YR, 3.063s, 2024  
1,610,000 Brazil (Federal Republic of) govt. guaranty FRB Ser. RG,  
3 1/4s, 2012  
1,029,000 Peru (Republic of) bonds Ser. PDI, 4s, 2017  
1,020,000 Peru (Republic of) coll. FLIRB 3 1/4s, 2017  
2,215,000 Peru (Republic of) coll. FLIRB Ser. 20YR, 4s, 2017  
1,650,000 United Mexican States bonds Ser. B, 6 1/4s, 2019  
5,714,286 Venezuela (Republic of) debs. FRB Ser. DL, 2 7/8s, 2007

Total Brady Bonds (cost \$13,658,217)

### COMMON STOCKS (1.2%) (a) NUMBER OF SHARES

#### Basic Materials (--%)

---

39,407 Pioneer Cos., Inc. (NON)  
368 Sterling Chemicals, Inc. (NON)

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### Communication Services (0.1%)

---

136 Arch Wireless, Inc. (NON)  
45,677 Arch Wireless, Inc. (NON)  
277,865 Celcaribe SA (Colombia)  
21,241 Covad Communications Group, Inc. 144A (NON)  
8,782 Equinix, Inc. (NON)  
2,423 FLAG Telecom Holdings, Ltd. (Bermuda) (NON)  
48,165 Globix Corp. (NON)  
228 Metrocall Holdings, Inc. (NON)  
38,630 NTL, Inc. (NON)  
2,169 Vast Solutions, Inc. Class B1 (NON)  
2,169 Vast Solutions, Inc. Class B2 (NON)  
2,169 Vast Solutions, Inc. Class B3 (NON)  
6,160 WilTel Communications, Inc. (NON)

### Conglomerates (--%)

---

11,334 Jasper Energy 144A  
2,319 York Research Corp. 144A

### Consumer Cyclical (0.5%)

---

27,093 Lodgian, Inc. (NON)  
160,000 Loewen Group International, Inc. (NON)  
1,250,000 Morrison Knudsen Corp.  
234 Quorum Broadcast Holdings, Inc. Class E (NON)  
236,020 Regal Entertainment Group 144A  
39,603 Safety Components International, Inc. (NON)  
2,437 Washington Group International, Inc. (NON)

### Consumer Staples (0.6%)

---

2,452 Archibald Candy Corp. (NON)  
19,924 Aurora Foods, Inc. (NON)  
28,440 Daskocil Manufacturing Co., Inc. (NON)  
1,186 Premium Holdings (LP) 144A  
2,502 PSF Group Holdings, Inc. 144A Class A (NON)

### Financial (--%)

---

1,005,000 AMRESKO Capital Trust, Inc. (NON) (R)  
628 Comdisco Holding Co., Inc. (NON)  
3,390,037 Contifinancial Corp. Liquidating Trust Units  
1,145 Delta Funding Residual Exchange Co., LLC (NON)  
1,145 Delta Funding Residual Management, Inc. (NON)

### Health Care (--%)

---



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3,074 Alderwoods Group, Inc. (NON)  
 9,649 Genesis Health Ventures, Inc. (NON)  
 2,359 Mariner Health Care, Inc. (NON)  
 1,195 Sun Healthcare Group, Inc. (NON)

Total Common Stocks (cost \$30,608,062)

CONVERTIBLE BONDS AND NOTES (0.4%) (a)  
 PRINCIPAL AMOUNT

---

\$955,000 American Tower Corp. cv. notes 5s, 2010  
 690,000 DaVita, Inc. cv. sub. notes 7s, 2009  
 1,955,000 Nextel Communications, Inc. cv. sr. notes 5 1/4s, 2010  
 985,000 Province Healthcare Co. cv. sub. notes 4 1/2s, 2005  
 150,000 Rogers Communications cv. debs. 2s, 2005 (Canada)

Total Convertible Bonds and Notes (cost \$3,491,554)

UNITS (0.2%) (a)  
 NUMBER OF UNITS

---

1,360 American Tower Escrow Corp. units zero %, 2008  
 395 MDP Acquisitions PLC 144A units 15 1/2s, 2013 (Ireland) (PIK)  
 960 XCL, Ltd. 144A units 13 1/2s, 2004 (In default) (NON)  
 7,615 XCL, Ltd. 144A 9.50% units cum. cv. pfd. (In default) (NON) (PIK)

Total Units (cost \$2,688,119)

CONVERTIBLE PREFERRED STOCKS (0.1%) (a)  
 NUMBER OF SHARES

---

77 Genesis Health Ventures, Inc. 6.00% cum. cv. pfd. (PIK)  
 847 Hercules Trust II 6.50% units cum. cv. pfd.  
 1,900 Interact Electronic Marketing, Inc. 14.00% cum. cv. pfd.  
 (In default) (NON)  
 2,821 Knology, Inc. 144A Ser. D, zero % cv. pfd.  
 6,800 LTV Corp. 144A \$4.125 cv. pfd. (In default) (NON)  
 77 Paxson Communications Corp. 144A 9.75% cv. pfd. (PIK)  
 9,916 Telex Communications, Inc. zero % cv. pfd. (In default) (NON)  
 900 Weirton Steel Corp. Ser. C, zero % cv. pfd.  
 1,503 XCL, Ltd. 144A Ser. A, 9.50% cum. cv. pfd. (In default) (NON) (PIK)

Total Convertible Preferred Stocks (cost \$1,544,455)

WARRANTS (--%) (a) (NON)  
 NUMBER OF WARRANTS

EXPIRATION  
 DATE

---

|   |         |
|---|---------|
| 780 Birch Telecommunications, Inc. 144A | 6/15/08 |
| 1,420 Dayton Superior Corp.             | 6/15/09 |
| 2,919 Diva Systems Corp.                | 5/15/06 |
| 8,326 Diva Systems Corp. 144A           | 3/1/08  |
| 1,450 Horizon PCS, Inc.                 | 10/1/10 |
| 1,900 Interact Systems, Inc.            | 8/1/03  |

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|   |          |
|---|----------|
| 1,900 Interact Systems, Inc. 144A                 | 12/15/00 |
| 1,270 iPCS, Inc. 144A                             | 7/15/10  |
| 563 IWO Holdings, Inc.                            | 1/15/11  |
| 758 Leap Wireless International, Inc. 144A        | 4/15/10  |
| 550 Mikohn Gaming Corp. 144A                      | 8/15/08  |
| 560 ONO Finance PLC 144A (United Kingdom)         | 2/15/11  |
| 1,310 Orion Network Systems                       | 1/15/07  |
| 1,600 Paxson Communications Corp. 144A            | 6/30/03  |
| 570 Pliant Corp. 144A                             | 6/1/10   |
| 682 Solutia, Inc. 144A                            | 7/15/09  |
| 2,987 Sun Healthcare Group, Inc.                  | 2/28/05  |
| 690 Travel Centers of America, Inc. 144A          | 5/1/09   |
| 2,310 Ubiquitel, Inc. 144A                        | 4/15/10  |
| 1,650,000 United Mexican States Ser. B (Mexico)   | 6/30/04  |
| 1,650,000 United Mexican States Ser. C (Mexico)   | 6/30/05  |
| 1,650,000 United Mexican States Ser. D (Mexico)   | 6/30/06  |
| 1,650,000 United Mexican States Ser. E (Mexico)   | 6/30/07  |
| 1,190 Veraldo Holdings, Inc. 144A                 | 4/15/08  |
| 50 Versatel Telecom NV (Netherlands)              | 5/15/08  |
| 1,505 Washington Group International, Inc. Ser. A | 1/25/06  |
| 1,719 Washington Group International, Inc. Ser. B | 1/25/06  |
| 929 Washington Group International, Inc. Ser. C   | 1/25/06  |
| 800 XM Satellite Radio Holdings, Inc. 144A        | 3/15/10  |

Total Warrants (cost \$1,118,665)

SHORT-TERM INVESTMENTS (9.5%) (a)  
PRINCIPAL AMOUNT

---

|            |   |
|------------|---|
| \$61,612   | Short-term investments held as collateral for loaned securities with yields ranging from 1.27% to 1.35% and due dates ranging from February 3, 2003 to March 24, 2003 (d) |
| 86,221,596 | Short-term investments held in Putnam commingled cash account with yields ranging from 1.23% to 1.69% and due dates ranging from February 3, 2003 to March 31, 2003 (d)   |

Total Short-Term Investments (cost \$86,283,181)

---

Total Investments (cost \$1,001,136,580)

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(a) Percentages indicated are based on net assets of \$909,289,940.

(NON) Non-income-producing security.

(STP) The interest rate and date shown parenthetically represent the new interest rate to be paid and the date the fund will begin accruing interest at this rate.

(RES) Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at January 31, 2003 was \$20,636,019 or 2.3% of net assets.

(PIK) Income may be received in cash or additional securities at the discretion of the issuer.

(SEG) A portion of this security was pledged and segregated with with the custodian to cover margin requirements for future contracts at January 31, 2003.

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(R) Real Estate Investment Trust.

(d) See Note 1 to the financial statements.

144A after the name of a security represents those exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

TBA after the name of a security represents to be announced securities (Note 1).

FLIRB represents Front Loaded Interest Reduction Bond.

The rates shown on Floating Rate Bonds (FRB) and Floating Rate Notes (FRN) are the current interest rates shown at January 31, 2003, which are subject to change based on the terms of the security.

### DIVERSIFICATION BY COUNTRY

Distribution of investments by country of issue at January 31, 2003: (as a percentage of Ma

|                |        |
|----------------|--------|
| Canada         | 3.3%   |
| Colombia       | 0.6    |
| France         | 0.7    |
| Germany        | 1.8    |
| Luxembourg     | 0.5    |
| Mexico         | 0.8    |
| New Zealand    | 1.3    |
| Peru           | 0.7    |
| Russia         | 1.5    |
| South Africa   | 0.5    |
| Sweden         | 2.6    |
| United Kingdom | 2.6    |
| United States  | 70.0   |
| Venezuela      | 0.5    |
| Other          | 12.6   |
|                | ----   |
| Total          | 100.0% |

-----  
 Forward Currency Contracts to Buy at January 31, 2003 (Unaudited)  
 (aggregate face value \$81,438,490)

|                    | Market<br>Value | Aggregate Face<br>Value | Delivery<br>Date | Unrealized<br>Appreciation |
|--------------------|-----------------|-------------------------|------------------|----------------------------|
| Australian Dollars | \$24,334,696    | \$23,272,417            | 3/19/03          | \$1,062,279                |
| British Pounds     | 666,854         | 648,580                 | 3/19/03          | 18,274                     |
| Canadian Dollars   | 16,848,501      | 16,632,652              | 3/19/03          | 215,849                    |
| Danish Krone       | 1,326,721       | 1,304,400               | 3/19/03          | 22,321                     |
| Euro               | 18,169,775      | 17,240,683              | 3/19/03          | 929,092                    |
| Japanese Yen       | 18,540,004      | 18,427,993              | 3/19/03          | 112,011                    |
| Korean Won         | 3,490,245       | 3,353,942               | 3/19/03          | 136,303                    |
| Swiss Francs       | 600,323         | 557,823                 | 3/19/03          | 42,500                     |
|                    |                 |                         |                  | -----                      |
|                    |                 |                         |                  | \$2,538,629                |

-----  
 Forward Currency Contracts to Sell at January 31, 2003 (Unaudited)  
 (aggregate face value \$75,954,991)

|  | Market<br>Value | Aggregate Face<br>Value | Delivery<br>Date | Unrealized<br>Depreciation |
|--|-----------------|-------------------------|------------------|----------------------------|
|  |                 |                         |                  | -----                      |

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|                     |             |             |         |             |
|---------------------|-------------|-------------|---------|-------------|
| Australian Dollars  | \$1,743,431 | \$1,675,408 | 3/19/03 | \$(68,023)  |
| British Pounds      | 15,550,153  | 15,085,889  | 3/19/03 | (464,264)   |
| Canadian Dollars    | 10,160,592  | 10,079,062  | 3/19/03 | (81,530)    |
| Euro                | 7,913,616   | 7,771,428   | 3/19/03 | (142,188)   |
| Japanese Yen        | 6,769,960   | 6,767,588   | 3/19/03 | (2,372)     |
| New Zealand Dollars | 11,783,153  | 10,925,431  | 3/19/03 | (857,722)   |
| Swedish Krona       | 24,918,240  | 23,650,185  | 3/19/03 | (1,268,055) |

-----  
 \$(2,884,154)  
 -----

Futures Contracts Outstanding at January 31, 2003 (Unaudited)

|                                      | Market Value | Aggregate Face Value | Expiration Date | Unrealized Appreciation/ (Depreciation) |
|--------------------------------------|--------------|----------------------|-----------------|---|
| CBT Interest Rate Swap 10yr (Long)   | \$2,578,875  | \$2,551,660          | Mar-03          | \$27,215                                |
| Euro-Bobl 5yr (Long)                 | 20,178,983   | 19,685,716           | Mar-03          | 493,267                                 |
| Euro-Bund 10yr (Long)                | 26,363,469   | 25,771,738           | Mar-03          | 591,731                                 |
| Euro 90 day (Long)                   | 1,970,400    | 1,909,134            | Sep-03          | 61,266                                  |
| Euro 90 day (Short)                  | 1,973,700    | 1,917,566            | Jun-03          | (56,134)                                |
| Japanese Government Bond 10yr (Long) | 9,761,775    | 9,677,272            | Mar-03          | 84,503                                  |
| Japanese Government Bond 10yr (Long) | 7,144,263    | 7,080,919            | Mar-03          | 63,344                                  |
| US Treasury Bond 20yr (Long)         | 50,596,563   | 48,685,159           | Mar-03          | 1,911,404                               |
| US Treasury Note 5yr (Short)         | 54,690,188   | 53,622,158           | Mar-03          | (1,068,030)                             |
| US Treasury Note 10yr (Long)         | 8,446,406    | 8,274,627            | Mar-03          | 171,779                                 |
| US Treasury Note 10yr (Short)        | 102,954,844  | 101,029,348          | Mar-03          | (1,925,496)                             |

-----  
 \$354,849  
 -----

Credit Default Contracts Outstanding at January 31, 2003  
 (premiums received \$1,743,437)

|  | Notional Amount | Market Value |
|--|-----------------|--------------|
| Agreement with JPMorgan Chase Bank effective May 14, 2002, maturing on May 15, 2007, to receive a premium equal to 17.171% times the notional amount. For each credit default event related to one of the 100 issues within the HYDI |                 |              |

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100 8.75%,  
5/15/07 Bond  
Index, the fund  
makes a payment  
of the  
proportional  
notional amount  
times the  
difference  
between the par  
value and the  
then-market value  
of the defaulted  
issue.

\$6,295,000      \$1,631,035

-----  
Swap Contracts Outstanding at January 31, 2003 (Unaudited)

|  | Notional<br>Amount | Termination<br>Date | Unrealized<br>Appreciation |
|--|--------------------|---------------------|----------------------------|
|--|--------------------|---------------------|----------------------------|

-----

Agreement with  
Merrill Lynch  
Capital Services,  
Inc. dated  
November 17, 2000  
to pay semi-annually  
the notional amount  
multiplied by the  
three month  
USD-LIBOR-BBA and  
receive the  
notional amount  
multiplied by  
6.68%.

\$9,000,000      11/21/05      \$1,028,768

Agreement with  
Merrill Lynch  
Capital Services,  
Inc. dated  
September 27,  
2002 to receive  
semiannually the  
notional amount  
multiplied by the  
six month  
JPY-LIBOR-BBA and  
pay monthly the  
notional amount  
multiplied by  
0.399%.

JPY 3,417,000,00      10/1/07      559,383

Agreement with  
Goldman Sachs  
Capital Markets,  
L.P. dated  
September 13,  
2002 to pay at  
maturity the  
notional amount  
multiplied by the  
six month  
USD-LIBOR-BBA and  
receive (pay) at

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maturity the  
notional amount  
multiplied by the  
change in net  
asset value of  
the ishares GS  
InvesTop  
Corporate Bond  
Fund. \$7,089,972 3/21/03 73,389

Agreement with  
Goldman Sachs  
Capital Markets,  
L.P. dated  
November 8, 2002  
to pay at  
maturity the  
notional amount  
multiplied by the  
six month  
USD-LIBOR-BBA  
plus a specified  
spread and  
receive (pay) at  
maturity the  
notional amount  
multiplied by the  
change in net  
asset value of  
the ishares GS  
InvesTop  
Corporate Bond  
Fund. 7,581,570 5/14/03 90,758

-----  
\$1,752,298  
-----

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ASSETS AND LIABILITIES  
January 31, 2003 (Unaudited)

Assets

|   |               |
|---|---------------|
| Investments in securities, at value, including \$59,890 of securities on loan<br>(identified cost \$1,001,136,580) (Note 1) | \$944,118,411 |
| Cash  | 688,756       |
| Foreign currency (cost \$3,992,532) (Note 1)  | 4,351,928     |
| Dividends, interest and other receivables   | 16,316,917    |
| Receivable for securities sold  | 11,584,185    |
| Receivable for open swap contracts (Note 1)   | 1,752,298     |

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|   |                 |
|---|-----------------|
| Receivable for variation margin (Note 1)  | 92,357          |
| Receivable for open forward currency contracts (Note 1)                                     | 2,601,832       |
| Receivable for closed forward currency contracts (Note 1)                                   | 704,610         |
| Total assets  | 982,211,294     |
| Liabilities   |                 |
| Distributions payable to shareholders   | 6,337,238       |
| Payable for securities purchased  | 59,142,076      |
| Payable for compensation of Manager (Note 2)  | 1,556,880       |
| Payable for investor servicing and custodian fees (Note 2)                                  | 98,988          |
| Payable for compensation of Trustees (Note 2)   | 73,599          |
| Payable for administrative services (Note 2)  | 1,381           |
| Payable for open forward currency contracts (Note 1)  | 2,947,357       |
| Payable for closed forward currency contracts (Note 1)                                      | 1,002,444       |
| Credit default contracts outstanding, at value (premiums received \$1,743,437) (Note 1)     | 1,631,035       |
| Collateral on securities loaned, at value (Note 1)  | 61,585          |
| Other accrued expenses  | 68,771          |
| Total liabilities   | 72,921,354      |
| Net assets  | \$909,289,940   |
| Represented by  |                 |
| Paid-in capital (Note 1)  | \$1,205,678,948 |
| Distributions in excess of net investment income (Note 1)                                   | (10,374,243)    |
| Accumulated net realized loss on investments and foreign currency transactions (Note 1)     | (230,431,615)   |
| Net unrealized depreciation of investments and assets and liabilities in foreign currencies | (55,583,150)    |
| Total -- Representing net assets applicable to capital shares outstanding                   | \$909,289,940   |
| Computation of net asset value and offering price   |                 |
| Net asset value per share (\$909,289,940 divided by 141,063,022 shares)                     | \$6.45          |

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF OPERATIONS

Six months ended January 31, 2003 (Unaudited)

Investment income:

|                         |              |
|-------------------------|--------------|
| Interest                | \$38,646,877 |
| Dividends               | 2,322,148    |
| Securities lending      | 3,564        |
| Total investment income | 40,972,589   |

Expenses:

|  |              |
|--|--------------|
| Compensation of Manager (Note 2)   | 3,156,033    |
| Investor servicing and custodian fees (Note 2)   | 428,156      |
| Compensation of Trustees (Note 2)  | 14,912       |
| Administrative services (Note 2)   | 7,036        |
| Other  | 79,505       |
| Total expenses   | 3,685,642    |
| Expense reduction (Note 2)   | (32,031)     |
| Net expenses   | 3,653,611    |
| Net investment income  | 37,318,978   |
| Net realized loss on investments (Notes 1 and 3)   | (27,327,840) |
| Net realized loss on futures contracts (Note 1)  | (1,297,367)  |
| Net realized gain on foreign currency transactions (Note 1)  | 508,429      |
| Net unrealized depreciation of assets and liabilities in foreign currencies during the period                                | (1,067,668)  |
| Net unrealized appreciation of investments, futures contracts, swap contracts and credit default contracts during the period | 61,128,014   |
| Net gain on investments  | 31,943,568   |
| Net increase in net assets resulting from operations   | \$69,262,546 |

The accompanying notes are an integral part of these financial statements.



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### STATEMENT OF CHANGES IN NET ASSETS

|  | Six months ended<br>January 31<br>2003* | Year<br>J |
|--|---|-----------|
| -----  |   |           |
| Increase (decrease) in net assets  |   |           |
| -----  |   |           |
| Operations:  |   |           |
| -----  |   |           |
| Net investment income  | \$37,318,978                            | \$77,4    |
| -----  |   |           |
| Net realized loss on investments and foreign currency transactions   | (28,116,778)                            | (55,4     |
| -----  |   |           |
| Net unrealized appreciation (depreciation) of investments and assets and liabilities in foreign currencies               | 60,060,346                              | (10,3     |
| -----  |   |           |
| Net increase in net assets resulting from operations   | 69,262,546                              | 11,6      |
| -----  |   |           |
| Distributions to shareholders: (Note 1)  |   |           |
| -----  |   |           |
| From net investment income   | (38,079,406)                            | (74,6     |
| -----  |   |           |
| From return of capital   | --                                      | (1,4      |
| -----  |   |           |
| Increase from issuance of common shares in connection with reinvestment of distributions                                 | 458,083                                 |           |
| -----  |   |           |
| Total increase (decrease) in net assets  | 31,641,223                              | (64,4     |
| -----  |   |           |
| Net assets   |   |           |
| -----  |   |           |
| Beginning of period  | 877,648,717                             | 942,1     |
| -----  |   |           |
| End of period (including distributions in excess of net investment income of \$10,374,243 and \$9,613,815, respectively) | \$909,289,940                           | \$877,6   |
| -----  |   |           |
| Number of fund shares  |   |           |
| -----  |   |           |
| Shares outstanding at beginning of period  | 140,989,259                             | 140,9     |
| -----  |   |           |
| Shares issued in connection with reinvestment of distributions   | 73,763                                  |           |
| -----  |   |           |
| Shares outstanding at end of period  | 141,063,022                             | 140,9     |
| -----  |   |           |

\* Unaudited

The accompanying notes are an integral part of these financial statements.

### FINANCIAL HIGHLIGHTS

(For a common share outstanding throughout the period)

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| Per-share<br>operating performance                          | Six months<br>ended<br>January 31<br>(Unaudited) |            |           |             |             |
|---|--|------------|-----------|-------------|-------------|
|   | Year ended July 31                               |            |           |             |             |
|   | 2003   | 2002       | 2001      | 2000        | 1999        |
| Net asset value,<br>beginning of period                     | \$6.22   | \$6.68     | \$7.19    | \$7.62      | \$8.71      |
| Investment operations:                                      |  |            |           |             |             |
| Net investment income (a)                                   | .26  | .55        | .61       | .63         | .64         |
| Net realized and unrealized<br>gain (loss) on investments   | .24  | (.47)      | (.50)     | (.39)       | (.99)       |
| Total from<br>investment operations                         | .50  | .08        | .11       | .24         | (.35)       |
| Less distributions:   |  |            |           |             |             |
| From net<br>investment income                               | (.27)  | (.53)      | (.51)     | (.67)       | (.62)       |
| From net realized<br>gain on investments                    | --   | --         | --        | --          | (.12)       |
| From return<br>of capital                                   | --   | (.01)      | (.11)     | --          | --          |
| Total distributions   | (.27)  | (.54)      | (.62)     | (.67)       | (.74)       |
| Net asset value,<br>end of period                           | \$6.45   | \$6.22     | \$6.68    | \$7.19      | \$7.62      |
| Total return at<br>market value (%) (b)                     | 13.20*   | 4.44       | 8.56      | (1.51)      | (7.24)      |
| Ratios and supplemental data                                |  |            |           |             |             |
| Market value,<br>end of period                              | \$6.54   | \$6.03     | \$6.29    | \$6.38      | \$7.19      |
| Net assets, end of period<br>(in thousands)                 | \$909,290  | \$877,649  | \$942,125 | \$1,013,487 | \$1,073,980 |
| Ratio of expenses to<br>average net assets (%) (c)          | .42*   | .86        | .85       | .83         | .86         |
| Ratio of net investment income<br>to average net assets (%) | 4.21*  | 8.39       | 8.87      | 8.48        | 8.05        |
| Portfolio turnover (%)                                      | 99.07 (d) *                                      | 175.78 (d) | 231.58    | 133.80      | 165.79      |

\* Not annualized.

(a) Per share net investment income has been determined on the basis of the weighted average number of shares outstanding during the period.

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- (b) Total return assumes dividend reinvestment.
- (c) Includes amounts paid through expense offset arrangements (Note 2).
- (d) Portfolio turnover excludes certain treasury note transactions executed in connection with a short-term trading strategy.

The accompanying notes are an integral part of these financial statements.

### NOTES TO FINANCIAL STATEMENTS January 31, 2003 (Unaudited)

#### Note 1

##### Significant accounting policies

Putnam Premier Income Trust (the "fund") is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The fund's investment objective is to seek high current income by allocating its investments among the U.S. government sector, high yield sector and international sector of the fixed-income securities market.

The following is a summary of significant accounting policies consistently followed by the fund in the preparation of its financial statements. The preparation of financial statements is in conformity with accounting principles generally accepted in the United States of America and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

A) Security valuation Investments for which market quotations are readily available are valued at market value, which is determined using the last reported sales price on its principal exchange, or if no sales are reported -- as in the case of some securities traded over-the-counter -- the last reported bid price. Market quotations are not considered to be readily available for certain debt obligations; such investments are valued at fair value on the basis of valuations furnished by an independent pricing service or dealers, approved by the Trustees, which determine valuations for normal institutional-size trading units of such securities using methods based on market transactions for comparable securities and variable relationships, generally recognized by institutional traders, between securities. For foreign investments, if trading or events occurring in other markets after the close of the principal exchange in which the securities are traded are expected to materially affect the value of the investments, then those investments are valued, taking into consideration these events, at their fair value following procedures approved by the Trustees. Securities quoted in foreign currencies are translated into U.S. dollars at the current exchange rate. Short-term investments having remaining maturities of 60 days or less are valued at amortized cost, which approximates market value. Other investments, including restricted securities, are valued at fair value following procedures approved by the Trustees.

B) Joint trading account The fund may transfer uninvested cash balances, including cash collateral received under security lending arrangements,

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into a joint trading account along with the cash of other registered investment companies and certain other accounts managed by Putnam Investment Management, LLC ("Putnam Management"), the fund's manager, an indirect wholly-owned subsidiary of Putnam, LLC. These balances may be invested in issuers of high-grade short-term investments having maturities of up to 397 days for collateral received under security lending arrangements and up to 90 days for other cash investments.

C) Repurchase agreements The fund, or any joint trading account, through its custodian, receives delivery of the underlying securities, the market value of which at the time of purchase is required to be in an amount at least equal to the resale price, including accrued interest. Collateral for certain tri-party repurchase agreements is held at the counterparty's custodian in a segregated account for the benefit of the fund and the counterparty. Putnam Management is responsible for determining that the value of these underlying securities is at all times at least equal to the resale price, including accrued interest.

D) Security transactions and related investment income Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Gains or losses on securities sold are determined on the identified cost basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date except that certain dividends from foreign securities are recorded as soon as the fund is informed of the ex-dividend date. Non-cash dividends, if any, are recorded at the fair market value of the securities received.

All premiums/discounts are amortized/accreted on a yield-to-maturity basis.

E) Foreign currency translation The accounting records of the fund are maintained in U.S. dollars. The market value of foreign securities, currency holdings, and other assets and liabilities are recorded in the books and records of the fund after translation to U.S. dollars based on the exchange rates on that day. The cost of each security is determined using historical exchange rates. Income and withholding taxes are translated at prevailing exchange rates when accrued or incurred. The fund does not isolate that portion of realized or unrealized gains or losses resulting from changes in the foreign exchange rate on investments from fluctuations arising from changes in the market prices of the securities. Such gains and losses are included with the net realized and unrealized gain or loss on investments. Net realized gains and losses on foreign currency transactions represent net realized exchange gains or losses on closed forward currency contracts, disposition of foreign currencies, currency gains and losses realized between the trade and settlement dates on securities transactions and the difference between the amount of investment income and foreign withholding taxes recorded on the fund's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized appreciation and depreciation of assets and liabilities in foreign currencies arise from changes in the value of open forward currency contracts and assets and liabilities other than investments at the period end, resulting from changes in the exchange rate. Investments in foreign securities involve certain risks, including those related to economic instability, unfavorable political developments, and currency fluctuations, not present with domestic investments.

F) Forward currency contracts The fund may engage in forward currency contracts, which are agreements between two parties to buy and sell currencies at a set price on a future date. These contracts are used to protect against a decline in value relative to the U.S. dollar of the currencies in which its portfolio securities are denominated or quoted (or an increase in the value of a currency in which securities a fund

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intends to buy are denominated, when a fund holds cash reserves and short-term investments). The U.S. dollar value of forward currency contracts is determined using current forward currency exchange rates supplied by a quotation service. The market value of the contract will fluctuate with changes in currency exchange rates. The contract is "marked to market" daily and the change in market value is recorded as an unrealized gain or loss. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The fund could be exposed to risk if the value of the currency changes unfavorably, if the counterparties to the contracts are unable to meet the terms of their contracts or if the fund is unable to enter into a closing position. Forward currency contracts outstanding at period end are listed after The fund's portfolio.

G) Futures and options contracts The fund may use futures and options contracts to hedge against changes in the values of securities the fund owns or expects to purchase. The fund may also write options on securities it owns or in which it may invest to increase its current returns.

The potential risk to the fund is that the change in value of futures and options contracts may not correspond to the change in value of the hedged instruments. In addition, losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparty to the contract is unable to perform. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Realized gains and losses on purchased options are included in realized gains and losses on investment securities.

Futures contracts are valued at the quoted daily settlement prices established by the exchange on which they trade. The fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in the value of the futures contract. Such receipts or payments are known as "variation margin." Exchange traded options are valued at the last sale price, or if no sales are reported, the last bid price for purchased options and the last ask price for written options. Options traded over-the-counter are valued using prices supplied by dealers. Future and written option contracts outstanding at period end are listed after The fund's portfolio.

H) Total return swap contracts The fund may engage in total return swap agreements, which are arrangements to exchange a market linked return for an interest payment, both based on a notional principal amount. To the extent that the total return of the security or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the fund will receive a payment from or make a payment to the counterparty, respectively. Total return swap agreements are marked to market daily based upon quotations from market makers and the change, if any, is recorded as unrealized gain or loss. Payments received or made at the end of the measurement period are recorded as realized gains or losses. The fund could be exposed to credit or market risk due to unfavorable changes in the fluctuation of interest rates or in the price of the underlying security or index, the possibility that there is no liquid market for these agreements or that the counterparty may default on its obligation to perform. Total return swap contracts outstanding at period end are listed after The fund's portfolio.

I) Interest rate swap contracts The fund may engage in interest rate swap agreements, which are arrangements between two parties to exchange

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cash flows based on a notional principal amount, to manage the funds exposure to interest rates. Interest rate swaps are marked to market daily based upon quotations from market makers and the change, if any, is recorded as unrealized gain or loss. Payments made or received are included as part of interest income. A portion of the payments received or made upon early termination are recorded as realized gain or loss. The fund could be exposed to credit or market risk due to unfavorable changes in the fluctuation of interest rates or if the counterparty defaults on its obligation to perform. Interest rate swap contracts outstanding at period end are listed after The fund's portfolio.

J) Credit default contracts The fund may engage in credit default contracts where one party, the protection buyer, makes an upfront payment to a counter party, the protection seller, in exchange for the right to receive a contingent payment as a result of a credit event related to a specified security or index. The upfront payment received by the fund, as the protection seller, is recorded as a liability on the fund's books. The credit default contracts are marked to market daily based upon quotations from market makers and the change, if any, is recorded as unrealized gain or loss. Payments received or made as a result of a credit event or termination of the contract are recorded, net of a proportional amount of the upfront payment, as realized gains or losses. In addition to bearing the risk that the credit event will occur, the fund could be exposed to market risk due to unfavorable changes in interest rates or in the price of the underlying security or index, the possibility that the fund may be unable to close out its position at the same time or at the same price as if it had purchased comparable publicly traded securities or that the counter party may default on its obligation to perform. Credit default contracts outstanding at period end are listed after The fund's portfolio.

K) TBA purchase commitments The fund may enter into "TBA" (to be announced) purchase commitments to purchase securities for a fixed unit price at a future date beyond customary settlement time. Although the unit price has been established, the principal value has not been finalized. However, the amount of the commitments will not significantly differ from the principal amount. The fund holds, and maintains until settlement date, cash or high-grade debt obligations in an amount sufficient to meet the purchase price, or the fund may enter into offsetting contracts for the forward sale of other securities it owns. Income on the securities will not be earned until settlement date. TBA purchase commitments may be considered securities in themselves, and involve a risk of loss if the value of the security to be purchased declines prior to the settlement date, which risk is in addition to the risk of decline in the value of the fund's other assets. Unsettled TBA purchase commitments are valued at the current market value of the underlying securities, according to the procedures described under "Security valuation" above.

Although the fund will generally enter into TBA purchase commitments with the intention of acquiring securities for its portfolio or for delivery pursuant to options contracts it has entered into, the fund may dispose of a commitment prior to settlement if Putnam Management deems it appropriate to do so.

L) TBA sale commitments The fund may enter into TBA sale commitments to hedge its portfolio positions or to sell mortgage-backed securities it owns under delayed delivery arrangements. Proceeds of TBA sale commitments are not received until the contractual settlement date. During the time a TBA sale commitment is outstanding, equivalent deliverable securities, or an offsetting TBA purchase commitment deliverable on or before the sale commitment date, are held as "cover"

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for the transaction.

Unsettled TBA sale commitments are valued at the current market value of the underlying securities, generally according to the procedures described under "Security valuation" above. The contract is "marked-to-market" daily and the change in market value is recorded by the fund as an unrealized gain or loss. If the TBA sale commitment is closed through the acquisition of an offsetting purchase commitment, the fund realizes a gain or loss. If the fund delivers securities under the commitment, the fund realizes a gain or a loss from the sale of the securities based upon the unit price established at the date the commitment was entered into. TBA sale commitments outstanding at period end are listed after The fund's portfolio.

M) Security lending The fund may lend securities, through its agent Citibank N.A., to qualified borrowers in order to earn additional income. The loans are collateralized by cash and/or securities in an amount at least equal to the market value of the securities loaned. The market value of securities loaned is determined daily and any additional required collateral is allocated to the fund on the next business day. The risk of borrower default will be borne by Citibank N.A. The fund will bear the risk of loss with respect to the investment of the cash collateral. Income from securities lending is included in investment income on the Statement of operations. At January 31, 2003, the value of securities loaned amounted to \$59,890. The fund received cash collateral of \$61,585, which is pooled with collateral of other Putnam funds into 23 issuers of high-grade short-term investments.

N) Federal taxes It is the policy of the fund to distribute all of its taxable income within the prescribed time and otherwise comply with the provisions of the Internal Revenue Code applicable to regulated investment companies. It is also the intention of the fund to distribute an amount sufficient to avoid imposition of any excise tax under Section 4982 of the Internal Revenue Code of 1986, as amended. Therefore, no provision has been made for federal taxes on income, capital gains or unrealized appreciation on securities held nor for excise tax on income and capital gains.

At July 31, 2002, the fund had a capital loss carryover of approximately \$154,608,000 available to the extent allowed by tax law to offset future capital gains, if any. The amount of the carryover and the expiration dates are:

| Loss Carryover | Expiration    |
|----------------|---------------|
| -----          | -----         |
| \$39,893,000   | July 31, 2007 |
| 44,858,000     | July 31, 2008 |
| 24,930,000     | July 31, 2009 |
| 44,927,000     | July 31, 2010 |

Pursuant to federal income tax regulations applicable to regulated investment companies, the fund has elected to defer to its fiscal year ending July 31, 2003 approximately \$46,453,000 of losses recognized during the period November 1, 2001 to July 31, 2002.

The aggregate identified cost on a tax basis is \$1,004,635,632, resulting in gross unrealized appreciation and depreciation of \$46,184,634 and \$106,701,855, respectively, or net unrealized depreciation of \$60,517,221.

O) Distributions to shareholders Distributions to shareholders from net investment income are recorded by the fund on the ex-dividend date.

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Distributions from capital gains, if any, are recorded on the ex-dividend date and paid at least annually. The amount and character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. Reclassifications are made to the fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations.

### Note 2

Management fee, administrative services and other transactions

Compensation of Putnam Management, for management and investment advisory services is paid quarterly based on the average net assets of the fund. Such fee is based on the following annual rates: 0.75% of the first \$500 million of average weekly net assets, 0.65% of the next \$500 million, 0.60% of the next \$500 million and 0.55% of any amount over \$1.5 billion.

The fund reimburses Putnam Management an allocated amount for the compensation and related expenses of certain officers of the fund and their staff who provide administrative services to the fund. The aggregate amount of all such reimbursements is determined annually by the Trustees.

Custodial functions for the fund's assets are provided by Putnam Fiduciary Trust Company (PFTC), a wholly-owned subsidiary of Putnam, LLC. Investor servicing agent functions are provided by Putnam Investor Services, a division of PFTC.

The fund has entered into an arrangement with PFTC whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the fund's expenses. For the six months ended January 31, 2003, the fund's expenses were reduced by \$32,031 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$1,208 has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional fees for attendance at certain committee meetings.

The fund has adopted a Trustee Fee Deferral Plan (the "Deferral Plan"), which allows the Trustees to defer the receipt of all or a portion of Trustees Fees payable on or after July 1, 1995. The deferred fees remain invested in certain Putnam funds until distribution in accordance with the Deferral Plan.

The fund has adopted an unfunded noncontributory defined benefit pension plan (the "Pension Plan") covering all Trustees of the fund who have served as a Trustee for at least five years. Benefits under the Pension Plan are equal to 50% of the Trustee's average total retainer and meeting fees for the three years preceding retirement. Pension expense for the fund is included in Compensation of Trustees in the Statement of operations. Accrued pension liability is included in Payable for compensation of Trustees in the Statement of assets and liabilities.

### Note 3

Purchases and sales of securities

During the six months ended January 31, 2003, cost of purchases and proceeds from sales of investment securities other than U.S. government obligations and short-term investments aggregated \$404,263,861 and



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\$557,493,521, respectively. Purchases and sales of U.S. government obligations aggregated \$581,580,417 and \$604,648,777, respectively.

### FUND INFORMATION

#### ABOUT PUTNAM INVESTMENTS

One of the largest mutual fund families in the United States, Putnam Investments has a heritage of investment leadership dating back to Judge Samuel Putnam, whose Prudent Man Rule has defined fiduciary tradition and practice since 1830. Founded over 65 years ago, Putnam Investments was built around the concept that a balance between risk and reward is the hallmark of a well-rounded financial program. We presently manage over 100 mutual funds in growth, value, blend, fixed income, and international.

#### INVESTMENT MANAGER

Putnam Investment Management, LLC  
One Post Office Square  
Boston, MA 02109

#### MARKETING SERVICES

Putnam Retail Management  
One Post Office Square  
Boston, MA 02109

#### CUSTODIAN

Putnam Fiduciary Trust Company

#### LEGAL COUNSEL

Ropes & Gray

#### TRUSTEES

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Charles B. Curtis  
Ronald J. Jackson  
Paul L. Joskow  
Elizabeth T. Kennan  
Lawrence J. Lasser  
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Clerk and Assistant Treasurer

Call 1-800-225-1581 weekdays from 9 a.m. to 5 p.m. Eastern Time, or  
visit our Web site ([www.putnaminvestments.com](http://www.putnaminvestments.com)) any time for up-to-date  
information about the fund's NAV.

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PUTNAM INVESTMENTS

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For account balances, economic forecasts, and the latest on Putnam funds, visit [www.putnaminvestments.com](http://www.putnaminvestments.com)

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