

JUNE 30, 2006

INTERNATIONAL BOND FUND

Semiannual Report – Financial Statements

T. ROWE PRICE®

T. ROWE PRICE INTERNATIONAL BOND FUND

Unaudited

FINANCIAL HIGHLIGHTS

For a share outstanding throughout each period

Investor Class

	6 Months Ended 6/30/06†	Year Ended 12/31/05†	12/31/04	12/31/03	12/31/02	12/31/01
NET ASSET VALUE						
Beginning of period	\$ 9.40	\$ 10.69	\$ 10.25	\$ 9.29	\$ 7.86	\$ 8.47
Investment activities						
Net investment income	0.14	0.27	0.25	0.25	0.25	0.32
Net realized and unrealized gain (loss)	0.19	(1.13)	0.88	1.46	1.43	(0.61)
Total from investment activities	0.33	(0.86)	1.13	1.71	1.68	(0.29)
Distributions						
Net investment income	(0.14)	(0.15)	(0.25)	(0.25)	(0.25)	—
Net realized gain	(0.09)	(0.28)	(0.44)	(0.50)	—	—
Tax return of capital	—	—	—	—	—	(0.32)
Total distributions	(0.23)	(0.43)	(0.69)	(0.75)	(0.25)	(0.32)

NET ASSET VALUE

End of period	\$ 9.50	\$ 9.40	\$ 10.69	\$ 10.25	\$ 9.29	\$ 7.86
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Ratios/Supplemental Data

Total return^	3.59%	(8.18)%	11.40%	18.77%	21.80%	(3.41)%
Ratio of total expenses to average net assets	0.85%†	0.86%	0.88%	0.91%	0.93%	0.95%
Ratio of net investment income to average net assets	3.07%†	2.67%	2.46%	2.58%	3.01%	3.98%
Portfolio turnover rate	117.8%†	103.7%	69.7%	38.5%	113.9%	107.6%
Net assets, end of period (in millions)	\$ 1,808	\$ 1,594	\$ 1,663	\$ 1,306	\$ 1,058	\$ 762

† Per share amounts calculated using average shares outstanding method.

^ Total return reflects the rate that an investor would have earned on an investment in the fund during each period, assuming reinvestment of all distributions and payment of no redemption or account fees.

† Annualized

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

T. ROWE PRICE INTERNATIONAL BOND FUND

Unaudited

FINANCIAL HIGHLIGHTS

For a share outstanding throughout each period

Advisor Class

	6 Months Ended 6/30/06‡	Year Ended 12/31/05‡	12/31/04	12/31/03	12/31/02	12/31/01
NET ASSET VALUE						
Beginning of period	\$ 9.39	\$ 10.68	\$ 10.24	\$ 9.28	\$ 7.85	\$ 8.47
Investment activities						
Net investment income	0.14	0.25	0.24	0.24	0.24	0.31*
Net realized and unrealized gain (loss)	0.18	(1.12)	0.88	1.46	1.43	(0.62)
Total from investment activities	0.32	(0.87)	1.12	1.70	1.67	(0.31)
Distributions						
Net investment income	(0.14)	(0.14)	(0.24)	(0.24)	(0.24)	—
Net realized gain	(0.09)	(0.28)	(0.44)	(0.50)	—	—
Tax return of capital	—	—	—	—	—	(0.31)
Total distributions	(0.23)	(0.42)	(0.68)	(0.74)	(0.24)	(0.31)

NET ASSET VALUE

End of period	\$ 9.48	\$ 9.39	\$ 10.68	\$ 10.24	\$ 9.28	\$ 7.85
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Ratios/Supplemental Data

Total return[^]	3.39%	(8.36)%	11.24%	18.62%	21.65%	(3.73)%*
Ratio of total expenses to average net assets	1.03%†	1.05%	1.03%	1.06%	1.08%	1.15%*
Ratio of net investment income to average net assets	2.89%†	2.50%	2.31%	2.43%	2.82%	3.28%*
Portfolio turnover rate	117.8%†	103.7%	69.7%	38.5%	113.9%	107.6%
Net assets, end of period (in thousands)	\$ 111,856	\$ 85,009	\$ 68,270	\$ 50,217	\$ 14,760	\$ 5,026

‡ Per share amounts calculated using average shares outstanding method.

* Excludes expenses in excess of a 1.15% contractual expense limitation in effect through 4/30/06.

[^] Total return reflects the rate that an investor would have earned on an investment in the fund during each period, assuming reinvestment of all distributions and payment of no redemption or account fees.

† Annualized

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

T. ROWE PRICE INTERNATIONAL BOND FUND

Unaudited

June 30, 2006

PORTFOLIO OF INVESTMENTS [†]	Par/Shares	Value
(Cost and value in \$ 000s)		
AUSTRALIA 0.1%		
Corporate Bonds 0.1%		
Australia & New Zealand Banking Group		
4.45%, 2/5/15 (EUR) (1)	1,223,000	1,581
Westpac Banking, 2.875%, 6/25/08 (EUR)	659,000	828
Total Australia (Cost \$2,362)		2,409
AUSTRIA 2.5%		
Government Bonds 2.5%		
Republic of Austria, 5.50%, 1/15/10	17,634,000	23,787
Republic of Austria, 5.875%, 7/15/06	16,928,000	21,647
Republic of Austria, 6.25%, 7/15/27	1,504,000	2,431
Total Austria (Cost \$42,007)		47,865
BELGIUM 2.4%		
Corporate Bonds 0.1%		
Elia System Operator, 4.75%, 5/13/14	1,573,000	2,047
		2,047
Government Bonds 2.3%		
Kingdom of Belgium, 4.25%, 9/28/13	23,850,000	30,995
Kingdom of Belgium, 5.00%, 3/28/35	2,633,000	3,709
Kingdom of Belgium, 6.25%, 3/28/07	7,617,000	9,936
		44,640
Total Belgium (Cost \$44,858)		46,687
BRAZIL 1.3%		
Government Bonds 1.3%		
Brazil Letra Tesouro Nacional, Zero Coupon, 1/1/08	12,400,000	4,641
Brazil Notas Do Tesouro Nacional, 6.00%, 5/15/09	3,485,000	2,298
Brazil Notas Do Tesouro Nacional, 6.00%, 8/15/10	3,320,000	2,102

T. ROWE PRICE INTERNATIONAL BOND FUND

	Par/Shares	Value
(Cost and value in \$ 000s)		
Brazil Notas Do Tesouro Nacional, 6.00%, 5/15/15	7,961,000	4,598
Brazil Notas Do Tesouro Nacional, 6.00%, 8/15/24	7,738,000	4,255
Brazil Notas Do Tesouro Nacional, 6.00%, 5/15/45	8,784,000	4,509
Brazil Notas Do Tesouro Nacional, 10.00%, 1/1/14	5,490,000	1,996
Total Brazil (Cost \$26,530)		24,399

CANADA 2.0%

Government Bonds 2.0%

Government of Canada, 5.00%, 6/1/14	16,160,000	14,906
Government of Canada, 5.75%, 6/1/33	3,935,000	4,143
Province of Ontario, 5.00%, 3/8/14	13,223,000	11,995
Province of Quebec, 9.375%, 1/16/23	5,870,000	7,700
Total Canada (Cost \$37,986)		38,744

CAYMAN ISLANDS 0.1%

Corporate Bonds 0.1%

BES, 6.25%, 5/17/11 (EUR)	1,129,000	1,561
Total Cayman Islands (Cost \$1,553)		1,561

DENMARK 1.0%

Corporate Bonds 0.1%

Nordic Telephone, 8.25%, 5/1/16 (EUR) (2)(3)	765,000	999
		999

Government Bonds 0.9%

Kingdom of Denmark, 5.00%, 11/15/13	83,415,000	15,157
Kingdom of Denmark, 7.00%, 11/10/24	11,285,000	2,574
		17,731
Total Denmark (Cost \$17,970)		18,730

T. ROWE PRICE INTERNATIONAL BOND FUND

	Par/Shares	Value
(Cost and value in \$ 000s)		
FINLAND 0.4%		
Corporate Bonds 0.1%		
Nordea Bank, 5.75%, 3/26/14	1,598,000	2,135
		2,135
Government Bonds 0.3%		
Republic of Finland, 5.00%, 7/4/07	4,233,000	5,494
		5,494
Total Finland (Cost \$6,323)		7,629
FRANCE 11.5%		
Corporate Bonds 0.8%		
Aventis, 4.25%, 9/15/10	1,411,000	1,810
BNP Paribas, 5.25%, 12/17/12	1,129,000	1,522
Credit Agricole, 5.00%, 6/29/49 (GBP) (1)	2,000,000	3,484
France Telecom, 7.00%, 12/23/09	1,463,000	2,034
France Telecom, 8.125%, 1/28/33	286,000	477
Gie Suez Alliance, 5.125%, 6/24/15 (3)	1,129,000	1,499
Lafarge, 5.00%, 7/16/14	1,000,000	1,279
Veolia Environment, 4.875%, 5/28/13	1,100,000	1,422
Vivendi Environment, 5.875%, 2/1/12	931,000	1,268
		14,795
Government Bonds 10.7%		
Republic of France, 4.00%, 10/25/14	23,100,000	29,467
Republic of France, 4.50%, 7/12/06	30,000,000	38,345
Republic of France, 5.00%, 10/25/16	7,054,000	9,699
Republic of France, 5.50%, 4/25/10	45,080,000	61,099
Republic of France, 5.50%, 4/25/29	19,749,000	29,464

T. ROWE PRICE INTERNATIONAL BOND FUND

	Par/Shares	Value
(Cost and value in \$ 000s)		
Republic of France, 5.75%, 10/25/32	23,794,000	37,027
		205,101
Total France (Cost \$210,866)		219,896
GERMANY 15.8%		
Corporate Bonds 2.3%		
Deutsche Bank, 5.125%, 1/31/13	1,317,000	1,750
Deutsche Telekom, 6.625%, 7/11/11	1,411,000	1,979
Energie Baden Wurttemberg Finance, 5.875%, 2/28/12	1,129,000	1,551
KFW, 4.70%, 6/2/37 (CAD) (3)	5,250,000	4,369
KFW, 4.75%, 12/7/10 (GBP)	16,246,000	29,632
KFW, 5.50%, 12/7/15 (GBP)	4,355,000	8,332
		47,613
Government Bonds 13.5%		
Bundesrepublik, 3.25%, 7/4/15 (3)	12,250,000	14,735
Bundesrepublik, 4.00%, 1/4/37 (3)	19,800,000	23,979
Bundesrepublik, 4.25%, 1/4/14	31,700,000	41,156
Bundesrepublik, 4.50%, 8/18/06	30,000,000	38,402
Bundesrepublik, 4.50%, 1/4/13	34,600,000	45,573
Bundesrepublik, 4.75%, 7/4/28	8,998,000	12,174
Bundesrepublik, 4.75%, 7/4/34	7,383,000	10,070
Bundesrepublik, 5.50%, 1/4/31	10,985,000	16,460
Bundesrepublik, 6.00%, 7/4/07	40,572,000	53,154
		255,703
Total Germany (Cost \$298,535)		303,316

T. ROWE PRICE INTERNATIONAL BOND FUND

	Par/Shares	Value
(Cost and value in \$ 000s)		
GREECE 0.1%		
Government Bonds 0.1%		
Hellenic Republic, 4.60%, 5/20/13	2,163,000	2,837
Total Greece (Cost \$2,362)		2,837
HONG KONG 0.1%		
Corporate Bonds 0.1%		
Hutchison Whampoa Finance, 5.875%, 7/8/13 (EUR)	733,000	998
Total Hong Kong (Cost \$1,002)		998
HUNGARY 0.3%		
Government Bonds 0.3%		
Republic of Hungary, 6.25%, 6/12/08	1,182,800,000	5,118
Total Hungary (Cost \$6,160)		5,118
IRELAND 0.9%		
Corporate Bonds 0.3%		
Bank of Ireland, 6.45%, 2/10/10	1,504,000	2,070
GE Capital UK Funding, 5.625%, 12/12/14 (GBP)	1,504,000	2,827
		4,897
Government Bonds 0.6%		
Republic of Ireland, 4.00%, 4/18/10	2,962,000	3,812
Republic of Ireland, 5.00%, 4/18/13	5,737,000	7,784
		11,596
Total Ireland (Cost \$13,432)		16,493

T. ROWE PRICE INTERNATIONAL BOND FUND

	Par/Shares	Value
(Cost and value in \$ 000s)		
ISRAEL 0.8%		
Government Bonds 0.8%		
State of Israel, 7.50%, 3/31/14	67,800,000	16,094
Total Israel (Cost \$15,468)		16,094
ITALY 6.2%		
Corporate Bonds 0.6%		
Autostrade, 5.00%, 6/9/14	200,000	258
Banca Intesa, 5.85%, 5/8/14	1,598,000	2,138
Banca Monte Dei Paschi di Siena, 4.50%, 9/24/15 (Tender 9/24/10) (4)	1,598,000	2,053
Edison, 5.125%, 12/10/10	941,000	1,243
Lottomativa, 4.80%, 12/22/08 (3)	800,000	1,034
Olivetti Finance, 5.875%, 1/24/08	379,000	499
Olivetti Finance, 6.875%, 1/24/13	1,598,000	2,263
Olivetti Finance, 7.75%, 1/24/33	282,000	426
Sanpaolo IMI, 3.75%, 6/9/15	1,504,000	1,888
		11,802
Government Bonds 5.6%		
Republic of Italy, 4.25%, 8/1/14	13,261,000	17,045
Republic of Italy, 5.00%, 10/15/07	10,288,000	13,394
Republic of Italy, 5.50%, 11/1/10	12,979,000	17,632
Republic of Italy, 6.00%, 11/1/07	31,788,000	41,948
Republic of Italy, 6.00%, 5/1/31	8,418,000	12,866
Republic of Italy, 7.25%, 11/1/26	2,335,653	4,028
		106,913
Total Italy (Cost \$97,917)		118,715

T. ROWE PRICE INTERNATIONAL BOND FUND

	Par/Shares	Value
(Cost and value in \$ 000s)		
JAPAN 14.9%		
Corporate Bonds 0.1%		
Mizuho Capital Investments, 5.02%, 6/29/49 (EUR)	800,000	1,002
Sumitomo Mitsui Bank, 4.375%, 12/31/49 (EUR)	850,000	1,019
		2,021
Government Bonds 14.8%		
Government of Japan, 0.50%, 6/20/08	8,765,000,000	76,081
Government of Japan, 1.00%, 12/20/12	2,973,950,000	24,974
Government of Japan, 1.00%, 6/10/16	2,319,738,400	20,097
Government of Japan, 1.10%, 9/20/12	2,092,850,000	17,731
Government of Japan, 1.30%, 12/20/13	4,293,250,000	36,321
Government of Japan, 1.40%, 3/21/11	4,934,900,000	43,152
Government of Japan, 1.50%, 3/20/15	936,000,000	7,952
Government of Japan, 1.90%, 12/20/10	1,657,300,000	14,838
Government of Japan, 1.90%, 3/20/25	1,347,250,000	11,120
Government of Japan, 2.00%, 6/20/22	2,422,950,000	20,654
Government of Japan, 2.00%, 12/20/33	909,900,000	7,164
Government of Japan, 2.20%, 6/22/20	557,700,000	4,920
		285,004
Total Japan (Cost \$294,004)		287,025
JERSEY 0.1%		
Corporate Bonds 0.1%		
Travelers Insurance, 5.75%, 12/6/11 (GBP)	1,504,000	2,834
Total Jersey (Cost \$2,731)		2,834

T. ROWE PRICE INTERNATIONAL BOND FUND

	Par/Shares	Value
(Cost and value in \$ 000s)		

MALAYSIA 0.3%

Government Bonds 0.3%

Government of Malaysia, 3.756%, 4/28/11	19,817,000	5,199
Total Malaysia (Cost \$5,270)		5,199

MEXICO 4.4%

Corporate Bonds 0.5%

Pemex Project Funding Master Trust, 5.75%, 12/15/15 (USD) (3)	8,720,000	7,979
Pemex Project Funding Master Trust, 6.25%, 8/5/13 (EUR)	1,100,000	1,481
		9,460

Government Bonds 3.9%

United Mexican States, 8.00%, 12/24/08	236,600,000	20,901
United Mexican States, 8.00%, 12/17/15	91,310,000	7,533
United Mexican States, 9.00%, 12/22/11	340,073,000	30,709
United Mexican States, 9.00%, 12/20/12	43,250,000	3,880
United Mexican States, 9.50%, 12/18/14	127,455,000	11,607
		74,630
Total Mexico (Cost \$87,021)		84,090

NETHERLANDS 1.9%

Corporate Bonds 0.5%

Bank Nederlandse Gemeenten, 4.00%, 7/15/14	800,000	1,010
ING Bank, 5.50%, 1/4/12	1,129,000	1,529
Nell AF SARL, 8.375%, 8/15/15 (2)	900,000	1,161
Rabobank Nederland, 3.125%, 7/19/10	800,000	993
RWE Finance, 5.375%, 4/18/08	847,000	1,112
RWE Finance, 6.375%, 6/3/13 (GBP)	1,504,000	2,929
		8,734

T. ROWE PRICE INTERNATIONAL BOND FUND

	Par/Shares	Value
(Cost and value in \$ 000s)		
Government Bonds 1.4%		
Government of Netherlands, 5.00%, 7/15/11	5,831,000	7,835
Government of Netherlands, 5.25%, 7/15/08	10,346,000	13,643
Government of Netherlands, 5.50%, 1/15/28	4,266,000	6,344
		27,822
Total Netherlands (Cost \$32,289)		36,556
NIGERIA 0.0%		
Common Stocks 0.0%		
Central Bank of Nigeria, Warrants, 11/15/20 (USD) (5)	250	38
Total Nigeria (Cost \$0)		38
POLAND 1.2%		
Government Bonds 1.2%		
Republic of Poland, 5.75%, 6/24/08	31,600,000	10,041
Republic of Poland, 6.00%, 5/24/09	42,060,000	13,438
Total Poland (Cost \$23,725)		23,479
PORTUGAL 2.0%		
Government Bonds 2.0%		
Republic of Portugal, 3.00%, 7/17/06	26,333,000	33,648
Republic of Portugal, 5.15%, 6/15/11	3,668,000	4,938
Total Portugal (Cost \$36,525)		38,586
RUSSIA 0.5%		
Corporate Bonds 0.1%		
Gaz Capital, 4.56%, 12/9/12 (EUR)	800,000	976
		976

T. ROWE PRICE INTERNATIONAL BOND FUND

	Par/Shares	Value
(Cost and value in \$ 000s)		
Government Bonds 0.4%		
Russian Federation, 5.00%, 3/31/30 (USD) (4)	8,800,000	9,383
		9,383
Total Russia (Cost \$10,361)		10,359
SOUTH AFRICA 0.9%		
Government Bonds 0.9%		
Republic of South Africa, 5.25%, 5/16/13 (EUR)	750,000	970
Republic of South Africa, 13.00%, 8/31/10 (3)	96,068,000	15,449
Total South Africa (Cost \$18,224)		16,419
SPAIN 2.7%		
Corporate Bonds 0.1%		
Banco Bilbao Vizcaya Argentaria, 4.50%, 11/12/15 (Tender 11/12/10)	800,000	1,030
Telefonica Europe, 5.125%, 2/14/13	800,000	1,036
		2,066
Government Bonds 2.6%		
Kingdom of Spain, 4.00%, 1/31/10	1,434,000	1,847
Kingdom of Spain, 5.75%, 7/30/32	3,950,000	6,127
Kingdom of Spain, 6.00%, 1/31/08	32,164,000	42,614
		50,588
Total Spain (Cost \$41,555)		52,654
SUPRANATIONAL 2.6%		
Corporate Bonds 2.6%		
Eurofima, 6.50%, 8/22/11 (AUD)	17,305,000	13,023
European Investment Bank, 6.00%, 7/15/09 (NZD) (3)	21,450,000	12,786

T. ROWE PRICE INTERNATIONAL BOND FUND

	Par/Shares	Value
(Cost and value in \$ 000s)		
European Investment Bank, 6.50%, 9/10/14 (NZD)	39,470,000	23,845
Total Supranational (Cost \$54,104)		49,654

SWEDEN 1.4%

Corporate Bonds 0.2%

Svenska Handelsbanken, 6.125%, 3/29/49 (GBP)	1,504,000	2,825
Vattenfall Treasury, 6.00%, 4/3/09 (EUR)	781,000	1,050
		3,875

Government Bonds 1.2%

Kingdom of Sweden, 5.00%, 1/28/09	155,180,000	22,285
		22,285

Total Sweden (Cost \$24,405)		26,160
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SWITZERLAND 0.2%

Corporate Bonds 0.2%

Credit Suisse Group, 6.375%, 6/7/13 (EUR)	1,129,000	1,604
UBS (Jersey Branch) 4.50%, 9/16/19 (Tender 9/16/14) (EUR)	1,598,000	2,042

Total Switzerland (Cost \$3,708)		3,646
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TURKEY 1.1%

Government Bonds 1.1%

Republic of Turkey, 14.00%, 1/19/11	9,720,000	5,353
Republic of Turkey, 15.00%, 2/10/10	15,000,000	8,538
Republic of Turkey, 20.00%, 10/17/07	11,380,000	7,148

Total Turkey (Cost \$27,493)		21,039
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T. ROWE PRICE INTERNATIONAL BOND FUND

	Par/Shares	Value
(Cost and value in \$ 000s)		

UNITED KINGDOM 6.3%

Corporate Bonds 1.6%

Barclays, 5.75%, 3/8/11 (EUR)	1,129,000	1,538
BAT International, 5.125%, 7/9/13 (EUR)	1,549,000	2,007
HBOS, 4.375%, 10/30/19 (Tender 10/30/14) (EUR)	1,223,000	1,544
HSBC Bank, 4.25%, 3/18/16 (EUR)	1,270,000	1,621
HSBC Holdings, 9.875%, 4/8/18	1,220,000	2,815
Imperial Tobacco Finance, 6.875%, 6/13/12	1,504,000	2,949
MMO2, 6.375%, 1/25/07 (EUR)	1,035,000	1,344
National Grid Transco, 5.00%, 7/2/18 (EUR)	386,000	489
Nationwide Building Society, 3.375%, 8/17/15 (Tender 8/17/10) (EUR)	1,692,000	2,097
Northern Rock, 5.75%, 2/28/17 (1)	2,004,000	3,743
Rolls Royce, 4.50%, 3/16/11 (EUR)	819,000	1,055
Royal Bank of Scotland, 6.00%, 6/29/49 (1)	1,904,000	3,605
Scottish Power, 8.375%, 2/20/17	1,223,000	2,766
Standard Chartered Bank, 3.625%, 2/3/17 (Tender 2/3/12) (EUR)	1,504,000	1,839
United Utilities Water, 4.25%, 1/24/20 (EUR)	450,000	533
		29,945

Government Bonds 4.7%

United Kingdom Treasury, 4.25%, 3/7/11	24,950,000	45,091
United Kingdom Treasury, 4.25%, 6/7/32	25,450,000	46,039
		91,130

Total United Kingdom (Cost \$120,563)		121,075
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UNITED STATES 2.4%

Corporate Bonds 2.4%

AIG Sunamerica, 5.625%, 2/1/12 (GBP)	1,504,000	2,813
Air Products & Chemicals, 3.875%, 3/10/15 (EUR)	900,000	1,086

T. ROWE PRICE INTERNATIONAL BOND FUND

	Par/Shares	Value
(Cost and value in \$ 000s)		
Allstate Life Global Funding, 6.375%, 1/17/11 (GBP)	1,504,000	2,890
Altria Finance, 5.625%, 6/24/08 (EUR)	1,549,000	2,035
American Express Credit, 3.625%, 10/13/09 (EUR)	1,692,000	2,134
CIT Group, 4.25%, 9/22/11 (EUR)	1,200,000	1,525
Citigroup, 3.875%, 5/21/10 (EUR)	1,692,000	2,150
Citigroup, 4.75%, 2/10/19 (EUR)	800,000	1,036
Dow Chemical, 4.375%, 6/25/10 (EUR)	994,000	1,277
General Motors Acceptance Corporation 6.00%, 10/16/06 (EUR)	1,800,000	2,297
Goldman Sachs, 4.25%, 8/4/10 (EUR)	1,299,000	1,666
Hertz, 7.875%, 1/1/14 (EUR) (2)(3)	1,000,000	1,313
International Lease Finance, 4.125%, 10/9/08 (EUR)	1,611,000	2,067
JPMorgan Chase, 4.25%, 6/9/11 (EUR)	1,223,000	1,568
JPMorgan Chase, 4.375%, 11/12/19 (Tender 11/12/14) (EUR) (4)	800,000	1,007
MBNA Europe, 4.50%, 1/23/09 (EUR)	1,035,000	1,341
Mellon Funding, 6.375%, 11/8/11 (GBP)	1,504,000	2,916
Merrill Lynch, 4.625%, 10/2/13 (EUR)	1,223,000	1,572
Monumental Global Funding, 5.375%, 3/13/09 (EUR)	1,223,000	1,617
Morgan Stanley, 5.125%, 11/30/15 (GBP)	2,000,000	3,568
Pacific Life Funding, 5.125%, 1/20/15 (GBP)	1,504,000	2,737
Pacific Life Funding, 5.50%, 5/14/09 (EUR)	1,223,000	1,626
Principal Financial Global Funding, 4.50%, 1/22/09 (EUR)	1,223,000	1,577
Tyco International, 5.50%, 11/19/08 (EUR)	390,000	511
Wal-Mart Stores, 4.75%, 1/29/13 (GBP)	1,504,000	2,707
Total United States (Cost \$45,835)		47,036

T. ROWE PRICE INTERNATIONAL BOND FUND

	Par/Shares	Value
(Cost and value in \$ 000s)		
SHORT-TERM INVESTMENTS 8.0%		
Money Market Funds 8.0%		
T. Rowe Price Reserve Investment Fund, 5.18% (6)(7)	153,858,871	153,859
Total Short-Term Investments (Cost \$153,859)		153,859
SECURITIES LENDING COLLATERAL 4.3%		
Money Market Pooled Account 4.3%		
Investment in money market pooled account managed by JP Morgan Chase Bank, London, 5.138% (6)	82,819,500	82,820
Total Securities Lending Collateral (Cost \$82,820)		82,820

(Cost and value in \$ 000s)

Total Investments in Securities
100.7% of Net Assets (Cost \$1,889,823)
\$ 1,934,019

- † Denominated in the currency of the country of incorporation unless otherwise noted
- (1) Stepped coupon bond for which the coupon rate of interest will adjust on specified future date(s)
- (2) Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be resold in transactions exempt from registration only to qualified institutional buyers -- total value of such securities at period end amounts to \$3,473 and represents 0.2 % of net assets.
- (3) All or a portion of this security is on loan at June 30, 2006 - see Note 2
- (4) Variable Rate; rate shown is effective rate at period-end
- (5) Non-income producing
- (6) Seven-day yield
- (7) Affiliated company - see Note 4

AUD Australian Dollar
 BRL Brazilian Real
 CAD Canadian Dollar
 CNY Chinese Yuan
 CZK Czech Koruna
 DKK Danish Krone
 EUR Euro
 GBP British Pound
 HUF Hungarian Forint
 ILS Israeli Shekel
 JPY Japanese Yen
 KRW South Korean Won
 MXN Mexican Peso
 MYR Malaysian Ringgit
 NOK Norwegian Krone
 NZD New Zealand Dollar
 PHP Philippines Peso
 PLN Polish Zloty
 SEK Swedish Krona
 SGD Singapore Dollar
 THB Thai Baht
 TRY Turkish Lira
 TWD Taiwan Dollar
 USD U.S. Dollar
 ZAR South African Rand

Open Forward Currency Exchange Contracts at June 30, 2006 were as follows:

(Amounts in 000s)

Counterparty	Settlement	Receive	Deliver	Unrealized Gain (Loss)
ABN Amro	8/24/06	BRL 15,944	USD 6,837	\$ 425
ABN Amro	8/24/06	JPY 4,737,747	EUR 33,798	(1,649)
ABN Amro	8/24/06	MXN 345,319	USD 30,181	322
ABN Amro	8/24/06	SEK 247,255	USD 33,991	440
ABN Amro	8/24/06	USD 11,184	BRL 25,477	(420)
Credit Suisse	7/18/06	TWD 265,138	USD 8,635	(428)
Credit Suisse	7/18/06	USD 18,084	TWD 570,375	428
Credit Suisse	7/24/06	PHP 231,277	USD 4,356	(1)
Credit Suisse	8/24/06	CZK 74,782	USD 3,405	(36)
Credit Suisse	8/24/06	DKK 28,339	USD 4,899	(26)
Credit Suisse	8/24/06	ILS 20,989	USD 4,708	25
Credit Suisse	8/24/06	NOK 23,430	USD 3,855	(77)
Credit Suisse	8/24/06	SGD 7,010	USD 4,456	(18)
Credit Suisse	8/24/06	USD 7,249	AUD 9,527	182
Credit Suisse	8/24/06	USD 7,854	ZAR 50,475	836
JPMorgan Chase	8/18/06	MYR 67,762	USD 18,401	84
JPMorgan Chase	8/24/06	CAD 1,465	USD 1,326	(10)
JPMorgan Chase	8/24/06	EUR 22,360	USD 28,398	282
JPMorgan Chase	8/24/06	GBP 20,159	EUR 29,682	(756)
JPMorgan Chase	8/24/06	GBP 2,529	USD 4,716	(34)
JPMorgan Chase	8/24/06	ILS 78,160	USD 17,466	158
JPMorgan Chase	8/24/06	JPY 712,919	USD 6,362	(87)
JPMorgan Chase	8/24/06	KRW 37,342,988	USD 39,596	(168)
JPMorgan Chase	8/24/06	TRY 1,454	USD 952	(58)
JPMorgan Chase	8/24/06	USD 1,947	EUR 1,508	12
JPMorgan Chase	8/24/06	USD 637	GBP 344	0
JPMorgan Chase	8/24/06	USD 38,315	ILS 172,889	(668)
JPMorgan Chase	8/24/06	USD 25,963	JPY 2,947,555	19
JPMorgan Chase	8/24/06	USD 13,801	MXN 158,171	(171)
JPMorgan Chase	8/24/06	USD 4,764	NZD 7,597	147
JPMorgan Chase	8/24/06	USD 15,367	PLN 46,884	616
JPMorgan Chase	8/24/06	USD 1,188	TRY 1,630	185
Lehman Brothers	7/18/06	TWD 561,598	USD 18,052	(667)

Open Forward Currency Exchange Contracts at June 30, 2006 were as follows:

(Amounts in 000s)

Counterparty	Settlement	Receive		Deliver		Unrealized Gain (Loss)
Lehman Brothers	7/18/06	USD	16,929	TWD	533,941	\$ 401
Lehman Brothers	7/24/06	PHP	232,671	USD	4,356	25
Lehman Brothers	8/18/06	USD	18,144	MYR	67,762	(341)
Lehman Brothers	8/24/06	USD	85,373	MXN	951,436	1,328
Lehman Brothers	10/16/06	CNY	141,141	USD	18,054	(225)
Lehman Brothers	10/16/06	USD	16,972	CNY	132,738	204
Morgan Stanley	7/18/06	TWD	277,580	USD	8,989	(396)
Morgan Stanley	9/28/06	PHP	445,711	USD	8,663	(307)
Royal Bank of Canada	8/24/06	CAD	25,350	USD	22,818	(45)
Royal Bank of Canada	8/24/06	USD	32,069	NZD	51,820	578
State Street Bank	8/24/06	CAD	11,189	USD	10,047	4
State Street Bank	8/24/06	DKK	4,480	USD	760	10
State Street Bank	8/24/06	EUR	65,499	USD	83,115	896
State Street Bank	8/24/06	GBP	926	USD	1,709	4
State Street Bank	8/24/06	JPY	1,346,839	USD	11,944	(89)
State Street Bank	8/24/06	MXN	17,374	USD	1,519	16
State Street Bank	8/24/06	PLN	2,403	USD	760	(4)
State Street Bank	8/24/06	SEK	5,538	USD	760	11
State Street Bank	8/24/06	THB	132,553	USD	3,470	(1)
State Street Bank	8/24/06	TRY	1,959	USD	1,128	78
State Street Bank	8/24/06	USD	15,488	CAD	17,222	17
State Street Bank	8/24/06	USD	8,292	EUR	6,501	(46)
State Street Bank	8/24/06	USD	54,906	GBP	29,924	(483)
State Street Bank	8/24/06	USD	2,576	HUF	533,056	176
State Street Bank	8/24/06	USD	11,594	JPY	1,286,365	271
State Street Bank	8/24/06	USD	6,816	MXN	77,110	5
State Street Bank	8/24/06	USD	26,663	TRY	37,523	3,574
State Street Bank	10/16/06	USD	1,076	CNY	8,402	15
UBS	8/24/06	JPY	25,430,247	USD	233,721	(9,882)

Net unrealized gain (loss) on open
forward currency exchange contracts

\$ (5,319)

Open Futures Contracts at June 30, 2006 were as follows:

(\$ 000s)

	<u>Expiration</u>	<u>Contract Value</u>	<u>Unrealized Gain (Loss)</u>
Short, 203 U.S. Treasury ten year contracts, \$591 pledged as initial margin	9/06	\$ (21,286)	\$ 77
Short, 24 JPY Treasury ten year contracts, \$755 pledged as initial margin	9/06	(27,196)	(12)
Net payments (receipts) of variation margin to date			2,214
Variation margin receivable (payable) on open futures contracts			<u>\$ 2,279</u>

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

STATEMENT OF ASSETS AND LIABILITIES

(In thousands except shares and per share amounts)

Assets

Investments in securities, at value	
Non-affiliated companies (cost \$1,735,964)	\$ 1,780,160
Affiliated companies (cost \$153,859)	153,859
Total investments in securities	1,934,019
Foreign currency (cost \$62,391)	62,915
Interest receivable	37,312
Receivable for investment securities sold	30,592
Receivable for shares sold	4,267
Cash	20
Other assets	123,100
Total assets	2,192,225

Liabilities

Obligation to return securities lending collateral	82,820
Payable for investment securities purchased	58,773
Investment management fees payable	1,024
Payable for shares redeemed	816
Due to affiliates	152
Other liabilities	128,752
Total liabilities	272,337

NET ASSETS**\$ 1,919,888****Net Assets Consist of:**

Undistributed net investment income	\$ 25
Undistributed net realized gain	4,634
Net unrealized gain	38,444
Paid-in capital applicable to 202,194,962 shares of \$0.01 par value capital stock outstanding; 2,000,000,000 shares of the Corporation authorized	1,876,785

NET ASSETS**\$ 1,919,888**

STATEMENT OF ASSETS AND LIABILITIES

NET ASSET VALUE PER SHARE

Investor Class	
(\$1,808,032,520 / 190,398,663 shares outstanding)	\$ 9.50
Advisor Class	
(\$111,855,946 / 11,796,299 shares outstanding)	\$ 9.48

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

T. ROWE PRICE INTERNATIONAL BOND FUND

Unaudited

STATEMENT OF OPERATIONS

(\$ 000s)

6 Months
Ended
6/30/06

Investment Income (Loss)

Income

Interest	\$ 32,267
Dividend	2,652
Securities lending	56
Total income	34,975

Expenses

Investment management	5,868
Shareholder servicing	
Investor Class	1,115
Advisor Class	21
Custody and accounting	282
Rule 12b-1 fees	
Advisor Class	125
Prospectus and shareholder reports	
Investor Class	100
Advisor Class	20
Proxy and annual meeting	43
Registration	37
Legal and audit	16
Directors	7
Miscellaneous	8
Total expenses	7,642
Net investment income	27,333

Realized and Unrealized Gain (Loss)

Net realized gain (loss)

Securities	(1,457)
Futures	1,681
Foreign currency transactions	22,330
Net realized gain	22,554

T. ROWE PRICE INTERNATIONAL BOND FUND

Unaudited

STATEMENT OF OPERATIONS

	6 Months Ended 6/30/06
Change in net unrealized gain (loss)	
Securities	17,110
Futures	242
Other assets and liabilities denominated in foreign currencies	(5,905)
Change in net unrealized gain	11,447
Net realized and unrealized gain	34,001
INCREASE IN NET ASSETS FROM OPERATIONS	\$ 61,334

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

T. ROWE PRICE INTERNATIONAL BOND FUND

Unaudited

STATEMENT OF CHANGES IN NET ASSETS

(\$ 000s)

	6 Months Ended 6/30/06	Year Ended 12/31/05
Increase (Decrease) in Net Assets		
Operations		
Net investment income	\$ 27,333	\$ 48,146
Net realized gain	22,554	25,814
Change in net unrealized gain (loss)	11,447	(230,546)
Increase (decrease) in net assets from operations	61,334	(156,586)
Distributions to shareholders		
Net investment income		
Investor Class	(25,872)	(26,404)
Advisor Class	(1,449)	(1,161)
Net realized gain		
Investor Class	(15,549)	(46,930)
Advisor Class	(863)	(2,365)
Decrease in net assets from distributions	(43,733)	(76,860)
Capital share transactions*		
Shares sold		
Investor Class	307,334	567,596
Advisor Class	41,886	73,729
Distributions reinvested		
Investor Class	36,986	66,671
Advisor Class	2,226	3,430
Shares redeemed		
Investor Class	(147,261)	(481,326)
Advisor Class	(18,191)	(48,647)
Redemption fees received	92	237
Increase in net assets from capital share transactions	223,072	181,690
Net Assets		
Increase (decrease) during period	240,673	(51,756)
Beginning of period	1,679,215	1,730,971
End of period	\$ 1,919,888	\$ 1,679,215
Undistributed net investment income	25	13

T. ROWE PRICE INTERNATIONAL BOND FUND

Unaudited

STATEMENT OF CHANGES IN NET ASSETS

	6 Months Ended 6/30/06	Year Ended 12/31/05
*Share information		
Shares sold		
Investor Class	32,458	56,936
Advisor Class	4,441	7,374
Distributions reinvested		
Investor Class	3,907	6,655
Advisor Class	236	344
Shares redeemed		
Investor Class	(15,587)	(49,522)
Advisor Class	(1,938)	(5,056)
Increase in shares outstanding	23,517	16,731

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

T. Rowe Price International Funds, Inc. (the corporation), is registered under the Investment Company Act of 1940 (the 1940 Act). The International Bond Fund (the fund), a nondiversified, open-end management investment company, is one portfolio established by the corporation. The fund seeks to provide high current income and capital appreciation by investing primarily in high-quality, nondollar-denominated bonds outside the U.S. The fund has two classes of shares: the International Bond Fund original share class, referred to in this report as the Investor Class, offered since September 10, 1986, and the International Bond Fund – Advisor Class (Advisor Class), offered since March 31, 2000. Advisor Class shares are sold only through unaffiliated brokers and other unaffiliated financial intermediaries that are compensated by the class for distribution, shareholder servicing, and/or certain administrative services under a Board-approved Rule 12b-1 plan. Each class has exclusive voting rights on matters related solely to that class, separate voting rights on matters that relate to both classes, and, in all other respects, the same rights and obligations as the other class.

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates made by fund management. Fund management believes that estimates and security valuations are appropriate; however, actual results may differ from those estimates, and the security valuations reflected in the financial statements may differ from the value the fund ultimately realizes upon sale of the securities.

Valuation The fund values its investments and computes its net asset value per share at the close of the New York Stock Exchange (NYSE), normally 4 p.m. ET, each day that the NYSE is open for business. Debt securities are generally traded in the over-the-counter market. Securities with original maturities of one year or more are valued at prices furnished by dealers who make markets in such securities or by an independent pricing service, which considers yield or price of bonds of comparable quality, coupon, maturity, and type, as well as prices quoted by dealers who make markets in such securities. Securities with original maturities of less than one year are stated at fair value, which is determined by using a matrix system that establishes a value for each security based on bid-side money market yields.

Equity securities listed or regularly traded on a securities exchange or in the over-the-counter (OTC) market are valued at the last quoted sale price or, for certain markets, the official closing price at the time the valuations are made, except for OTC Bulletin Board securities, which are valued at the mean of the latest bid and asked prices. A security that is listed or traded on more than one exchange is valued at the quotation on the exchange determined to be the primary market for such security. Listed securities not traded on a particular day are valued at the mean of the latest bid and asked prices for domestic securities and the last quoted sale price for international securities.

Investments in mutual funds are valued at the mutual fund's closing net asset value per share on the day of valuation. Financial futures contracts are valued at closing settlement prices. Forward currency exchange contracts are valued using the prevailing forward exchange rate.

Other investments, including restricted securities, and those for which the above valuation procedures are inappropriate or are deemed not to reflect fair value are stated at fair value as determined in good faith by the T. Rowe Price Valuation Committee, established by the fund's Board of Directors.

Most foreign markets close before the close of trading on the NYSE. If the fund determines that developments between the close of a foreign market and the close of the NYSE will, in its judgment, materially affect the value of some or all of its portfolio securities, which in turn will affect the fund's share price, the fund will adjust the previous closing prices to reflect the fair value of the securities as of the close of the NYSE, as determined in good faith by the T. Rowe Price Valuation Committee, established by the fund's Board of Directors. A fund may also fair value securities in other situations, such as when a particular foreign market is closed but the fund is open. In deciding whether to make fair value adjustments, the fund reviews a variety of factors, including developments in foreign markets, the performance of U.S. securities markets, and the performance of instruments trading in U.S. markets that represent foreign securities and baskets of foreign securities. The fund uses outside pricing services to provide it with closing market prices and information used for adjusting those prices. The fund cannot predict when and how often it will use closing prices and when it will adjust those prices to reflect fair value. As a means of evaluating its fair value process, the fund routinely compares closing market prices, the next day's opening prices in the same markets, and adjusted prices.

Currency Translation Assets, including investments, and liabilities denominated in foreign currencies are translated into U.S. dollar values each day at the prevailing exchange rate, using the mean of the bid and asked prices of such currencies against U.S. dollars as quoted by a major bank. Purchases and sales of securities, income, and expenses are translated into U.S. dollars at the prevailing exchange rate on the date of the transaction. The effect of changes in foreign currency exchange rates on realized and unrealized security gains and losses is reflected as a component of security gains and losses.

Class Accounting The Advisor Class pays distribution, shareholder servicing, and/or certain administrative expenses in the form of Rule 12b-1 fees, in an amount not exceeding 0.25% of the class's average daily net assets. Shareholder servicing, prospectus, and shareholder report expenses incurred by each class are charged directly to the class to which they relate. Expenses common to both classes and investment income are allocated to the classes based upon the relative daily net assets of each class's settled shares; realized and unrealized gains and losses are allocated based upon the relative daily net assets of each class's outstanding shares.

Credits The fund earns credits on temporarily uninvested cash balances at the custodian that reduce the fund's custody charges. Custody expense in the accompanying financial statements is presented before reduction for credits.

Redemption Fees A 2% fee is assessed on redemptions of Investor Class and Advisor Class fund shares held less than 90 days/3 months to deter short-term trading and to protect the interests of long-term shareholders. Redemption fees are withheld from proceeds that shareholders receive from the sale or exchange of fund shares. The fees are paid to the fund, and are recorded as an increase to paid-in capital. The fees may cause the redemption price per share to differ from the net asset value per share.

Investment Transactions, Investment Income, and Distributions Income and expenses are recorded on the accrual basis. Premiums and discounts on debt securities are amortized for financial reporting purposes. Dividends received from mutual fund investments are reflected as dividend income; capital gain distributions are reflected as realized gain/loss. Dividend income and capital gain distributions are recorded on the ex-dividend date. Investment transactions are accounted for on the trade date. Realized gains and losses are reported on the identified cost basis. Payments ("variation margin") made or received to settle the daily fluctuations in the value of futures contracts are recorded as unrealized gains or losses until the contracts are closed. Unsettled variation

margin on futures contracts is reflected as other assets or liabilities, and unrealized gains and losses on futures contracts are reflected as the change in net unrealized gain or loss in the accompanying financial statements. Unrealized gains and losses on forward currency exchange contracts are reflected as the change in net unrealized gain or loss in the accompanying financial statements. Distributions to shareholders are recorded on the ex-dividend date. Income distributions are declared by each class on a daily basis and paid monthly. Capital gain distributions, if any, are declared and paid by the fund, typically on an annual basis.

NOTE 2 - INVESTMENT TRANSACTIONS

Consistent with its investment objective, the fund engages in the following practices to manage exposure to certain risks or to enhance performance. The investment objective, policies, program, and risk factors of the fund are described more fully in the fund's prospectus and Statement of Additional Information.

Emerging Markets At June 30, 2006, approximately 11% of the fund's net assets were invested in securities of companies located in emerging markets or issued by governments of emerging market countries or denominated in or linked to the currencies of emerging market countries. Future economic or political developments could adversely affect the liquidity or value, or both, of such securities.

Restricted Securities The fund may invest in securities that are subject to legal or contractual restrictions on resale. Although certain of these securities may be readily sold, for example, under Rule 144A, others may be illiquid, their sale may involve substantial delays and additional costs, and prompt sale at an acceptable price may be difficult.

Forward Currency Exchange Contracts During the six months ended June 30, 2006, the fund was a party to forward currency exchange contracts under which it is obligated to exchange currencies at specified future dates and exchange rates. Risks arise from the possible inability of counterparties to meet the terms of their agreements and from movements in currency values.

Futures Contracts During the six months ended June 30, 2006, the fund was a party to futures contracts, which provide for the future sale by one party and purchase by another of a specified amount of a specific financial instrument at an agreed upon price, date, time, and place. Risks arise from possible illiquidity of the futures market and from movements in security values and/or interest rates.

Securities Lending The fund lends its securities to approved brokers to earn additional income. It receives as collateral cash and U.S. government securities valued at 102% to 105% of the value of the securities on loan. Cash collateral is invested in a money market pooled account managed by the fund's lending agent in accordance with investment guidelines approved by fund management. Collateral is maintained over the life of the loan in an amount not less than the value of loaned securities, as determined at the close of fund business each day; any additional collateral required due to changes in security values is delivered to the fund the next business day. Although risk is mitigated by the collateral, the fund could experience a delay in recovering its securities and a possible loss of income or value if the borrower fails to return the securities. Securities lending revenue recognized by the fund consists of earnings on invested collateral and borrowing fees, net of any rebates to the borrower and compensation to the lending agent. At June 30, 2006, the value of loaned securities was \$74,587,000; aggregate collateral consisted of \$82,820,000 in the money market pooled account.

Other Purchases and sales of portfolio securities, other than short-term securities, aggregated \$992,170,000 and \$956,071,000, respectively, for the six months ended June 30, 2006.

NOTE 3 - FEDERAL INCOME TAXES

No provision for federal income taxes is required since the fund intends to continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code and distribute to shareholders all of its taxable income and gains. Federal income tax regulations differ from generally accepted accounting principles; therefore, distributions determined in accordance with tax regulations may differ in amount or character from net investment income and realized gains for financial reporting purposes. Financial reporting records are adjusted for permanent book/tax differences to reflect tax character. Financial records are not adjusted for temporary differences. The amount and character of tax-basis distributions and composition of net assets are finalized at fiscal year-end; accordingly, tax-basis balances have not been determined as of June 30, 2006.

For tax purposes, the fund has elected to treat net capital losses realized between November 1 and December 31 of each year as occurring on the first day of the following tax year; consequently, \$11,979,000 of realized losses

recognized for financial reporting purposes in the year ended December 31, 2005, were recognized for tax purposes on January 1, 2006.

At June 30, 2006, the cost of investments for federal income tax purposes was \$1,889,823,000. Net unrealized gain aggregated \$38,444,000 at period-end, of which \$78,411,000 related to appreciated investments and \$39,967,000 related to depreciated investments.

NOTE 4 - RELATED PARTY TRANSACTIONS

The fund is managed by T. Rowe Price International, Inc. (the manager), a wholly owned subsidiary of T. Rowe Price Associates, Inc. (Price Associates), which is wholly owned by T. Rowe Price Group, Inc. The investment management agreement between the fund and the manager provides for an annual investment management fee, which is computed daily and paid monthly. The fee consists of an individual fund fee, equal to 0.35% of the fund's average daily net assets, and a group fee. The group fee rate is calculated based on the combined net assets of certain mutual funds sponsored by Price Associates (the group) applied to a graduated fee schedule, with rates ranging from 0.48% for the first \$1 billion of assets to 0.29% for assets in excess of \$160 billion. The fund's group fee is determined by applying the group fee rate to the fund's average daily net assets. At June 30, 2006, the effective annual group fee rate was 0.31%.

In addition, the fund has entered into service agreements with Price Associates and two wholly owned subsidiaries of Price Associates (collectively, Price). Price Associates computes the daily share prices and provides certain other administrative services to the fund. T. Rowe Price Services, Inc., provides shareholder and administrative services in its capacity as the fund's transfer and dividend disbursing agent. T. Rowe Price Retirement Plan Services, Inc., provides subaccounting and recordkeeping services for certain retirement accounts invested in the Investor Class. For the six months ended June 30, 2006, expenses incurred pursuant to these service agreements were \$69,000 for Price Associates, \$311,000 for T. Rowe Price Services, Inc., and \$10,000 for T. Rowe Price Retirement Plan Services, Inc. The total amount payable at period-end pursuant to these service agreements is reflected as Due to Affiliates in the accompanying financial statements.

The fund is also one of several mutual funds sponsored by Price Associates (underlying Price funds) in which the T. Rowe Price Spectrum Funds (Spectrum Funds) may invest. The Spectrum Funds do not invest in the underlying Price funds for the purpose of exercising management or control. Pursuant to a special servicing agreement, expenses associated with the operation of the Spectrum Funds are borne by each underlying Price fund to the extent of estimated savings to it and in proportion to the average daily value of its shares owned by the Spectrum Funds. Expenses allocated under this agreement are reflected as shareholder servicing expense in the accompanying financial statements. For the six months ended June 30, 2006, the fund was allocated \$371,000 of Spectrum Funds' expenses, of which \$282,000 related to services provided by Price. The amount payable at period-end pursuant to this agreement is reflected as Due to Affiliates in the accompanying financial statements. At June 30, 2006, approximately 25% of the outstanding shares of the Investor Class were held by the Spectrum Funds.

The fund may invest in the T. Rowe Price Reserve Investment Fund and the T. Rowe Price Government Reserve Investment Fund (collectively, the T. Rowe Price Reserve Funds), open-end management investment companies managed by Price Associates and affiliates of the fund. The T. Rowe Price Reserve Funds are offered as cash management options to mutual funds, trusts, and other accounts managed by Price Associates and/or its affiliates, and are not available for direct purchase by members of the public. The T. Rowe Price Reserve Funds pay no investment management fees. During the six months ended June 30, 2006, dividend income from the T. Rowe Price Reserve Funds totaled \$2,652,000, and the value of shares of the T. Rowe Price Reserve Funds held at June 30, 2006, and December 31, 2005, was \$153,859,000 and \$93,369,000, respectively.

INFORMATION ON PROXY VOTING POLICIES, PROCEDURES, AND RECORDS

A description of the policies and procedures used by T. Rowe Price funds and portfolios to determine how to vote proxies relating to portfolio securities is available in each fund's Statement of Additional Information, which you may request by calling 1-800-225-5132 or by accessing the SEC's Web site, www.sec.gov. The description of our proxy voting policies and procedures is also available on our Web site, www.troweprice.com. To access it, click on the words "Company Info" at the top of our homepage for individual investors. Then, in the window that appears, click on the "Proxy Voting Policy" navigation button in the top left corner.

Each fund's most recent annual proxy voting record is available on our Web site and through the SEC's Web site. To access it through our Web site, follow the directions above, then click on the words "Proxy Voting Record" at the bottom of the Proxy Voting Policy page.

HOW TO OBTAIN QUARTERLY PORTFOLIO HOLDINGS

The fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available electronically on the SEC's Web site (www.sec.gov); hard copies may be reviewed and copied at the SEC's Public Reference Room, 450 Fifth St. N.W., Washington, DC 20549. For more information on the Public Reference Room, call 1-800-SEC-0330.

APPROVAL OF INVESTMENT MANAGEMENT AGREEMENT

On March 8, 2006, the fund's Board of Directors unanimously approved the investment advisory contract (Contract) between the fund and its investment manager, T. Rowe Price International, Inc. (Manager). The Board considered a variety of factors in connection with its review of the Contract, also taking into account information provided by the Manager during the course of the year, as discussed below:

Services Provided by the Manager

The Board considered the nature, quality, and extent of the services provided to the fund by the Manager. These services included, but were not limited to, management of the fund's portfolio and a variety of activities related to portfolio management. The Board also reviewed the background and experience of the Manager's senior management team and investment personnel involved in the management of the fund. The Board concluded that it was satisfied with the nature, quality, and extent of the services provided by the Manager.

Investment Performance of the Fund

The Board reviewed the fund's average annual total return over the 1-, 3-, 5-, and 10-year periods as well as the fund's year-by-year returns and compared these returns with previously agreed upon comparable performance measures and market data, including those supplied by Lipper and Morningstar, which are independent providers of mutual fund data. On the basis of this evaluation and the Board's ongoing review of investment results, the Board concluded that the fund's performance was satisfactory.

Costs, Benefits, Profits, and Economies of Scale

The Board reviewed detailed information regarding the revenues received by the Manager under the Contract and other benefits that the Manager (and its affiliates) may have realized from its relationship with the fund, including research received under "soft dollar" agreements. The Board noted that the use of soft dollars as a means of paying for third-party, non-broker research had been eliminated. The Board also received information on the estimated costs incurred and profits realized by the Manager and its affiliates from advising T. Rowe Price mutual funds, as well as estimates of the gross profits realized from managing the fund in particular. The Board concluded that the Manager's profits were reasonable in light of the services provided to the fund. The Board also considered whether the fund or other funds benefit under the fee levels set forth in the Contract from any economies of scale realized by the Manager. Under the Contract, the fund pays a fee to the Manager composed of two components—a group fee rate based on the aggregate assets of certain T. Rowe Price mutual funds (including the fund) that declines at certain asset levels and an individual fund fee rate that is assessed on the assets of the fund. The Board concluded that the advisory fee structure for the fund continued to provide for a reasonable sharing of benefits from any economies of scale with the fund's investors.

APPROVAL OF INVESTMENT MANAGEMENT AGREEMENT (CONTINUED)

Fees

The Board reviewed the fund's management fee rate, operating expenses, and total expense ratio (for the Investor Class and the Advisor Class) and compared them with fees and expenses of other comparable funds based on information and data supplied by Lipper. The information provided to the Board indicated that the fund's management fee rate and expense ratio (for both classes) were generally at or below the median for comparable funds. The Board also reviewed the fee schedules for comparable privately managed accounts of the Manager and its affiliates. Management informed the Board that the Manager's responsibilities for privately managed accounts are more limited than its responsibilities for the fund and other T. Rowe Price mutual funds that it or its affiliates advise. On the basis of the information provided, the Board concluded that the fees paid by the fund under the Contract were reasonable.

Approval of the Contract

As noted, the Board approved the continuation of the Contract. No single factor was considered in isolation or to be determinative to the decision. Rather, the Board concluded, in light of a weighting and balancing of all factors considered, that it was in the best interests of the fund to approve the continuation of the Contract, including the fees to be charged for services thereunder.

ANNUAL MEETING RESULTS

The T. Rowe Price International Bond Fund held an annual meeting on April 19, 2006, to elect directors to serve on the board of the fund and to consider simplifying the industry concentration fundamental policy for the fund.

The results of the voting were as follows (by number of shares):

To elect the directors listed below:

Jeremiah E. Casey

Affirmative: 718,136,060.446
 Withhold: 13,989,752.038
 Total: 732,125,812.484

John G. Schreiber

Affirmative: 718,195,177.626
 Withhold: 13,930,634.858
 Total: 732,125,812.484

Anthony W. Deering

Affirmative: 718,360,423.754
 Withhold: 13,765,388.730
 Total: 732,125,812.484

Edward C. Bernard

Affirmative: 718,140,841.520
 Withhold: 13,984,970.964
 Total: 732,125,812.484

Donald W. Dick, Jr.

Affirmative: 718,146,828.959
 Withhold: 13,978,983.525
 Total: 732,125,812.484

Brian C. Rogers

Affirmative: 718,301,175.457
 Withhold: 13,824,637.027
 Total: 732,125,812.484

David K. Fagin

Affirmative: 717,789,794.581
 Withhold: 14,336,017.903
 Total: 732,125,812.484

To simplify the industry concentration fundamental policy:

Affirmative: 88,970,569.569
 Against: 3,336,288.504
 Abstain: 2,598,721.020
 Broker Nonvotes: 19,805,905.000
 Total: 114,711,484.093

Karen N. Horn

Affirmative: 718,145,789.555
 Withhold: 13,980,022.929
 Total: 732,125,812.484

Theo C. Rodgers

Affirmative: 718,434,612.612
 Withhold: 13,691,199.872
 Total: 732,125,812.484

INVESTMENT SERVICES AND INFORMATION

KNOWLEDGEABLE SERVICE REPRESENTATIVES

By Phone 1-800-225-5132. Available Monday through Friday from 7 a.m. until midnight ET and weekends from 8:30 a.m. until 5 p.m. ET.

In Person. Available in T. Rowe Price Investor Centers. Please call a service representative at 1-800-225-5132 or visit the Web at troweprice.com/investorcenter to locate a center near you.

ACCOUNT SERVICES

Automated 24-Hour Services Including Tele*AccessSM and Account Access through the T. Rowe Price Web site on the Internet.
Address: troweprice.com.

Automatic Investing. From your bank account or paycheck.

Automatic Withdrawal. Scheduled, automatic redemptions.

IRA Rebalancing. Automatically rebalanced to ensure that your accounts reflect your desired asset allocations.

BROKERAGE SERVICES[†]

Individual Investments. Stocks, bonds, options, mutual funds, and other securities at a competitive commission.

INVESTMENT INFORMATION

Consolidated Statement. Overview of all of your accounts.

Shareholder Reports. Manager reviews of their strategies and results.

T. Rowe Price Report. Quarterly investment newsletter.

Performance Update. Quarterly review of all T. Rowe Price fund results.

Insights. Educational reports on investment strategies and markets.

Investment Guides. Asset Mix Worksheet; Diversifying Overseas: A Guide to International Investing; Retirement Planning Kit; and Retirement Readiness Guide.

[†] T. Rowe Price Brokerage is a division of T. Rowe Price Investment Services, Inc., member NASD/SIPC.

T. ROWE PRICE MUTUAL FUNDS

This page contains supplementary information that is not part of the shareholder report.

STOCK FUNDS

Domestic

Blue Chip Growth *
Capital Appreciation *
Capital Opportunity *
Developing Technologies
Diversified Mid-Cap Growth
Diversified Small-Cap Growth
Dividend Growth *
Equity Income *
Equity Index 500
Extended Equity Market Index
Financial Services
Growth & Income
Growth Stock *
Health Sciences
Media & Telecommunications
Mid-Cap Growth *†
Mid-Cap Value *†
New America Growth *
New Era
New Horizons
Real Estate *
Science & Technology *
Small-Cap Stock *†
Small-Cap Value *†
Spectrum Growth
Tax-Efficient Growth
Tax-Efficient Multi-Cap Growth
Total Equity Market Index
Value *

BLEND ED ASSET FUNDS

Balanced
Personal Strategy Balanced
Personal Strategy Growth
Personal Strategy Income
Retirement 2005

BLEND ED ASSET FUNDS (CONT.)

Retirement 2010 *
Retirement 2015
Retirement 2020 *
Retirement 2025
Retirement 2030 *
Retirement 2035
Retirement 2040 *
Retirement 2045
Retirement Income *
Tax-Efficient Balanced

BOND FUNDS

Domestic Taxable

Corporate Income
GNMA
High Yield *†
Inflation Protected Bond
New Income *
Short-Term Bond *
Spectrum Income
Summit GNMA
U.S. Bond Index
U.S. Treasury Intermediate
U.S. Treasury Long-Term

Domestic Tax-Free

California Tax-Free Bond
Georgia Tax-Free Bond
Maryland Short-Term
Tax-Free Bond
Maryland Tax-Free Bond
New Jersey Tax-Free Bond
New York Tax-Free Bond
Summit Municipal Income
Summit Municipal Intermediate
Tax-Free High Yield
Tax-Free Income *

BOND FUNDS (CONT.)

Tax-Free Short-Intermediate
Virginia Tax-Free Bond

MONEY MARKET FUNDS

Taxable

Prime Reserve
Summit Cash Reserves
U.S. Treasury Money

Tax-Free

California Tax-Free Money
Maryland Tax-Free Money
New York Tax-Free Money
Summit Municipal Money Market
Tax-Exempt Money

INTERNATIONAL/GLOBAL FUNDS

Stock

Emerging Europe &
Mediterranean
Emerging Markets Stock
European Stock
Global Stock *
Global Technology
International Discovery
International Equity Index
International Growth & Income *
International Stock *
Japan
Latin America
New Asia
Spectrum International

Bond

Emerging Markets Bond
International Bond *

For more information about T. Rowe Price funds or services, please contact us directly at 1-800-225-5132. Request a prospectus or a briefer profile; each includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

Investments in the money market funds are not insured or guaranteed by the FDIC or any other government agency. Although the funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the funds.

* T. Rowe Price Advisor Class available for these funds. The T. Rowe Price Advisor Class is offered only through financial intermediaries. For more information about T. Rowe Price Advisor Class funds, contact your financial professional or call T. Rowe Price at 1-877-804-2315.

† Closed to new investors except for a direct rollover from a retirement plan into a T. Rowe Price IRA.



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