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PROCTER & GAMBLE CO
Form 11-K
September 28, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 11-K

- \X\ ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JUNE 30, 2005, OR
- \ \ FOR TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 001-00434

- A. Full title of the plan and the address of the plan, if different from that of the issuer named below: Procter & Gamble International Stock Ownership Plan, P&G AG, 1 Rue du Pre De La Bichette, P.O. Box 2696, 1211 Geneva 2, Switzerland.
- B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office: The Procter & Gamble Company, One Procter & Gamble Plaza, Cincinnati, Ohio 45202.

REQUIRED INFORMATION

- Item 1. Audited statement of financial condition as of the end of the latest two fiscal years of the plan (or such lesser period as the plan has been in existence). (See Page 2)
- Item 2. Audited statement of income and changes in plan equity for each of the latest three fiscal years of the plan (or such lesser period as the plan has been in existence). (See Page 3)

PROCTER & GAMBLE
INTERNATIONAL STOCK
OWNERSHIP PLAN

Financial Statements as of June 30, 2005 and 2004, and for the Years Ended June 30, 2005, 2004, and 2003, and Report of Independent

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Registered Public Accounting Firm

PROCTER & GAMBLE INTERNATIONAL STOCK OWNERSHIP PLAN

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Procter & Gamble Company
Cincinnati, Ohio

We have audited the accompanying statements of assets available for plan benefits of the Procter & Gamble International Stock Ownership Plan (the "Plan") as of June 30, 2005 and 2004, and the related statements of changes in assets available for plan benefits for each of the three years in the period ended June 30, 2005. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the assets available for plan benefits of the Plan as of June 30, 2005

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and 2004, and the changes in assets available for plan benefits for each of the three years in the period ended June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

/S/ DELOITTE & TOUCHE LLP

DELOITTE & TOUCHE LLP
September 26, 2005
Cincinnati, Ohio

PROCTER & GAMBLE INTERNATIONAL STOCK OWNERSHIP PLAN

STATEMENTS OF ASSETS AVAILABLE FOR PLAN BENEFITS JUNE 30, 2005 AND 2004

	2005	2004
ASSETS:		
Investments, at fair value:		
Cash	\$ 4,674	\$ 8,414
The Procter & Gamble Company common stock-		
8,861,469 shares (cost \$342,666,410) at June 30, 2005;		
8,511,915 shares (cost \$272,122,892) at June 30, 2004	467,442,515	463,388,635
The J.M. Smucker Company common stock-		
43,733 shares (cost \$1,046,273) at June 30, 2005;		
51,118 shares (cost \$1,087,147) at June 30, 2004	2,052,820	2,354,830
Total investments	----- 469,500,009	----- 465,751,879
Receivables:		
Participant contributions	4,765,218	3,712,498
Employer contributions	1,547,762	1,625,914
Total receivables	----- 6,312,980	----- 5,338,412
ASSETS AVAILABLE FOR PLAN BENEFITS	----- \$475,812,989	----- \$471,090,291

See notes to financial statements.

PROCTER & GAMBLE INTERNATIONAL STOCK OWNERSHIP PLAN

STATEMENTS OF CHANGES IN ASSETS AVAILABLE FOR PLAN BENEFITS YEARS ENDED JUNE 30, 2005, 2004 AND 2003

	2005	2004
ADDITIONS:		

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Contributions:		
Participant contributions	\$ 43,113,740	\$ 41,511,924
Employer contributions	20,342,480	15,372,231
Total contributions	63,456,220	56,884,155
Investment (loss) income:		
Net (depreciation) appreciation in fair value of investments	(14,365,012)	78,758,756
Dividends from The Procter & Gamble Company common stock	7,425,640	6,465,954
Dividends from The J.M. Smucker Company common stock	40,327	43,612
Net investment (loss) income	(6,899,045)	85,268,322
Proceeds from class action lawsuit		
Total additions	56,557,175	142,152,477
DEDUCTION-Benefits paid to participants	51,834,477	49,547,044
NET INCREASE	4,722,698	92,605,433
ASSETS AVAILABLE FOR PLAN BENEFITS:		
Beginning of year	471,090,291	378,484,858
End of year	\$ 475,812,989	\$ 471,090,291

See notes to financial statements.

PROCTER & GAMBLE INTERNATIONAL STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005, 2004, AND 2003

1. DESCRIPTION OF THE PLAN

The following description of the Procter & Gamble International Stock Ownership Plan (the "Plan") is provided for general information purposes only. Participants should refer to the Plan Document and their country's Plan Supplement for more complete information.

GENERAL--The Plan is a defined contribution plan established in June of 1992 covering substantially all full-time international employees of The Procter & Gamble Company (the "Company") and certain of its subsidiaries who are not residents of the United States of America. Generally, employees must have completed one year of service to participate, however, participation varies by subsidiary or country and eligibility can begin immediately after employment and at various milestones up to one year. The Board of Directors of the Company control and manage the operation and administration of the Plan. The Dexia Banque Internationale a Luxembourg serves as the trustee of the Plan. The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), nor is it subject to U.S. income taxation (Note 6).

CONTRIBUTIONS--Each year, participants may contribute up to 15% of their base compensation, as defined in the Plan. The Company contributes 50% of

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the first 5% of the base compensation that a participant contributes to the Plan. However, participants in their initial year of eligibility receive a 100% Company contribution, up to 1% of the base compensation that the participant contributes to the Plan. Participants may also contribute a "Special Additional Deposit" as a lump sum payment once per month.

PARTICIPANT ACCOUNTS--Individual accounts are maintained for each Plan participant. Each participant's account is credited with the participant's contribution, the Company's matching contribution, allocations of Company discretionary contributions, if any, and Plan earnings, and charged with withdrawals and an allocation of Plan losses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

INVESTMENTS--Participants are only permitted to invest in the Company's common stock. All employee and Company contributions are converted into U.S. dollars and then invested in shares of the Company's common stock on the 18th day of each month (or the first business day immediately following the 18th). Sales of the Company's common stock occur once per week and are subsequently converted into the applicable local currencies, where required, for payment to employees. Any dividends on shares of the Company's common stock are invested in additional shares of the Company's common stock.

In May of 2002, the Jif peanut butter and Crisco shortening brands were spun-off to the Company's shareholders and subsequently merged into the J.M. Smucker Company ("Smucker"). As a result of the spin-off, participants holding Company common stock received one share of Smucker stock for each fifty shares of Company common stock. The cost basis of Company common stock prior to the Smucker spin-off was allocated between Company common stock held and the Smucker common stock received. Participants are not permitted to purchase additional shares of Smucker stock within the Plan.

VESTING--Participants are fully vested in all shares of Company common stock credited to their accounts under the Plan, except for Switzerland and Saudi Arabia, which are credited in accordance with their respective Plan Supplement.

PAYMENT OF BENEFITS--Participants may withdraw any portion of their contributions made in excess of 5% of their base compensation at any time during the year, with only two withdrawals permitted per year. Contributions made up to 5% of base compensation and Company matches are available to be withdrawn without penalty five years after the end of the plan year in which the contributions are made. If a participant withdraws these funds prior to the completion of five years, the Company will suspend matching of employee contributions for one year.

STOCK SPLIT--In March 2004, the Company's Board of Directors approved a two-for-one stock split effective for common shareholders of record as of May 21, 2004. The financial statements and notes to the financial statements have been restated to reflect the stock split for all periods presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING--The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

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USE OF ESTIMATES--The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Plan management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein. Actual results could differ from those estimates. The Plan invests in common stock. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

INVESTMENT VALUATION AND INCOME RECOGNITION--The Plan's investments in common stock are stated at fair value. Quoted market prices are used to value these investments.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

CASH--Amounts shown as cash are uninvested funds held by the Trustee that are to be invested in Company common stock in the following month.

ADMINISTRATIVE EXPENSES--Administrative expenses (i.e. investment management and record keeping expenses) of the Plan are paid by the Plan Sponsor as provided in the Plan Document. Brokerage commissions are paid by the participant, and other costs related to the purchase or sale of shares are reflected in the price of the shares and borne by the participant.

PAYMENT OF BENEFITS--Benefit payments to participants are recorded upon distribution. Amounts allocated to accounts of persons who have elected to withdraw from the plan but have not yet been paid were approximately \$2,827,000 and \$1,441,000 at June 30, 2005 and 2004, respectively.

RECLASSIFICATION--Certain 2004 and 2003 amounts have been reclassified to conform to the 2005 presentation.

3. INVESTMENTS

The Plan's investments, including gains and losses on investments bought and sold as well as held during the year, (depreciated) appreciated in value as follows for the years ended June 30, 2005, 2004, and 2003:

	2005	2004	2003
The Procter & Gamble Company			
common stock	\$ (14,742,823)	\$ 78,385,449	\$ (4,790,815)
The J. M. Smucker Company			
common stock	377,811	373,307	400,034
	-----	-----	-----
Total	\$ (14,365,012)	\$ 78,758,756	\$ (4,390,781)
	=====	=====	=====

4. RELATED-PARTY TRANSACTIONS

At June 30, 2005 and 2004, the Plan held 8,861,469 and 8,511,915 shares, respectively, of common stock of The Procter & Gamble Company, the sponsoring employer, with a cost basis of \$342,666,410 and \$272,122,892, respectively. During the years ended June 30, 2005, 2004 and 2003, the Company contributed \$20,342,480, \$15,372,231, and \$13,464,567, respectively, to the Plan on behalf of participating employees.

During the years ended June 30, 2005, 2004 and 2003, the Plan recorded

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dividend income from The Procter & Gamble Company common stock of \$7,425,640, \$6,465,954, and \$5,556,176, respectively.

During the years ended June 30, 2005, 2004 and 2003, the Plan's investment in common stock of The Procter & Gamble Company, including gains and losses on investments bought and sold as well as held during the year, (depreciated) appreciated in value by \$(14,742,823), \$78,385,449, and \$(4,790,815), respectively.

5. PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in the Plan agreement.

6. FEDERAL INCOME TAX STATUS

The Plan is not qualified under Section 401(a) of the Internal Revenue Code, and is exempt from the provisions of Title I of ERISA pursuant to Section 4(b)(4) thereof. The Company believes that the Trustee should be viewed as a direct custodian, and that, for U.S. tax purposes, the participating employees should be treated as the owners of the shares of Company common stock held for their account under the Plan.

Plan management believes that the participating employees should be treated as the beneficial owners of the shares of Company common stock held for their account under the Plan for U.S. tax purposes and that, subject to certain procedural conditions, the information provided by the employees may be relied upon in determining the applicable U.S. tax withholding rate on dividends paid by the Company with respect to these shares.

7. CLASS ACTION LAWSUIT

During March of 2000, a class action lawsuit was filed against The Procter & Gamble Company by shareholders of common stock. The class was certified on October 29, 2001 by the United States District Court for the Southern District of Ohio, Western Division, and a settlement of \$49,000,000 was approved. The Plan joined the class of plaintiffs on March 25, 2002. During 2003, the Plan received settlement proceeds of \$158,199, which were allocated to qualified participant accounts as of June 30, 2003.

THE PLAN. Pursuant to the requirements of the Securities Act of 1933, the trustees (or other persons who administer the employee benefit plan) have duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Luxembourg, Luxembourg, on September 28, 2005.

PROCTER & GAMBLE INTERNATIONAL STOCK OWNERSHIP PLAN

By: BANQUE INTERNATIONALE A LUXEMBOURG, TRUSTEE

By: /S/ PHILIPPE MEYERS

Philippe Meyers
Fonde de Pouvoir Principal

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Trustee

By: /S/ PHILIPPE GILTAIRE

Philippe Giltaire
Fonde de Pouvoir
Trustee