

TEMPLETON EMERGING MARKETS INCOME FUND  
Form N-CSRS  
May 05, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM N-CSRS

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-07866

Templeton Emerging Markets Income Fund

(Exact name of registrant as specified in charter)

300 S.E. 2<sup>nd</sup> Street, Fort Lauderdale, FL 33301-1923  
(Address of principal executive offices) (Zip code)

Craig S. Tyle, One Franklin Parkway, San Mateo, CA 94403-1906

(Name and address of agent for service)

Registrant's telephone number, including area code: (954) 527-7500

Date of fiscal year end: 8/31

Date of reporting period: 2/29/16

**Item 1. Reports to Stockholders.**



**Semiannual Report**

February 29, 2016

# Templeton Emerging Markets Income Fund

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# Semiannual Report

## Templeton Emerging Markets Income Fund

Dear Shareholder:

This semiannual report for Templeton Emerging Markets Income Fund covers the period ended February 29, 2016.

### Your Fund's Goals and Main Investments

The Fund seeks high, current income, with a secondary goal of capital appreciation, by investing, under normal market conditions, at least 80% of its net assets in income-producing securities of sovereign or sovereign-related entities and private sector companies in emerging market countries.

### Performance Overview

For the six months under review, the Fund had cumulative total returns of -1.57% based on market price and -2.98% based on net asset value. In comparison, U.S. dollar-denominated emerging market bonds, as measured by the J.P. Morgan (JPM) Emerging Markets Bond Index (EMBI) Global, posted a +1.97% cumulative total return for the same period.<sup>1</sup> You can find the Fund's long-term performance data in the Performance Summary beginning on page 5.

*Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.*

### Economic and Market Overview

Global markets experienced significant volatility during the six-month period, as declines in oil prices and concerns about economic conditions in China and the outlook for growth across the globe appeared to negatively impact markets. However, we believed there was a significant disconnect between market pessimism and the underlying fundamentals. Markets appeared to react as if conditions were worse than the 2008 global financial crisis or the Asian financial crisis of 1997 and 1998, yet several emerging market economies were in far better shape, by our assessment, with larger foreign reserves and more diversified, growing economies. Risk aversion initially peaked during the weeks around the start of the reporting period, then began to diminish in October and November, leading to a recovery in risk asset pricing. However, volatility returned in late December and resurged over the first

\*Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of any derivatives, unsettled trades or other factors.

couple of weeks of the new year, leading to further declines in several risk assets as oil prices dropped below \$30 per barrel. Risk aversion relented a bit at the end of January before returning again in early February. However, over the final weeks of February, risk appetites returned and several risk assets rallied, creating a positive trend for global markets as the period came to a close.

After postponing action in September and October, the U.S. Federal Reserve raised its policy rate 25 basis points (0.25%) at its December meeting, marking the first increase in the federal funds rate since 2006 and the first non-zero rate policy since 2008. Despite the move toward tightening policy, the Federal Open Market Committee stressed that U.S. monetary policy would remain highly accommodative and that the pace of future increases would be gradual. Although bond yields initially shifted higher across much of Europe, Asia ex-Japan and Latin America in December, they subsequently declined during the first two months of 2016. The yield on the 10-year U.S. Treasury note began the period at 2.21% and finished the period at 1.74%. Additionally, yields across much of Europe declined substantially; the yield on the 10-year German bund was 0.80% at the start of the period and dropped to 0.11% by the end of February. The Bank of Japan introduced a negative interest rate policy in January, and 10-year Japan government bond yields dropped to -0.07% by period-end from 0.38% on August 31, 2015.

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1. Source: Morningstar.

The index is unmanaged and includes reinvestment of any income or distributions. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information.

**The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 8.**

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TEMPLETON EMERGING MARKETS INCOME FUND

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A vast number of currencies across developed and emerging markets depreciated against the U.S. dollar during the period, with only a few select currencies appreciating, most notably the Indonesian rupiah and the Japanese yen. Emerging markets were often regarded by investors as being in near-crisis condition, particularly during the volatility in January and February. Several emerging market currencies stood out as excessively depreciated, in our view. We were focused on the opportunity sets in several currencies and believed that fears of a systemic crisis across the emerging markets asset class were exaggerated. Most commodity exporters and emerging markets with poor macro fundamentals remained vulnerable, but we observed several other emerging market countries that we believed had sound policies and stronger underlying fundamentals than markets were indicating. We observed a subset of compelling valuations across specific currencies and select areas of the local currency bond markets.

Additionally, we continued to believe that fears of global deflation were unwarranted and that markets were overestimating the extent to which lower headline inflation reflected structurally weaker global demand. Supply factors were the main driver behind falling energy and commodity prices, by our assessment, which in turn have pushed headline inflation lower. These are short-term effects, and their disinflationary impact should wane as commodity prices stabilize, in our opinion. The belief that inflation had become structurally lower appeared to make several investors complacent on taking interest rate risk in what we believed was a vulnerable part of the yield cycle. Underlying inflation in the U.S. was not adequately priced into bond yields during the period, in our assessment, and we were wary of the lack of inflation being priced into bond yields across the globe. In our view, there were more risks of inflation

**Top 10 Countries**

2/29/16

	<b>% of Total Net Assets</b>
Brazil	8.2 %
Ukraine	7.9 %
Indonesia	7.6 %
Zambia	5.3 %
Serbia	4.4 %
Ecuador	4.2 %
Nigeria	3.8 %
Ghana	3.8 %
Kenya	3.6 %
Iraq	3.2 %

moving up than down, yet markets appeared to price in deflation and downside risks.

**Investment Strategy**

We invest selectively in bonds from emerging markets around the world to generate income for the Fund, seeking opportunities while monitoring changes in interest rates, currency exchange rates and credit risk. We seek to manage the Fund’s exposure to various currencies and may use currency forward contracts.

**What is a currency forward contract?**

A currency forward contract is an agreement between the Fund and a counterparty to buy or sell a foreign currency in exchange for another currency at a specific exchange rate on a future date.



## Manager's Discussion

On the whole, we continued to position our strategies for rising rates by maintaining low portfolio duration and aiming at a negative correlation with U.S. Treasury returns. We also continued to actively seek select duration exposures that we believe offer positive real yields without undue interest rate risk, favoring countries that we believe have solid underlying fundamentals and prudent fiscal, monetary and financial policies. During the period, we shifted out of markets where we had previously held contrarian positions to reallocate to positions that, in our view, had fundamentally attractive valuations for the medium term. We also maintained our exposures to several of our strongest investment convictions and added to those types of positions as prices became cheaper during periods of heightened volatility. Despite the persistence of volatility during the

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## TEMPLETON EMERGING MARKETS INCOME FUND

**Currency Breakdown\***

2/29/16

	<b>% of Total</b>	<b>Net Assets</b>
<b>Americas</b>		<b>102.3 %</b>
U.S. Dollar		88.5 %
Brazilian Real		8.3 %
Mexican Peso		5.3 %
Colombian Peso		0.2 %
<b>Middle East &amp; Africa</b>		<b>4.2 %</b>
Ghanaian Cedi		4.2 %
<b>Asia Pacific</b>		<b>-2.3 %</b>
Indonesian Rupiah		7.8 %
Sri Lankan Rupee		2.0 %
Indian Rupee		1.2 %
Malaysian Ringgit		0.7 %
Australian Dollar		-3.2 %
Japanese Yen		-10.8 %
<b>Europe</b>		<b>-4.2 %</b>
Serbian Dinar		2.2 %
Euro		-6.4 %

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period, we remained encouraged by the vast set of fundamentally attractive valuations across the global bond and currency markets. We favored currencies in countries where inflation was picking up and growth remained healthy yet the local currencies remained fundamentally undervalued, by our assessment. We were positioned for depreciation of the euro and yen, a rise in U.S. Treasury yields and currency appreciation in select emerging markets. During the period, we used currency forward contracts to actively manage exposure to currencies. We also used interest rate swaps to tactically manage duration exposures.

**What is duration?**

Duration is a measure of a bond's price sensitivity to interest rate changes. In general, a portfolio of securities with a lower duration can be expected to be less sensitive to interest rate changes than a portfolio with a higher duration.

**What is an interest rate swap?**

An interest rate swap is an agreement between two parties to exchange interest rate payment obligations, generally one based on an interest rate fixed to maturity and the other based on an interest rate that changes in accordance with changes in a designated benchmark (for example, LIBOR, prime, commercial paper, or other benchmarks).

During the period, the Fund's negative absolute performance was primarily attributable to currency positions. Interest rate strategies and credit exposures had largely neutral effects on absolute return. Currency positions in Latin America detracted from absolute return, as did the Fund's net-negative position in the Japanese yen, through the use of currency forward contracts. The Fund maintained a defensive approach regarding interest rates in emerging markets. Select duration exposures in Latin America and multiple regions contributed to absolute performance, while negative duration exposure to U.S. Treasuries detracted. Credit exposures in Europe contributed to absolute return while credit exposures in multiple countries in other regions detracted.

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Thank you for your continued participation in Templeton Emerging Markets Income Fund. We look forward to serving your future investment needs.

Michael Hasenstab, Ph.D.  
Portfolio Manager

*The foregoing information reflects our analysis, opinions and portfolio holdings as of February 29, 2016, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.*

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TEMPLETON EMERGING MARKETS INCOME FUND

## Performance Summary as of February 29, 2016

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses. Capital gain distributions are net profits realized from the sale of portfolio securities. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses. Total returns do not reflect any sales charges paid at inception or brokerage commissions paid on secondary market purchases. The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares.

### Share Prices

Symbol: TEI		2/29/16		8/31/15		Change
Net Asset Value (NAV)	\$	11.23	\$	12.00	-\$	0.77
Market Price (NYSE)	\$	9.41	\$	9.97	-\$	0.56

### Distributions<sup>1</sup>

		Dividend Income		Long-Term Capital Gain		Total
(9/1/15-2/29/16)	\$	0.4000	\$	0.0218	\$	0.4218

### Performance<sup>2</sup>

	Cumulative Total Return <sup>3</sup>		Average Annual Total Return <sup>3</sup>		Average Annual Total Return (3/31/16) <sup>4</sup>	
	Based on	Based on	Based on	Based on	Based on	Based on
	NAV <sup>5</sup>	market price <sup>6</sup>	NAV <sup>5</sup>	market price <sup>6</sup>	NAV <sup>5</sup>	market price <sup>6</sup>
6-Month	-2.98 %	-1.57 %	-2.98 %	-1.57 %		
1-Year	-4.84 %	-8.43 %	-4.84 %	-8.43 %	2.12 %	+3.34 %
5-Year	+9.17 %	-7.69 %	1.77 %	-1.59 %	2.28 %	-0.10 %
10-Year	+87.55 %	+73.74 %	6.49 %	5.68 %	7.09 %	+7.55 %

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.

All investments involve risks, including possible loss of principal. Changes in interest rates will affect the value of the Fund's portfolio and its share price and yield. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in the Fund adjust to a rise in interest rates, the Fund's share price may decline. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments of countries where the Fund invests. The Fund's investments in emerging market countries are subject to all of the risks of foreign investing generally, and have additional heightened risks due to these markets' smaller size and lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets, including: delays in settling portfolio securities transactions; currency and capital controls; greater sensitivity to interest rate changes; pervasiveness of corruption and crime; currency exchange rate volatility; and inflation, deflation or currency devaluation. The markets for particular securities or types of securities are or may become relatively illiquid. Reduced liquidity will have an adverse impact on the security's value and on the Fund's ability to sell such securities when necessary to meet the Fund's liquidity needs or in response to a specific market event. The Fund's use of foreign currency techniques involves special risks as such techniques may not achieve the anticipated benefits and/or may result in losses to the Fund. Also, as a nondiversified investment company, the Fund may invest in a relatively small number of issuers and, as a result, be subject to a greater risk of loss with respect to its portfolio securities.

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**The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results.**

1. The distribution amount is the sum of the dividend payments to shareholders for the period shown and includes only estimated tax-basis net investment income and capital gain.
2. The Fund has a fee waiver associated with any investment in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year-end. Fund investment results reflect the fee waiver, to the extent applicable; without this reduction, the results would have been lower.
3. Total return calculations represent the cumulative and average annual changes in value of an investment over the periods indicated. Return for less than one year, if any, has not been annualized.
4. In accordance with SEC rules, we provide standardized average annual total return information through the latest calendar quarter.
5. Assumes reinvestment of distributions based on net asset value.
6. Assumes reinvestment of distributions based on the dividend reinvestment and cash purchase plan.

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## TEMPLETON EMERGING MARKETS INCOME FUND

**Financial Highlights**

	<b>Six Months Ended February 29, 2016</b>		<b>Year Ended August 31,</b>			
	<b>(unaudited)</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Per share operating performance</b>						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 12.00	\$ 14.39	\$ 14.58	\$ 15.91	\$ 16.61	\$ 16.27
Income from investment operations:						
Net investment income <sup>a</sup>	0.37	0.93	1.02	1.07	1.08	1.17
Net realized and unrealized gains (losses)	(0.72 )	(2.18 )	0.18	(0.54 )	(0.37 )	0.41
Total from investment operations	(0.35 )	(1.25 )	1.20	0.53	0.71	1.58
Less distributions from:						
Net investment income and net foreign currency gains	(0.40 )	(0.79 )	(1.19 )	(1.44 )	(1.34 )	(1.19 )
Net realized gains	(0.02 )	(0.35 )	(0.20 )	(0.42 )	(0.07 )	(0.05 )
Total distributions	(0.42 )	(1.14 )	(1.39 )	(1.86 )	(1.41 )	(1.24 )
Net asset value, end of period	\$ 11.23	\$ 12.00	\$ 14.39	\$ 14.58	\$ 15.91	\$ 16.61
Market value, end of period <sup>b</sup>	\$ 9.41	\$ 9.97	\$ 13.41	\$ 13.85	\$ 17.01	\$ 17.22
Total return (based on market value per share) <sup>c</sup>	(1.57 )%	(17.94 )%	6.83 %	(8.75 )%	8.17 %	14.60 %
<b>Ratios to average net assets<sup>d</sup></b>						
Expenses before waiver and payments by affiliates	1.09 %	1.10 %	1.09 %	1.09 %	1.15 %	1.20 %
Expenses net of waiver and payments by affiliates	1.07 %	1.09 %	1.08 %	1.09 % <sup>e</sup>	1.15 %	1.20 % <sup>e</sup>
Net investment income	6.38 %	7.19 %	7.03 %	6.79 %	6.90 %	7.08 %
<b>Supplemental data</b>						
Net assets, end of period (000's)	\$ 538,920	\$ 576,069	\$ 690,850	\$ 699,414	\$ 759,024	\$ 789,998
Portfolio turnover rate	10.43 %	23.57 %	28.67 %	14.53 %	16.56 %	24.59 %

<sup>a</sup> Based on average daily shares outstanding.

<sup>b</sup> Based on the last sale on the New York Stock Exchange.

<sup>c</sup> Total return is not annualized for periods less than one year.

<sup>d</sup> Ratios are annualized for periods less than one year.

<sup>e</sup> Benefit of expense reduction rounds to less than 0.01%.



## TEMPLETON EMERGING MARKETS INCOME FUND

**Statement of Investments, February 29, 2016 (unaudited)**

	<b>Warrants</b>	<b>Value</b>
<b>Warrants 0.2%</b>		
<b>South Africa 0.2%</b>		
a,b Edcon Holdings Ltd., F wts., 2/20/49	EUR 4,375 \$	47
a,b Edcon Holdings Ltd., F1 wts., 2/20/49	78,291,411 EUR	851,889
a,b Edcon Holdings Ltd., F2 wts., 2/20/49	6,340,039 EUR	68,986
<b>Total Warrants (Cost \$896,759)</b>		<b>920,922</b>
	<b>Principal</b>	
	<b>Amount*</b>	
<b>Foreign Government and Agency Securities 66.9%</b>		
<b>Bosnia &amp; Herzegovina 0.4%</b>		
<sup>c</sup> Government of Bosnia & Herzegovina, FRN, 0.813%, 12/11/17	4,046,840 DEM	2,060,036
<b>Brazil 8.2%</b>		
Nota Do Tesouro Nacional,		
	d	
10.00%, 1/01/17	6,300 BRL	1,521,755
	d	
10.00%, 1/01/21	1,725 BRL	356,252
	d	
10.00%, 1/01/25	360 BRL	66,298
	d	
10.00%, 1/01/27	3,670 BRL	646,200
	d	
eIndex Linked, 6.00%, 5/15/17	134 BRL	94,926
	d	
eIndex Linked, 6.00%, 5/15/19	16,424 BRL	11,474,594
	d	
eIndex Linked, 6.00%, 8/15/22	11,920 BRL	8,012,784
	d	
eIndex Linked, 6.00%, 5/15/23	13,639 BRL	9,087,695
	d	
eIndex Linked, 6.00%, 8/15/24	3,340 BRL	2,218,160
	d	
eIndex Linked, 6.00%, 8/15/50	18,020 BRL	10,710,712
		44,189,376
<b>Colombia 0.1%</b>		
Government of Colombia, senior bond, 7.75%, 4/14/21	1,348,000,000 COP	399,274
Titulos De Tesoreria B,		



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5.00%, 11/21/18	565,000,000 COP	161,163
7.75%, 9/18/30	197,000,000 COP	52,735
senior bond, 7.00%, 5/04/22	148,000,000 COP	41,673
senior bond, 10.00%, 7/24/24	98,000,000 COP	32,031
senior note, 7.00%, 9/11/19	197,000,000 COP	58,097
senior note, 11.00%, 7/24/20	197,000,000 COP	66,094
		811,067
<b>Croatia 1.6%</b>		
<sup>f</sup> Government of Croatia, 144A, 6.75%, 11/05/19	7,920,000	8,627,058
<b>Dominican Republic 2.4%</b>		
<sup>g</sup> Government of the Dominican Republic, senior bond, Reg S, 6.85%, 1/27/45	14,000,000	13,087,130
<b>Ecuador 4.2%</b>		
<sup>f</sup> Government of Ecuador, senior note, 144A, 7.95%, 6/20/24	31,380,000	22,823,302
<b>El Salvador 0.4%</b>		
<sup>f</sup> Government of El Salvador, 144A, 7.65%, 6/15/35	2,650,000	2,262,053
<b>Ethiopia 1.6%</b>		
<sup>f</sup> Federal Democratic Republic of Ethiopia, 144A, 6.625%, 12/11/24	10,000,000	8,827,950
<b>Gabon 2.6%</b>		
<sup>g</sup> Government of Gabon,		
Reg S, 6.375%, 12/12/24	6,800,000	5,542,578
senior note, Reg S, 6.95%, 6/16/25	10,200,000	8,308,614
		13,851,192
<b>Ghana 3.8%</b>		
Ghana Treasury Note,		
24.25%, 10/09/17	1,130,000 GHS	295,118
23.95%, 11/06/17	610,000 GHS	158,680
23.30%, 12/11/17	2,560,000 GHS	660,110

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TEMPLETON STATEMENT

EMERGING MARKETS INCOME FUND OF INVESTMENTS (UNAUDITED)

	<b>Principal Amount*</b>	<b>Value</b>
<b>Foreign Government and Agency Securities</b> (continued)		
<b>Ghana 3.8%</b> (continued)		
Government of Ghana,		
	GHS	
16.90%, 3/07/16	430,000 \$	111,226
19.24%, 5/30/16	11,875,000 GHS	3,038,355
23.00%, 2/13/17	9,670,000 GHS	2,491,974
25.48%, 4/24/17	230,000 GHS	60,455
24.44%, 5/29/17	3,670,000 GHS	956,091
26.00%, 6/05/17	130,000 GHS	34,488
25.40%, 7/31/17	3,410,000 GHS	901,693
23.00%, 8/21/17	13,160,000 GHS	3,382,532
23.23%, 2/19/18	3,340,000 GHS	859,962
22.49%, 4/23/18	1,730,000 GHS	433,924
23.47%, 5/21/18	8,220,000 GHS	2,120,797
19.04%, 9/24/18	14,300,000 GHS	3,394,688
24.50%, 10/22/18	5,917,000 GHS	1,535,168
21.00%, 3/23/20	110,000 GHS	26,357
		20,461,618
<b>Hungary 2.5%</b>		
Government of Hungary,		
5.375%, 2/21/23	930,000	1,024,813
senior note, 6.375%, 3/29/21	10,790,000	12,259,814
		13,284,627
<b>India 1.2%</b>		
Government of India,		
senior bond, 7.80%, 5/03/20	68,300,000 INR	1,006,580
senior bond, 8.35%, 5/14/22	20,200,000 INR	302,572
senior bond, 8.28%, 9/21/27	20,600,000 INR	306,096
senior bond, 8.60%, 6/02/28	71,000,000 INR	1,079,131
senior note, 7.28%, 6/03/19	2,700,000 INR	39,248
senior note, 8.12%, 12/10/20	51,300,000 INR	763,084
senior note, 7.16%, 5/20/23	12,700,000 INR	177,829
senior note, 8.83%, 11/25/23	171,200,000 INR	2,626,460
		6,301,000
<b>Indonesia 7.6%</b>		
Government of Indonesia,		
7.875%, 4/15/19	21,627,000,000 IDR	1,616,525
FR31, 11.00%, 11/15/20	134,139,000,000 IDR	11,146,173
FR36, 11.50%, 9/15/19	40,000,000,000 IDR	3,305,744

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FR39, 11.75%, 8/15/23	1,780,000,000 IDR	156,908
FR40, 11.00%, 9/15/25	58,140,000,000 IDR	5,021,813
FR42, 10.25%, 7/15/27	2,368,000,000 IDR	197,894
FR44, 10.00%, 9/15/24	1,066,000,000 IDR	86,894
FR46, 9.50%, 7/15/23	80,000,000,000 IDR	6,328,152
FR48, 9.00%, 9/15/18	2,961,000,000 IDR	227,082
FR61, 7.00%, 5/15/22	1,720,000,000 IDR	120,909
senior bond, 5.625%, 5/15/23	3,071,000,000 IDR	196,071
senior bond, FR53, 8.25%, 7/15/21	6,465,000,000 IDR	490,580
senior bond, FR56, 8.375%, 9/15/26	70,379,000,000 IDR	5,315,796
senior bond, FR70, 8.375%, 3/15/24	85,338,000,000 IDR	6,381,840
senior note, 5.25%, 5/15/18	3,553,000,000 IDR	252,818
		40,845,199

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TEMPLETON EMERGING MARKETS INCOME FUND  
STATEMENT OF INVESTMENTS (UNAUDITED)

	Principal Amount*	Value
<b>Foreign Government and Agency Securities</b> (continued)		
<b>Iraq 3.2%</b>		
<sup>f</sup> Government of Iraq, 144A, 5.80%, 1/15/28	27,190,000	\$ 17,305,619
<b>Kenya 3.6%</b>		
Government of Kenya, senior note,		
<sup>f</sup> 144A, 6.875%, 6/24/24	6,033,000	5,569,967
<sup>g</sup> Reg S, 5.875%, 6/24/19	7,200,000	7,010,640
<sup>g</sup> Reg S, 6.875%, 6/24/24	7,700,000	7,109,025
		19,689,632
<b>Lithuania 0.3%</b>		
<sup>f</sup> Government of Lithuania, 144A, 7.375%, 2/11/20	1,320,000	1,561,804
<b>Mexico 2.5%</b>		
Government of Mexico,		
7.25%, 12/15/16	367,050 <sup>h</sup> MXN	2,074,071
7.75%, 12/14/17	1,329,920 <sup>h</sup> MXN	7,776,312
senior note, M, 5.00%, 6/15/17	607,200 <sup>h</sup> MXN	3,384,212
		13,234,595
<b>Mongolia 0.9%</b>		
<sup>f</sup> Government of Mongolia, senior note, 144A, 5.125%, 12/05/22	7,100,000	4,931,447
<b>Senegal 1.2%</b>		
<sup>f</sup> Government of Senegal, 144A, 6.25%, 7/30/24	6,900,000	6,297,941
<b>Serbia 4.4%</b>		
<sup>f</sup> Government of Serbia, senior note, 144A, 7.25%, 9/28/21	10,250,000	11,542,013
Serbia Treasury Bond, 8.00%, 10/22/20	133,400,000 RSD	1,239,059
Serbia Treasury Note,		
10.00%, 5/22/16	17,420,000 RSD	155,843
10.00%, 6/27/16	65,340,000 RSD	587,979
10.00%, 8/15/16	26,900,000 RSD	243,952
10.00%, 10/17/16	15,050,000 RSD	137,766
10.00%, 12/19/16	15,400,000 RSD	142,212
8.00%, 1/12/17	1,540,000 RSD	14,038
8.00%, 3/23/17	400,000 RSD	3,666
8.00%, 4/06/17	9,050,000 RSD	83,019
10.00%, 5/08/17	10,040,000 RSD	94,289

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10.00%, 11/08/17	36,330,000 RSD	347,194
10.00%, 4/27/18	744,450,000 RSD	7,191,002
10.00%, 11/21/18	13,450,000 RSD	131,236
10.00%, 3/20/21	56,890,000 RSD	568,376
10.00%, 6/05/21	33,720,000 RSD	336,311
10.00%, 9/11/21	68,330,000 RSD	676,275
		23,494,230

**Sri Lanka 2.0%**

Government of Sri Lanka,

10.60%, 7/01/19	483,950,000 LKR	3,394,117
10.60%, 9/15/19	321,640,000 LKR	2,250,614
8.00%, 11/01/19	18,120,000 LKR	117,111
9.25%, 5/01/20	68,990,000 LKR	454,695
11.20%, 7/01/22	31,680,000 LKR	221,945
A,9.00%, 5/01/21	387,750,000 LKR	2,484,829
A,11.00%, 8/01/21	259,200,000 LKR	1,803,741
		10,727,052

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TEMPLETON STATEMENT

EMERGING MARKETS INCOME FUND OF INVESTMENTS (UNAUDITED)

	<b>Principal Amount*</b>	<b>Value</b>
<b>Foreign Government and Agency Securities</b> (continued)		
<b>Ukraine 6.9%</b>		
<sup>f</sup> Government of Ukraine, 144A,		
7.75%, 9/01/19	5,855,000	\$ 5,369,591
7.75%, 9/01/20	8,667,000	7,847,925
7.75%, 9/01/21	3,506,000	3,142,884
7.75%, 9/01/22	3,406,000	3,020,832
7.75%, 9/01/23	3,406,000	2,989,259
7.75%, 9/01/24	3,406,000	2,951,282
7.75%, 9/01/25	3,406,000	2,917,171
7.75%, 9/01/26	3,406,000	2,888,663
7.75%, 9/01/27	3,406,000	2,882,668
<sup>a,i</sup> VRI, GDP Linked Securities, 5/31/40	10,087,000	3,190,014
		37,200,289
<b>Zambia 5.3%</b>		
<sup>f</sup> Government of Zambia International Bond, 144A,		
5.375%, 9/20/22	26,070,000	18,454,432
8.50%, 4/14/24	2,470,000	1,847,943
<sup>f</sup> Government of Zambia, senior bond, 144A, 8.97%, 7/30/27	11,460,000	8,511,915
		28,814,290
<b>Total Foreign Government and Agency Securities</b>		
<b>(Cost \$430,375,920)</b>		360,688,507
<b>Quasi-Sovereign and Corporate Bonds 18.0%</b>		
<b>Bermuda 0.4%</b>		
<sup>f</sup> Digicel Group Ltd., senior note, 144A, 7.125%, 4/01/22	3,300,000	2,390,438
<b>Canada 0.9%</b>		
<sup>f</sup> First Quantum Minerals Ltd., senior note, 144A, 7.25%, 5/15/22	10,000,000	5,000,000
<b>Chile 2.1%</b>		
<sup>f</sup> VTR Finance BV, senior secured note, 144A, 6.875%, 1/15/24	12,000,000	11,310,000
<b>Costa Rica 2.5%</b>		
<sup>b</sup> Reventazon Finance Trust, secured bond, first lien, 144A, 8.00%, 11/15/33	14,400,000	13,707,561
<b>Mexico 0.0%†</b>		
<sup>f,j</sup> Corporacion GEO SAB de CV, senior note, 144A, 8.875%, 3/27/22	8,420,000	5,473
<b>Nigeria 3.8%</b>		

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<sup>f</sup> Access Bank PLC, sub. note, 144A, 9.25% to 6/23/19, FRN thereafter, 6/24/21	10,100,000	8,433,500
<sup>f</sup> Zenith Bank PLC, senior note, 144A, 6.25%, 4/22/19	13,670,000	12,140,327
		20,573,827
<b>Peru 0.2%</b>		
<sup>f</sup> Peru Enhanced Pass-Through Finance Ltd., senior secured bond, A-1, 144A, zero cpn., 5/31/18	1,281,334	1,211,308
<b>Poland 1.1%</b>		
<sup>f,k</sup> Play Topco SA, senior note, 144A, PIK, 7.75%, 2/28/20	5,250,000 EUR	5,769,650
<b>Russia 1.7%</b>		
LUKOIL International Finance BV,		
<sup>f</sup> 144A, 6.656%, 6/07/22	4,540,000	4,734,675
<sup>g</sup> Reg S, 6.656%, 6/07/22	3,970,000	4,141,206
		8,875,881
<b>South Africa 1.4%</b>		
<sup>f</sup> Edcon Ltd., senior secured note, 144A,		
9.50%, 3/01/18	2,828,000 EUR	1,353,945
9.50%, 3/01/18	7,250,000	3,480,000
<sup>k</sup> PIK, 8.00%, 6/30/19	577,798 EUR	542,995

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TEMPLETON EMERGING MARKETS INCOME FUND  
STATEMENT OF INVESTMENTS (UNAUDITED)

	Principal Amount*	Value
<b>Quasi-Sovereign and Corporate Bonds</b> (continued)		
<b>South Africa 1.4%</b> (continued)		
<sup>f</sup> Edcon Ltd., senior secured note, 144A, (continued)		
<sup>k</sup> PIK, 8.00%, 6/30/19	1,155,596 EUR \$	1,067,373
<sup>k</sup> PIK, 12.75%, 6/30/19	1,772,978 EUR	944,845
		7,389,158
<b>Turkey 1.8%</b>		
<sup>f</sup> Turkiye Is Bankasi, sub. note, 144A, 6.00%, 10/24/22	2,800,000	2,759,834
<sup>f</sup> Yasar Holdings SA, senior note, 144A, 8.875%, 5/06/20	6,680,000	6,746,800
		9,506,634
<b>Ukraine 1.0%</b>		
<sup>f,l</sup> Ukreximbank, (BIZ Finance PLC), loan participation, senior note, 144A, 9.75%, 1/22/25	6,405,000	5,290,498
<b>United States 1.1%</b>		
General Electric Co., senior note, A, 8.50%, 4/06/18	101,000,000 MXN	5,961,671
		96,992,099
<b>Total Quasi-Sovereign and Corporate Bonds (Cost \$125,450,897)</b>		96,992,099
<b>Total Investments before Short Term Investments (Cost \$556,723,576)</b>		458,601,528
<b>Short Term Investments 9.3%</b>		
<b>Foreign Government and Agency Securities (Cost \$9,709,516) 1.7%</b>		
<b>Mexico 1.7%</b>		
<sup>m</sup> Mexico Treasury Bill, 3/03/16—12/08/16	16,294,760 <sup>n</sup> MXN	8,905,228
<b>Total Investments before Money Market Funds (Cost \$566,433,092)</b>		467,506,756
	<b>Shares</b>	
<b>Money Market Funds (Cost \$40,997,528) 7.6%</b>		
<b>United States 7.6%</b>		
<sup>a,o</sup> Institutional Fiduciary Trust Money Market Portfolio	40,997,528	40,997,528
<b>Total Investments (Cost \$607,430,620) 94.4%</b>		508,504,284
<b>Other Assets, less Liabilities 5.6%</b>		30,416,119
<b>Net Assets 100.0%</b>		\$ 538,920,403

\*The principal amount is stated in U.S. dollars unless otherwise indicated.

<sup>†</sup>Rounds to less than 0.1% of net assets.

<sup>a</sup>Non-income producing.



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<sup>b</sup>See Note 9 regarding restricted securities.

<sup>c</sup>The coupon rate shown represents the rate at period end.

<sup>d</sup>Principal amount is stated in 1,000 Brazilian Real Units.

<sup>e</sup>Redemption price at maturity is adjusted for inflation. See Note 1(g).

<sup>f</sup>Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers

or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Fund's Board of Trustees. At

February 29, 2016, the aggregate value of these securities was \$228,945,394, representing 42.48% of net assets.

<sup>g</sup>Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States.

Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption

from registration. These securities have been deemed liquid under guidelines approved by the Fund's Board of Trustees. At February 29, 2016, the aggregate value of these

securities was \$45,199,193, representing 8.39% of net assets.

<sup>h</sup>Principal amount is stated in 100 Mexican Peso Units.

<sup>i</sup>The principal represents the notional amount. See Note 1(c) regarding value recovery instruments.

<sup>j</sup>See Note 7 regarding defaulted securities.

<sup>k</sup>Income may be received in additional securities and/or cash.

<sup>l</sup>See Note 1(e) regarding loan participation notes.

<sup>m</sup>The security is traded on a discount basis with no stated coupon rate.

<sup>n</sup>Principal amount is stated in 10 Mexican Peso Units.

<sup>o</sup>See Note 3(c) regarding investments in affiliated management investment companies.

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TEMPLETON STATEMENT

EMERGING MARKETS INCOME FUND OF INVESTMENTS (UNAUDITED)

At February 29, 2016, the Fund had the following forward exchange contracts outstanding. See Note 1(c).

**Forward Exchange Contracts**

Currency	Counterparty <sup>a</sup>		Contract	Settlement	Unrealized	Unrealized
	Type	Quantity	Amount	Date	Appreciation	Depreciation
<b>OTC Forward Exchange Contracts</b>						
Indonesian Rupiah	JPHQ Buy	7,078,000,000	\$ 498,978	3/29/16	\$ 27,672	\$ —
Indonesian Rupiah	JPHQ Sell	7,078,000,000	504,508	3/29/16	—	(22,142)
Euro	DBAB Sell	3,345,000	3,671,472	3/31/16	28,152	—
Ghanaian Cedi	BZWS Buy	2,895,477	613,449	4/08/16	115,619	—
Euro	DBAB Sell	688,000	744,987	4/13/16	—	(4,662)
Euro	SCNY Sell	413,000	443,242	4/13/16	—	(6,765)
Euro	GSCO Sell	910,000	978,660	5/12/16	—	(13,807)
Euro	GSCO Sell	2,753,000	2,978,553	5/16/16	—	(24,351)
Euro	BZWS Sell	1,604,997	1,869,460	5/26/16	118,156	—
Euro	DBAB Sell	1,506,000	1,687,940	6/06/16	43,983	—
South Korean Won	JPHQ Buy	7,297,662,505	6,280,585	6/09/16	—	(407,301)
South Korean Won	JPHQ Sell	7,297,662,505	5,893,577	6/09/16	20,293	—
Ghanaian Cedi	BZWS Buy	1,780,000	341,323	6/10/16	87,651	—
Australian Dollar	CITI Sell	4,919,000	3,520,332	6/14/16	26,660	—
Australian Dollar	JPHQ Sell	7,297,000	5,279,781	6/14/16	97,159	—
Japanese Yen	HSBK Sell	1,620,890,000	13,801,269	7/19/16	—	(642,858)
Japanese Yen	SCNY Sell	1,770,880,000	15,195,078	7/19/16	—	(585,645)
Malaysian Ringgit	DBAB Buy	2,499,000	639,212	7/20/16	—	(47,867)
Malaysian Ringgit	DBAB Buy	3,942,000	891,250	7/22/16	41,480	—
Malaysian Ringgit	DBAB Buy	4,793,000	1,224,985	7/27/16	—	(91,127)
Malaysian Ringgit	JPHQ Buy	5,039,000	1,279,584	7/29/16	—	(87,628)
Euro	CITI Sell	358,630	393,902	8/10/16	1,446	—
Euro	DBAB Sell	2,344,550	2,607,374	8/15/16	41,197	—
Euro	MSCO Sell	907,070	1,024,141	8/15/16	31,327	—
Euro	DBAB Sell	359,450	403,005	8/17/16	9,546	—
Euro	MSCO Sell	907,070	1,016,998	8/17/16	24,108	—
Euro	DBAB Sell	1,347,000	1,502,417	8/22/16	27,692	—
Euro	SCNY Sell	362,390	422,134	8/26/16	25,320	—

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Euro	DBAB	Sell	9,366,031	10,592,982	8/31/16	335,165	—
Australian Dollar	CITI	Sell	4,886,000	3,519,777	9/14/16	62,509	—
Euro	HSBK	Sell	826,000	936,775	10/13/16	30,496	—
Euro	DBAB	Sell	266,000	289,626	11/14/16	—	(2,619 )
Euro	BZWS	Sell	10,415,000	11,293,609	11/16/16	—	(149,949 )
Australian Dollar	JPHQ	Sell	4,946,000	3,519,964	12/12/16	31,877	—
Australian Dollar	JPHQ	Sell	2,458,000	1,759,633	12/14/16	26,285	—
Euro	SCNY	Sell	628,500	691,476	1/13/17	—	(892 )
Japanese Yen	CITI	Sell	624,500,000	5,363,001	1/17/17	—	(249,714 )
Japanese Yen	SCNY	Sell	1,873,240,000	16,038,151	1/17/17	—	(797,656 )
Japanese Yen	DBAB	Sell	626,420,000	5,427,074	1/23/17	—	(204,679 )
Euro	BZWS	Sell	2,547,416	2,792,566	1/27/17	—	(15,501 )
Euro	JPHQ	Sell	2,260,000	2,538,943	2/22/17	44,753	—
Total Forward Exchange Contracts						\$ 1,298,546	\$ (3,355,163 )
Net unrealized appreciation (depreciation)						\$	\$ (2,056,617 )

aMay be comprised of multiple contracts with the same counterparty, currency and settlement date.

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TEMPLETON EMERGING MARKETS INCOME FUND  
STATEMENT OF INVESTMENTS (UNAUDITED)

At February 29, 2016, the Fund had the following interest rate swap contracts outstanding. See Note 1(c).

**Interest Rate Swap Contracts**

Description	Exchange	Notional Amount	Expiration Date	Unrealized Appreciation	Unrealized Depreciation
<b>Centrally Cleared Swap Contracts</b>					
Receive Floating rate 3-month USD BBA LIBOR Pay Fixed rate 0.926%	LCH	\$ 17,160,000	10/17/17	—\$	(80,063 )
Receive Floating rate 3-month USD BBA LIBOR Pay Fixed rate 2.309%	LCH	75,850,000	7/29/25	—	(5,373,817 )
Receive Floating rate 3-month USD BBA LIBOR Pay Fixed rate 2.752%	LCH	39,530,000	7/29/45	—	(6,217,021 )
Total Interest Rate Swap Contracts			\$	—\$	(11,670,901 )
Net unrealized appreciation (depreciation)				\$	(11,670,901 )

See Abbreviations on page 26.

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The accompanying notes are an integral part of these financial statements. | Semiannual Report 13

## TEMPLETON EMERGING MARKETS INCOME FUND

**Financial Statements****Statement of Assets and Liabilities**

February 29, 2016 (unaudited)

## Assets:

## Investments in securities:

Cost - Unaffiliated issuers	\$	566,433,092
Cost - Non-controlled affiliates (Note 3c)		40,997,528
Total cost of investments	\$	607,430,620
Value - Unaffiliated issuers	\$	467,506,756
Value - Non-controlled affiliates (Note 3c)		40,997,528
Total value of investments		508,504,284
Restricted Cash (Note 1d)		52,000
Foreign currency, at value (cost \$4,939,882)		4,951,346
Receivables:		
Investment securities sold		3,745,139
Interest		11,067,003
Due from brokers		14,234,822
Unrealized appreciation on OTC forward exchange contracts		1,298,546
Total assets		543,853,140

## Liabilities:

## Payables:

Investment securities purchased		422,941
Management fees		414,365
Variation margin		264,005
Due to brokers		52,000
Unrealized depreciation on OTC forward exchange contracts		3,355,163
Deferred tax		307,399
Accrued expenses and other liabilities		116,864
Total liabilities		4,932,737

Net assets, at value	\$	538,920,403
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## Net assets consist of:

Paid-in capital	\$	678,754,493
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Distributions in excess of net investment income		(3,729,513 )
Net unrealized appreciation (depreciation)		(112,979,549 )
Accumulated net realized gain (loss)		(23,125,028 )
	Net assets, at value \$	538,920,403
Shares outstanding		47,998,418
Net asset value per share	\$	11.23

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## TEMPLETON EMERGING MARKETS INCOME FUND FINANCIAL STATEMENTS

### Statement of Operations

for the six months ended February 29, 2016 (unaudited)

Investment income:		
Interest (net of foreign taxes of \$166,646)	\$	17,672,869
Inflation principal adjustments		2,909,981
Total investment income		20,582,850
Expenses:		
Management fees (Note 3a)		2,765,215
Transfer agent fees		29,542
Custodian fees (Note 4)		69,203
Reports to shareholders		32,321
Registration and filing fees		23,170
Professional fees		38,695
Trustees' fees and expenses		26,140
Other		20,257
Total expenses		3,004,543
Expenses waived/paid by affiliates (Note 3c)		(50,537 )
Net expenses		2,954,006
Net investment income		17,628,844
Realized and unrealized gains (losses):		
Net realized gain (loss) from:		
Investments		(21,732,566 )
Foreign currency transactions		(99,591 )
Swap contracts		(1,291,130 )
Net realized gain (loss)		(23,123,287 )
Net change in unrealized appreciation (depreciation) on:		
Investments		2,924,967
Translation of other assets and liabilities denominated in foreign currencies		(2,399,593 )
Value recovery instruments		(911,620 )
Swap contracts		(10,957,180 )
Change in deferred taxes on unrealized appreciation		(65,217 )
Net change in unrealized appreciation (depreciation)		(11,408,643 )
Net realized and unrealized gain (loss)		(34,531,930 )
Net increase (decrease) in net assets resulting from operations	\$	(16,903,086 )





TEMPLETON EMERGING MARKETS INCOME FUND  
FINANCIAL STATEMENTS

**Statements of Changes in Net Assets**

	<b>Six Months Ended</b>	
	<b>February 29, 2016</b>	<b>Year Ended</b>
	<b>(unaudited)</b>	<b>August 31, 2015</b>
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 17,628,844	\$ 44,537,687
Net realized gain (loss)	(23,123,287 )	(5,724,465 )
Net change in unrealized appreciation (depreciation)	(11,408,643 )	(98,669,097 )
Net increase (decrease) in net assets resulting from operations	(16,903,086 )	(59,855,875 )
Distributions to shareholders from:		
Net investment income and net foreign currency gains	(19,199,367 )	(38,096,344 )
Net realized gains	(1,046,366 )	(16,828,245 )
Total distributions to shareholders	(20,245,733 )	(54,924,589 )
Net increase (decrease) in net assets	(37,148,819 )	(114,780,464 )
Net assets:		
Beginning of period	576,069,222	690,849,686
End of period	\$ 538,920,403	\$ 576,069,222
Distributions in excess of net investment income included in net assets:		
End of period	\$ (3,729,513 )	\$ (2,158,990 )

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TEMPLETON EMERGING MARKETS INCOME FUND

## Notes to Financial Statements (unaudited)

### 1. Organization and Significant Accounting Policies

Templeton Emerging Markets Income Fund (Fund) is registered under the Investment Company Act of 1940 (1940 Act) as a closed-end management investment company and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP).

The following summarizes the Fund's significant accounting policies.

#### a. Financial Instrument Valuation

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Fund calculates the net asset value (NAV) per share as of 4 p.m. Eastern time each day the New York Stock Exchange (NYSE) is open for trading. Under compliance policies and procedures approved by the Fund's Board of Trustees (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Debt securities generally trade in the over-the-counter (OTC) market rather than on a securities exchange. The Fund's pricing services use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value. Securities denominated in a foreign currency are converted into their U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the date that the values of the foreign debt securities are determined.

Investments in open-end mutual funds are valued at the closing NAV.

Derivative financial instruments (derivatives) listed on an exchange are valued at the official closing price of the day. Certain derivatives trade in the OTC market. The Fund's pricing services use various techniques including industry standard option pricing models and proprietary discounted cash flow models to determine the fair value of those instruments. The Fund's net benefit or obligation under the derivative contract, as measured by the fair value of the contract, is included in net assets.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

#### b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in

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foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an

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event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments in the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

**c. Derivative Financial Instruments**

The Fund invested in derivatives in order to manage risk or gain exposure to various other investments or markets. Derivatives are financial contracts based on an underlying or notional amount, require no initial investment or an initial net investment that is smaller than would normally be required to have a similar response to changes in market factors, and require or permit net settlement. Derivatives contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract, the potential for an illiquid secondary market, and/or the potential for market movements which expose the Fund to gains or losses in excess of the amounts shown in the Statement of Assets and Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Statement of Operations.

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counter-parties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In

the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities. Early termination by the counterparty may result in an immediate payment by the Fund of any net liability owed to that counterparty under the ISDA agreement.

Collateral requirements differ by type of derivative. Collateral or initial margin requirements are set by the broker or exchange clearing house for exchange traded and centrally cleared derivatives. Initial margin deposited is held at the exchange and can be in the form of cash and/or securities. For OTC derivatives traded under an ISDA master agreement, posting of collateral is required by either the Fund or the applicable counterparty if the total net exposure of all OTC derivatives with the applicable counterparty exceeds the minimum transfer amount, which typically ranges from \$100,000 to \$250,000, and can vary depending on the counterparty and the type of the agreement. Generally, collateral is determined at the close of Fund business each day and any additional collateral required due to changes in derivative values may be delivered by the Fund or the counterparty within a few business days. Collateral pledged and/or received by the Fund for OTC derivatives, if any, is held in segregated accounts with the Fund's custodian/counterparty broker and can be in the form of cash and/or securities. Unrestricted cash may be invested according to the Fund's investment objectives. To the extent that the amounts due to the Fund from its counterparties are not subject to collateralization or are not fully collateralized, the Fund bears the risk of loss from counterparty non-performance.

The Fund entered into OTC forward exchange contracts primarily to manage and/or gain exposure to certain foreign currencies. A forward exchange contract is an agreement between the Fund and a counterparty to buy or sell a foreign currency at a specific exchange rate on a future date.

The Fund entered into interest rate swap contracts primarily to manage interest rate risk. An interest rate swap is an agreement between the Fund and a counterparty to exchange cash flows based on the difference between two interest rates, applied to a notional amount. These agreements may be privately negotiated in the over-the-counter market (OTC interest rate swaps) or may be executed on a registered exchange (centrally

cleared interest rate swaps). For centrally cleared interest rate swaps,

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**1. Organization and Significant Accounting**

**Policies** (continued)

**c. Derivative Financial Instruments** (continued)

required initial margins are pledged by the Fund, and the daily change in fair value is accounted for as a variation margin payable or receivable in the Statement of Assets and Liabilities. Over the term of the contract, contractually required payments to be paid and to be received are accrued daily and recorded as unrealized depreciation and appreciation until the payments are made, at which time they are realized.

The Fund invests in value recovery instruments, for which payments may be made based on established benchmarks for an underlying variable. The security has a notional amount, which is used to calculate amounts of payments allocated to holders. Payments are recorded upon receipt as realized gains in the Statement of Operations.

See Note 10 regarding other derivative information.

**d. Restricted Cash**

At February 29, 2016, the Fund held restricted cash in connection with investments in certain derivative securities. Restricted cash is held in a segregated account with the Fund's custodian and is reflected in the Statement of Assets and Liabilities.

**e. Loan Participation Notes**

The Fund invests in loan participation notes (Participations). Participations are loans originally issued to a borrower by one or more financial institutions (the Lender) and subsequently sold to other investors, such as the Funds. Participations typically result in the Fund having a contractual relationship only with the Lender and not with the borrower. The Fund has the right to receive from the Lender any payments of principal, interest and fees which the Lender received from the borrower. The Fund generally has no rights to either enforce compliance by the borrower with the terms of the loan agreement or to any collateral relating to the original loan. As a result, the Fund assumes the credit risk of both the borrower and the Lender that is selling the Participation. The Participations may also involve interest rate risk and liquidity risk, including the potential default or insolvency of the borrower and/or the Lender.

**f. Income and Deferred Taxes**

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized

gains to relieve it from federal income and excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of February 29, 2016, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction's statute of limitation.

**g. Security Transactions, Investment Income, Expenses and Distributions**

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Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with U.S. GAAP. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Inflation-indexed bonds are adjusted for inflation through periodic increases or decreases in the security's interest accruals, face amount, or principal redemption value, by amounts corresponding to the rate of inflation as measured by an index. Any increase or decrease in the face amount or principal redemption value will be included as inflation principal adjustments in the Statement of Operations.

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**h. Accounting Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**i. Guarantees and Indemnifications**

Under the Fund's organizational documents, its officers and trustees are indemnified by the Fund against certain liabilities arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may

be made against the Fund that have not yet occurred. Currently, the Fund expects the risk of loss to be remote.

**2. Shares of Beneficial Interest**

At February 29, 2016, there were an unlimited number of shares authorized (without par value). During the periods ended February 29, 2016, and August 31, 2015 there were no shares issued; all reinvested distributions were satisfied with previously issued shares purchased in the open market.

Under the Board approved open-market share repurchase program, the Fund may purchase, from time to time, Fund shares in open-market transactions, at the discretion of management. Since the inception of the program, the Fund has repurchased a total of 610,500 shares. During the periods ended February 29, 2016 and August 31, 2015, there were no shares repurchased.

**3. Transactions with Affiliates**

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Fund are also officers and/or directors of the following subsidiaries:

<b>Subsidiary</b>	<b>Affiliation</b>
Franklin Advisers, Inc. (Advisers)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager

**a. Management Fees**

The Fund pays an investment management fee to Advisers based on the average daily net assets of the Fund as follows:

<b>Annualized Fee Rate</b>	<b>Net Assets</b>
1.000 %	Up to and including \$1 billion
0.980 %	Over \$1 billion, up to and including \$5 billion
0.960 %	Over \$5 billion, up to and including \$10 billion
0.940 %	Over \$10 billion, up to and including \$15 billion
0.920 %	Over \$15 billion, up to and including \$20 billion
0.900 %	In excess of \$20 billion



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For the period ended February 29, 2016, the annualized effective investment management fee rate was 1.000% of the Fund's average daily net assets.

### **b. Administrative Fees**

Under an agreement with Advisers, FT Services provides administrative services to the Fund. The fee is paid by Advisers based on the Fund's average daily net assets, and is not an additional expense of the Fund.

### **c. Investments in Affiliated Management Investment Companies**

The Fund invests in an affiliated management investment company for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management

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**3. Transactions with Affiliates** (continued)

investment company, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. Prior to September 1, 2013, the waiver was accounted for as a reduction to management fees.

	Number of Shares Held at Beginning of Period		Gross Additions Gross Reductions		Number of Shares Held at End of Period		Value at End of Period	Realized Investment Income Gain (Loss)	% of Affiliated Fund Shares Outstanding Held at End of Period
<b>Non-Controlled Affiliates</b>									
Institutional Fiduciary Trust									
Money Market Portfolio	100,493,707	63,937,302	(123,433,481)	40,997,528	\$40,997,528	\$ —	\$ —	0.21%	

**4. Expense Offset Arrangement**

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the period ended February 29, 2016, there were no credits earned.

**5. Income Taxes**

For tax purposes, the Fund may elect to defer any portion of a late-year ordinary loss to the first day of the following fiscal year. At August 31, 2015, the Fund deferred late-year ordinary losses of \$1,167,779.

At February 29, 2016, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	\$	619,583,621
Unrealized appreciation	\$	9,443,616
Unrealized depreciation		(120,522,953)
Net unrealized appreciation (depreciation)	\$	(111,079,337)

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of foreign currency transactions, bond discounts and premiums and inflation related adjustments on foreign securities.

**6. Investment Transactions**

Purchases and sales of investments (excluding short term securities) for the period ended February 29, 2016, aggregated \$88,129,548 and \$46,850,710, respectively.

**7. Credit Risk and Defaulted Securities**

At February 29, 2016, the Fund had 74.51% of its portfolio invested in high yield or other securities rated below investment grade. These securities may be more sensitive to economic conditions causing greater price volatility and are potentially subject to a greater risk of loss due to

default than higher rated securities.

The Fund held a defaulted security and/or other securities for which the income has been deemed uncollectible. At February 29, 2016, the value of this security represents less than 0.05% of the Fund's net assets. The Fund discontinues accruing income on securities for which income has been deemed uncollectible and provides an estimate for losses on interest receivable. The security has been identified in the accompanying Statement of Investments.

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**8. Concentration of Risk**

Investing in foreign securities may include certain risks and considerations not typically associated with investing in U.S. securities, such as fluctuating currency values and changing local and regional economic, political and social conditions, which may result in greater market volatility. In addition, certain foreign securities may not be as liquid as U.S. securities.

**9. Restricted Securities**

The Fund invests in securities that are restricted under the Securities Act of 1933 (1933 Act) or which are subject to legal, contractual, or other agreed upon restrictions on resale. Restricted securities are often purchased in private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price may be difficult. The Fund may have registration rights for restricted securities. The issuer generally incurs all registration costs.

At February 29, 2016, the Fund held investments in restricted securities, excluding certain securities exempt from registration under the 1933 Act deemed to be liquid, as follows:

Principal Amount/		Warrants	Issuer	Acquisition Dates	Cost	Value
14,400,000			Reventazon Finance Trust, secured bond, first lien, 144A, 8.00%, 11/15/33	12/18/2013	\$ 14,400,000	\$ 13,707,561
78,291,411			<sup>a</sup> Edcon Holdings Ltd., F1 wts., 2/20/49	11/27/2015	829,537	851,889
6,340,039			<sup>a</sup> Edcon Holdings Ltd., F2 wts., 2/20/49	11/27/2015	67,176	68,986
4,375			<sup>a</sup> Edcon Holdings Ltd., F wts., 2/20/49	11/27/2015	46	47
<b>Total Restricted Securities</b> (Value is 2.71% of Net Assets)					\$ 15,296,759	\$ 14,628,483

<sup>a</sup>The Fund also invests in unrestricted securities of the issuer, valued at \$7,389,158 as of February 29, 2016.

**10. Other Derivative Information**

At February 29, 2016, the Fund's investments in derivative contracts are reflected in the Statement of Assets and Liabilities as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Statement of Assets and Liabilities Location	Fair Value	Statement of Assets and Liabilities Location	Fair Value
Interest rate contracts	Variation margin	\$	–Variation margin	\$ 11,670,901 <sup>a</sup>
Foreign exchange contracts	Unrealized appreciation on OTC forward exchange contracts	1,298,546	Unrealized depreciation on OTC forward exchange contracts	3,355,163

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Value recovery instruments	Investments in securities, at value	3,190,014 value	Investments in securities, at value	—
Totals		\$ 4,488,560	\$ 15,026,064	

aThis amount reflects the cumulative appreciation (depreciation) of centrally cleared swaps contracts as reported in the Statement of Investments. Only the variation margin receivable/payable at period end is separately reported within the Statement of Assets and Liabilities. Prior variation margin movements were recorded to cash upon receipt or payment.

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**10. Other Derivative Information** (continued)

For the period ended February 29, 2016, the effect of derivative contracts in the Fund's Statement of Operations was as follows:

<b>Derivative Contracts</b>		<b>Net Realized</b>		<b>Net Change</b>
<b>Not Accounted for as</b>	<b>Statement of Operations</b>	<b>Gain (Loss)</b>	<b>Statement of Operations</b>	<b>in Unrealized</b>
<b>Hedging Instruments</b>	<b>Locations</b>	<b>for the Period</b>	<b>Locations</b>	<b>Appreciation</b>
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	<b>(Depreciation)</b>
				<b>for the Period</b>
Interest rate contracts	Swap contracts	\$ (1,291,130 )	Swap contracts	\$ (10,957,180 )
Foreign exchange contracts	Foreign currency transactions	327,677 a	Translation of other assets and liabilities denominated in foreign currencies	(2,461,859 ) a
Value recovery instruments	Value recovery instruments	—	Value recovery instruments	(911,620 )
Totals		\$ (963,453 )		\$ (14,330,659 )

aForward exchange contracts are included in net realized gain (loss) from foreign currency transactions and net change in unrealized appreciation (depreciation) on translation of other assets and liabilities denominated in foreign currencies in the Statement of Operations.

At February 29, 2016, the Fund's OTC derivative assets and liabilities are as follows:

	<b>Gross and Net Amounts</b>	
	<b>of Assets and Liabilities</b>	
	<b>Presented in the</b>	
	<b>Statement of</b>	
	<b>Assets and Liabilities</b>	
	<b>Assets<sup>a</sup></b>	<b>Liabilities<sup>a</sup></b>
<b>Derivatives</b>		
Forward exchange contracts	\$ 1,298,546	\$ 3,355,163

aAbsent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

At February 29, 2016, the Fund's OTC derivative assets, which may be offset against the Fund's OTC derivative liabilities and collateral received from the counterparty, are as follows:

**Amounts Not Offset in the  
Statement of Assets and Liabilities**

Counterparty	Gross and Net Amounts of Assets Presented in the Statement of Assets and Liabilities		Financial Instruments Available for Offset	Financial Instruments Collateral Received	Cash Collateral Received	Net Amount (Not less than zero)
BZWS	\$	321,426	\$ (165,450)	\$ —	\$ —	\$ 155,976
CITI		90,615	(90,615)	—	—	—
DBAB		527,215	(350,954)	—	—	176,261
GSCO		—	—	—	—	—
HSBK		30,496	(30,496)	—	—	—
JPHQ		248,039	(248,039)	—	—	—
MSCO		55,435	—	—	(52,000)	3,435
SCNY		25,320	(25,320)	—	—	—
Total	\$	1,298,546	\$ (910,874)	\$ —	(52,000)	\$ 335,672

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At February 29, 2016, the Fund's OTC derivative liabilities, which may be offset against the Fund's OTC derivative assets and collateral pledged to the counterparty, are as follows:

<b>Amounts Not Offset in the Statement of Assets and Liabilities</b>						
<b>Counterparty</b>	<b>Gross and Net Amounts of Liabilities Presented in the Statement of Assets and Liabilities</b>		<b>Financial Instruments Collateral Pledged</b>	<b>Financial Instruments Collateral Pledged</b>	<b>Cash Collateral Pledged</b>	<b>Net Amount (Not less than zero)</b>
	\$	\$	\$	\$	\$	\$
BZWS	165,450	(165,450)	—	—	—	—
CITI	249,714	(90,615)	—	(159,099)	—	—
DBAB	350,954	(350,954)	—	—	—	—
GSCO	38,158	—	—	(38,158)	—	—
HSBK	642,858	(30,496)	—	(612,362)	—	—
JPHQ	517,071	(248,039)	—	(269,032)	—	—
MSCO	—	—	—	—	—	—
SCNY	1,390,958	(25,320)	—	(1,365,638)	—	—
<b>Total</b>	<b>\$ 3,355,163</b>	<b>\$ (910,874)</b>	<b>\$ —</b>	<b>\$ (2,444,289)</b>	<b>\$ —</b>	<b>\$ —</b>

In some instances, the collateral amounts disclosed in the table above were adjusted due to the requirement to limit collateral amounts to avoid the effect of over-collateralization. Actual collateral received and/or pledged may be more than the amounts disclosed herein.

For the period ended February 29, 2016, the average month end fair value of derivatives represented 2.79% of average month end net assets. The average month end number of open derivative contracts for the period was 48.

See Note 1(c) regarding derivative financial instruments.

## 11. Fair Value Measurements

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

- Level 1 – quoted prices in active markets for identical financial instruments
- Level 2 – other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of financial instruments)



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The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

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**11. Fair Value Measurement** (continued)

A summary of inputs used as of February 29, 2016, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

		Level 1	Level 2	Level 3	Total
<b>Assets:</b>					
Investments in Securities					
Warrants	\$	—\$	—\$	920,922	\$ 920,922
Foreign Government and Agency Securities <sup>a</sup>		—	360,688,507	—	360,688,507
Quasi-Sovereign and Corporate Bonds <sup>a</sup>		—	83,284,538	13,707,561	96,992,099
Short Term Investments		40,997,528	8,905,228	—	49,902,756
Total Investments in Securities	\$	40,997,528	\$ 452,878,273	\$ 14,628,483	\$ 508,504,284
Other Financial Instruments					
Forward Exchange Contracts	\$	—\$	1,298,546	\$ —	1,298,546
<b>Liabilities:</b>					
Other Financial Instruments					
Forward Exchange Contracts	\$	—\$	3,355,163	\$ —	3,355,163
Swap Contracts		—	11,670,901	—	11,670,901
Total Other Financial Instruments	\$	—\$	15,026,064	\$ —	15,026,064

<sup>a</sup>For detailed categories, see the accompanying Statement of Investments.

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 financial instruments at the end of the period. At February 29, 2016, the reconciliation of assets is as follows:

										Net Change in Unrealized Appreciation (Depreciation)
	Balance at Beginning of Period	Purchases	Sales	Transfers Into/Out of Level 3	Cost Basis Adjustments	Net Realized Gain (Loss)	Net Unrealized Appreciation (Depreciation)	Balance at End of Period	on Assets Held at Period End	
<b>Assets</b>										
Investments in Securities:										
Warrants	\$	—\$	896,759	\$	—\$	—\$	—\$	24,163	\$ 920,922	\$ 24,163
Quasi-Sovereign and Corporate	14,278,866	—	—	—	—	—	(571,305)	13,707,561	(571,305)	(571,305)

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Bonds

Total									
Investments in									
Securities	\$ 14,278,866	\$ 896,759	-\$	-\$	-\$	-\$	(547,142)	\$14,628,483	(\$547,142)

Significant unobservable valuation inputs developed by the VLOC for material Level 3 financial instruments and impact to fair value as a result of changes in unobservable valuation inputs as of February 29, 2016, are as follows:

Description	Fair Value at		Unobservable Input	Amount	Impact to Fair Value if Input Increases <sup>a</sup>
	End of Period	Valuation Technique			
<b>Assets:</b>					
Investments in Securities:					
Quasi-Sovereign and Corporate Bonds	\$	13,707,561	Discounted cash flow model Discount rate <sup>b</sup>	8.8 %	Decrease
<b>All Other Investments<sup>c</sup></b>		920,922			
<b>Total</b>	\$	14,628,483			

<sup>a</sup>Represents the expected directional change in the fair value of the Level 3 investments that would result from an increase in the corresponding input. A decrease to the unobservable input would have the opposite effect. Significant changes in these inputs could result in significantly higher or lower fair value measurement.

<sup>b</sup>The discount rate is comprised of the risk-free rate, the 10-year Costa Rican CDS curve, and an incremental credit spread that combines with the first two components to

arrive at an 8% yield on issue date for an 8% coupon bond issued at par.

<sup>c</sup>Includes fair value of immaterial financial instruments developed using various valuation techniques and unobservable inputs. May also include financial instruments with values derived using prior transaction prices or third party pricing information without adjustment for which such inputs are also unobservable.

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TEMPLETON EMERGING MARKETS INCOME FUND  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

**12. Subsequent Events**

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

**Abbreviations**

**Counterparty/Exchange**

**BZWS** Barclays Bank PLC  
**CITI** Citibank N.A.  
**DBAB** Deutsche Bank AG  
**GSCO** The Goldman Sachs Group, Inc.  
**HSBK** HSBC Bank PLC  
**JPHQ** JPMorgan Chase Bank N.A.  
**LCH** LCH Clearent LLC  
**MSCO** Morgan Stanley and Co. Inc.  
**SCNY** Standard Chartered Bank

**Currency**

**BRL** Brazilian Real  
**COP** Colombian Peso  
**DEM** Deutsche Mark  
**EUR** Euro  
**GHS** Ghanaian Cedi  
**IDR** Indonesian Rupiah  
**INR** Indian Rupee  
**LKR** Sri Lankan Rupee  
**MXN** Mexican Peso  
**RSD** Serbian Dinar

**Selected Portfolio**

**FRN** Floating Rate Note  
**GDP** Gross Domestic Product  
**PIK** Payment-In-Kind  
**VRI** Value Recovery Instruments

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TEMPLETON EMERGING MARKETS INCOME FUND

## Annual Meeting of Shareholders, March 1, 2016 (unaudited)

The Annual Meeting of Shareholders of Templeton Emerging Markets Income Fund (the "Fund") was held at the Fund's offices, 300 S.E. 2nd Street, Fort Lauderdale, Florida, on March 1, 2016. The purpose of the meeting was to elect four Trustees of the Fund and to ratify the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Fund for the fiscal year ending August 31, 2016. At the meeting, the following persons were elected by the shareholders to serve as Trustees of the Fund: Frank J. Crothers, Frank A. Olson, Rupert H. Johnson, Jr. and Gregory E. Johnson.\* Shareholders also ratified the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Fund for the fiscal year ending August 31, 2016. No other business was transacted at the meeting with respect to the Fund.

The results of the voting at the Annual Meeting are as follows:

### 1. Election of four Trustees:

Term Expiring 2019	For	% of		% of	
		Outstanding Shares	% of Shares Present	Outstanding Shares	% of Shares Present
Frank J. Crothers	40,672,257	84.74 %	95.79 %	1,786,263	3.72 %
Frank A. Olson	40,629,466	84.65 %	95.69 %	1,829,054	3.81 %
Rupert H. Johnson, Jr	40,560,808	84.50 %	95.53 %	1,897,712	3.95 %
Gregory E. Johnson	40,727,080	84.85 %	95.92 %	1,731,440	3.61 %

There were no broker non-votes received with respect to this item.

### 2. Ratification of the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Fund for the fiscal year ending August 31, 2016:

	Shares Voted	% of Outstanding Shares	% of Total Votes (For and Against)
For	41,580,630	86.63 %	99.21 %
Against	331,091	0.69 %	0.79 %
Abstain	546,799	1.14 %	N/A

\* Harris J. Ashton, Ann Torre Bates, Edith E. Holiday, J. Michael Luttig, David W. Niemiec, Larry D. Thompson, Constantine D. Tseretopoulos and Robert E. Wade are Trustees of the Fund who are currently serving and whose terms of office continued after the Annual Meeting of Shareholders.

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TEMPLETON EMERGING MARKETS INCOME FUND

## Dividend Reinvestment and Cash Purchase Plan

The Fund offers a Dividend Reinvestment and Cash Purchase Plan (the “Plan”) with the following features:

If shares of the Fund are held in the shareholder’s name, the shareholder will automatically be a participant in the Plan unless elects to withdraw. If the shares are registered in the name of a broker-dealer or other nominee (i.e. in “street name”), the brokerdealer or nominee will elect to participate in the Plan on the shareholder’s behalf unless the shareholder instructs them otherwise, or unless the reinvestment service is not provided by the broker-dealer or nominee.

To receive dividends or distributions in cash, the shareholder must notify American Stock Transfer and Trust Company LLC (the “Plan Administrator”) at P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or the institution in whose name the shares are held. The Plan Administrator must receive written notice ten business days before the record date for the distribution.

Whenever the Fund declares dividends in either cash or shares of the Fund, if the market price is equal to or exceeds net asset value at the valuation date, the participant will receive the dividends entirely in new shares at a price equal to the net asset value, but not less than 95% of the then current market price of the Fund’s shares. If the market price is lower than net asset value or if dividends and/or capital gains distributions are payable only in cash, the participant will receive shares purchased on the New York Stock Exchange or otherwise on the open market.

A participant has the option of submitting additional cash payments to the Plan Administrator, in any amounts of at least \$100, up to a maximum of \$5,000 per month, for the purchase of Fund shares for his or her account. These payments can be made by check payable to American Stock Transfer and Trust Company LLC and sent to American Stock Transfer and Trust Company LLC, P.O. Box 922, Wall Street Station, New York, NY 10269-0560, Attention: Templeton Emerging Markets Income Fund. The Plan Administrator will apply such payments (less a \$5.00 service charge and less a pro rata share of trading fees) to purchases of the Fund’s shares on the open market.

The automatic reinvestment of dividends and/or capital gains does not relieve the participant of any income tax that may be payable on dividends or distributions.

Whenever shares are purchased on the New York Stock Exchange or otherwise on the open market, each participant will pay a pro rata portion of trading fees. Trading fees will be deducted from amounts to be invested. The Plan Administrator’s fee for a sale of shares through the Plan is \$15.00 per transaction plus a \$0.12 per share trading fee.

A participant may withdraw from the Plan without penalty at any time by written notice to the Plan Administrator sent to American Stock Transfer and Trust Company LLC, P.O. Box 922, Wall Street Station, New York, NY 10269-0560. Upon withdrawal, the participant will receive, without charge, share certificates issued in the participant’s name for all full shares held by the Plan Administrator; or, if the participant wishes, the Plan Administrator will sell the participant’s shares and send the proceeds to the participant, less a service charge of \$15.00 and less trading fees of \$0.12 per share. The Plan Administrator will convert any fractional shares held at the time of withdrawal to cash at current market price and send a check to the participant for the net proceeds.

For more information, please see the Plan’s Terms and Conditions located at the back of this report.

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TEMPLETON EMERGING MARKETS INCOME FUND

### **Transfer Agent**

American Stock Transfer and Trust Company LLC  
P.O. Box 922, Wall Street Station  
New York, NY 10269-0560

(800) 416-5585

www.amstock.com

### **Direct Deposit Service for Registered Shareholders**

Cash distributions can now be electronically credited to a checking or savings account at any financial institution that participates in the Automated Clearing House (“ACH”) system. The Direct Deposit service is provided for registered shareholders at no charge. To enroll in the service, access your account online by going to [www.amstock.com](http://www.amstock.com) or dial (800) 416-5585 (toll free) and follow the instructions. Direct Deposit will begin with the next scheduled distribution payment date following enrollment in the service.

### **Direct Registration**

If you are a registered shareholder of the Fund, purchases of shares of the Fund can be electronically credited to your Fund account at American Stock Transfer and Trust Company LLC through Direct Registration. This service provides shareholders with a convenient way to keep track of shares through book entry transactions, electronically move book-entry shares between broker-dealers, transfer agents and DRS eligible issuers, and eliminate the possibility of lost certificates. For additional information, please contact American Stock Transfer and Trust Company LLC at (800) 416-5585.

### **Shareholder Information**

Shares of Templeton Emerging Markets Income Fund are traded on the New York Stock Exchange under the symbol “TEI.” Information about the net asset value and the market price is published each Monday in the *Wall Street Journal*, weekly in *Barron’s* and each Saturday in *The New York Times* and other newspapers. Daily market prices for the Fund’s shares are published in the “New York Stock Exchange Composite Transactions” section of newspapers.

For current information about dividends and shareholder accounts, call (800) 416-5585. Registered shareholders can access their Fund account on-line. For information go to American Stock Transfer and Trust Company LLC’s web site at [www.amstock.com](http://www.amstock.com) and follow the instructions.

The daily closing net asset value as of the previous business day may be obtained when available by calling Franklin Templeton Fund Information after 7 a.m. Pacific time any business day at (800) DIAL BEN/342-5236. The Fund’s net asset value and dividends are also listed on the NASDAQ Stock Market, Inc.’s Mutual Fund Quotation Service (“NASDAQ MFQS”).

Shareholders not receiving copies of reports to shareholders because their shares are registered in the name of a broker or a custodian can request that they be added to the Fund’s mailing list, by writing Templeton Emerging Markets Income Fund, 100 Fountain Parkway, P.O. Box 33030, St. Petersburg, FL, 33733-8030.

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TEMPLETON EMERGING MARKETS INCOME FUND

## Important Notice to Shareholders

### Share Repurchase Program

The Fund's Board previously authorized the Fund to repurchase up to 10% of the Fund's outstanding shares in open-market transactions, at the discretion of management. This authorization remains in effect.

In exercising its discretion consistent with its portfolio management responsibilities, the investment manager will take into account various other factors, including, but not limited to, the level of the discount, the Fund's performance, portfolio holdings, dividend history, market conditions, cash on hand, the availability of other attractive investments and whether the sale of certain portfolio securities would be undesirable because of liquidity concerns or because the sale might subject the Fund to

adverse tax consequences. Any repurchases would be made on a national securities exchange at the prevailing market price, subject to exchange requirements, Federal securities laws and rules that restrict repurchases, and the terms of any outstanding leverage or borrowing of the Fund. If and when the Fund's 10% threshold is reached, no further repurchases could be completed until authorized by the Board. Until the 10% threshold is reached, Fund management will have the flexibility to commence share repurchases if and when it is determined to be appropriate in light of prevailing circumstances.

In the Notes to Financial Statements section, please see note 2 (Shares of Beneficial Interest) for additional information regarding shares repurchased.

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EMERGING MARKETS INCOME FUND

## Shareholder Information

### Proxy Voting Policies and Procedures

The Fund's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at [franklintempleton.com](http://franklintempleton.com). Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at [franklintempleton.com](http://franklintempleton.com) and posted on the U.S. Securities and Exchange Commission's website at [sec.gov](http://sec.gov) and reflect the most recent 12-month period ended June 30.

### Quarterly Statement of Investments

The Fund files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at [sec.gov](http://sec.gov). The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

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TEMPLETON EMERGING MARKETS INCOME FUND

## TERMS AND CONDITIONS OF DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

1. Each holder of shares (a "Shareholder") in Templeton Emerging Markets Income Fund (the "Fund") whose Fund shares are registered in his or her own name will automatically be a participant in the Dividend Reinvestment and Cash Purchase Plan (the "Plan"), unless any such Shareholder specifically elects in writing to receive all dividends and capital gains in cash, paid by check, mailed directly to the Shareholder. A Shareholder whose shares are registered in the name of a broker-dealer or other nominee (the "Nominee") will be a participant if (a) such a service is provided by the Nominee and (b) the Nominee makes an election on behalf of the Shareholder to participate in the Plan. Nominees intend to make such an election on behalf of Shareholders whose shares are registered in their names, as Nominee, unless a Shareholder specifically instructs his or her Nominee to pay dividends and capital gains in cash. American Stock Transfer and Trust Company LLC ("AST") will act as Plan Administrator and will open an account for each participating shareholder ("participant") under the Plan in the same name as that in which the participant's present shares are registered.

2. Whenever the Fund declares a distribution from capital gains or an income dividend payable in either cash or shares of the Fund ("Fund shares"), if the market price per share on the valuation date equals or exceeds the net asset value per share, participants will receive such dividend or distribution entirely in Fund shares, and AST shall automatically receive such Fund shares for participant accounts including aggregate fractions. The number of additional Fund shares to be credited to participant accounts shall be determined by dividing the equivalent dollar amount of the capital gains distribution or dividend payable to participants by the Fund's net asset value per share of the Fund shares on the valuation date, provided that the Fund shall not issue such shares at a price lower than 95% of the current market price per share. The valuation date will be the payable date for such distribution or dividend.

3. Whenever the Fund declares a distribution from capital gains or an income dividend payable only in cash, or if the Fund's net asset value per share exceeds the market price per share on the valuation date, AST shall apply the amount of such dividend or distribution payable to participants to the purchase of Fund shares on the open market (less their pro rata share of trading fees incurred with respect to open market purchases in connection with the reinvestment of such dividend or distribution). If, before AST has completed its purchases, the market price exceeds the net asset value per share, the average per share purchase price paid by AST may exceed the net asset value of the Fund's shares, resulting in the acquisition of fewer shares than if the dividend or capital gains distribution had been paid

in shares issued by the Fund at net asset value per share. Such purchases will be made promptly after the payable date for such dividend or distribution, and in no event more than 30 days after such date except where temporary curtailment or suspension of purchase is necessary to comply with applicable provisions of the Federal securities laws.

4. A participant has the option of submitting additional payments to AST, in any amounts of at least \$100, up to a maximum of \$5,000 per month, for the purchase of Fund shares for his or her account. These payments may be made electronically through [www.amstock.com](http://www.amstock.com) or by check payable to "American Stock Transfer and Trust Company LLC" and sent to American Stock Transfer and Trust Company LLC, P.O. Box 922, Wall Street Station, New York, NY 10269-0560, Attention: Templeton Emerging Markets Income Fund. AST shall apply such payments (less a \$5.00 service charge and less a pro rata share of trading fees) to purchases of Fund shares on the open market, as discussed below in paragraph 6. AST shall make such purchases promptly on approximately the 15th of each month or, during a month in which a dividend or distribution is paid, beginning on the dividend payment date, and in no event more than 30 days after receipt, except where necessary to comply with provisions of Federal securities law. Any voluntary payment received less than two business days before an investment date shall be invested during the following month unless there are more than 30 days until the next investment date, in which case such payment will be returned to the participant. AST shall return to the participant his or her entire voluntary cash payment upon written notice of withdrawal received by AST not less than 48 hours before such payment is to be invested. Such written notice shall be sent to AST by the participant, as discussed below in paragraph 14.

5. For all purposes of the Plan: (a) the market price of the Fund's shares on a particular date shall be the last sale price on the New York Stock Exchange on that date if a business day and if not, on the preceding business day, or if there is no sale on such Exchange on such date, then the mean between the closing bid and asked quotations for such shares on such Exchange on such date, and (b) net asset value per share of the Fund's shares on a particular date shall be as determined by or on behalf of the Fund.

6. Open market purchases provided for above may be made on any securities exchange where Fund shares are traded, in the over-the-counter market or in negotiated transactions and may be on such terms as to price, delivery and otherwise as AST shall determine. Participant funds held by AST uninvested will

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TEMPLETON EMERGING MARKETS INCOME FUND

**TERMS AND CONDITIONS OF DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN** (continued)

not bear interest, and it is understood that, in any event, AST shall have no liability in connection with any inability to purchase Fund shares within 30 business days after the payable date for any dividend or distribution as herein provided, or with the timing of any purchases effected. AST shall have no responsibility as to the value of the Fund shares acquired for participant accounts. For the purposes of purchases in the open market, AST may aggregate purchases with those of other participants, and the average price (including trading fees) of all shares purchased by AST shall be the price per share allocable to all participants.

7. AST will hold shares acquired pursuant to this Plan, together with the shares of other participants acquired pursuant to this Plan, in its name or that of its nominee. AST will forward to participants any proxy solicitation material and will vote any shares so held for participants only in accordance with the proxies returned by participants to the Fund. Upon written request, AST will deliver to participants, without charge, a certificate or certificates for all or a portion of the full shares held by AST.

8. AST will confirm to participants each acquisition made for an account as soon as practicable but not later than 60 business days after the date thereof. AST will send to participants a detailed account statement showing total dividends and distributions, date of investment, shares acquired and price per share, and total shares of record for the account. Although participants may from time to time have an undivided fractional interest (computed to three decimal places) in a share of the Fund, no certificates for a fractional share will be issued. However, dividends and distributions on fractional shares will be credited to participant accounts. In the event of termination of an account under the Plan, AST will adjust for any such undivided fractional interest in cash at the market price of the Fund's shares on the date of termination.

9. Any share dividends or split shares distributed by the Fund on shares held by AST for participants will be credited to participant accounts. In the event that the Fund makes available to its shareholders transferable rights to purchase additional Fund shares or other securities, AST will sell such rights and apply the proceeds of the sale to the purchase of additional Fund shares for the participant accounts. The shares held for participants under the Plan will be added to underlying shares held by participants in calculating the number of rights to be issued.

10. AST's service charge for capital gains or income dividend purchases will be paid by the Fund when shares are issued by the Fund or purchased on the open market. AST will deduct a

\$5.00 service charge from each voluntary cash payment. Participants will be charged a pro rata share of trading fees on all open market purchases.

11. Participants may withdraw shares from such participant's account or terminate their participation under the Plan by notifying AST in writing. Such withdrawal or termination will be effective immediately if notice is received by AST not less than ten days prior to any dividend or distribution record date; otherwise such withdrawal or termination will be effective after the investment of any current dividend or distribution or voluntary cash payment. The Plan may be terminated by AST or the Fund upon 90 days' notice in writing mailed to participants. Upon any withdrawal or termination, AST will cause a certificate or certificates for the full shares held by AST for participants and cash adjustment for any fractional shares (valued at the market value of the shares at the time of withdrawal or termination) to be delivered to participants, less any trading fees. Alternatively, a participant may elect by written notice to AST to have AST sell part or all of the shares held for him and to remit the proceeds to him. AST is authorized to deduct a \$15.00 service charge and a trading fee of \$0.12 per share for this transaction from the proceeds. If a participant disposes of all shares registered in his name on the books of the Fund, AST may, at its option, terminate the participant's account or determine from the participant whether he wishes to continue his participation in the Plan.

12. These terms and conditions may be amended or supplemented by AST or the Fund at any time or times, except when necessary or appropriate to comply with applicable law or the rules or policies of the U.S. Securities and Exchange Commission or any other regulatory authority, only by mailing to participants appropriate written notice at least 90 days prior to the effective date thereof. The amendment or supplement shall be deemed to be accepted by participants unless, prior to the effective date thereof, AST receives written notice of the termination of a participant account under the Plan. Any such amendment may include an appointment by AST in its place and stead of a successor Plan Administrator under these terms and conditions, with full power and authority to perform all or any of the acts to be performed by AST under these terms and conditions. Upon any such appointment of a Plan Administrator for the purpose of receiving dividends and distributions, the Fund will be authorized to pay to such successor Plan Administrator, for a participant's account, all dividends and distributions payable on Fund shares held in a participant's name or under the Plan for retention or application by such successor Plan Administrator as provided in these terms and conditions.



TEMPLETON EMERGING MARKETS INCOME FUND

**TERMS AND CONDITIONS OF DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN** (continued)

13. AST shall at all times act in good faith and agree to use its best efforts within reasonable limits to ensure the accuracy of all services performed under this Agreement and to comply with applicable law, but shall assume no responsibility and shall not be liable for loss or damage due to errors unless such error is caused by AST's negligence, bad faith or willful misconduct or that of its employees.

14. Any notice, instruction, request or election which by any provision of the Plan is required or permitted to be given or made by the participant to AST shall be in writing addressed to American Stock Transfer and Trust Company LLC, P.O. Box 922, Wall Street Station, New York, NY 10269-0560, or [ww.amstock.com](http://ww.amstock.com) or such other address as AST shall furnish to the participant, and shall have been deemed to be given or made when received by AST.

15. Any notice or other communication which by any provision of the Plan is required to be given by AST to the participant shall be in writing and shall be deemed to have been sufficiently given for all purposes by being deposited postage prepaid in a post office letter box addressed to the participant at his or her address as it shall last appear on AST's records. The participant agrees to notify AST promptly of any change of address.

16. These terms and conditions shall be governed by and construed in accordance with the laws of the State of New York and the rules and regulations of the U.S. Securities and Exchange Commission, as they may be amended from time to time.

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**Semiannual Report**  
**Templeton Emerging Markets Income Fund**

**Investment Manager**

Franklin Advisers, Inc.

**Transfer Agent**

American Stock Transfer & Trust Co., LLC

6201 15th Avenue

Brooklyn, NY 11219

Toll Free Number: (800) 416-5585

Hearing Impaired Number: (866) 703-9077

International Phone Number: (718) 921-8124

[www.amstock.com](http://www.amstock.com)

**Fund Information**

(800) DIAL BEN<sup>®</sup> / 342-5236

Investors should be aware that the value of investments made for the Fund may go down as well as up. Like any investment in securities, the value of the Fund's portfolio will be subject to the risk of loss from market, currency, economic, political and other factors. The Fund and its investors are not protected from such losses by the investment manager. Therefore, investors who cannot accept this risk should not invest in shares of the Fund.

To help ensure we provide you with quality service, all calls to and from our service areas are monitored and/or recorded.

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**Item 2. Code of Ethics.**

(a) The Registrant has adopted a code of ethics that applies to its principal executive officers and principal financial and accounting officer.

(c) N/A

(d) N/A

(f) Pursuant to Item 12(a)(1), the Registrant is attaching as an exhibit a copy of its code of ethics that applies to its principal executive officers and principal financial and accounting officer.

**Item 3. Audit Committee Financial Expert.**

(a)(1) The Registrant has an audit committee financial expert serving on its audit committee.

(2) The audit committee financial expert is David W. Niemiec and he is "independent" as defined under the relevant Securities and Exchange Commission Rules and Releases.

**Item 4. Principal Accountant Fees and Services.**

**N/A**

**Item 5. Audit Committee of Listed Registrants.**

Members of the Audit Committee are: Frank J. Crothers, David W. Niemiec, Ann Torre Bates and Constantine D. Tseretopoulos.

**Item 6. Schedule of Investments.**

**N/A**

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

The board of trustees of the Fund has delegated the authority to vote proxies related to the portfolio securities held by the Fund to the Fund's investment manager Franklin Advisers, Inc. in accordance with the Proxy Voting Policies and Procedures (Policies) adopted by the investment manager.

The investment manager has delegated its administrative duties with respect to the voting of proxies for securities to the Proxy Group within Franklin Templeton Companies, LLC (Proxy Group), an affiliate and wholly owned subsidiary of Franklin Resources, Inc. All proxies received by the Proxy Group will be voted based upon the investment manager's instructions and/or policies. The investment manager votes proxies solely in the best interests of the Fund and its shareholders.

To assist it in analyzing proxies of equity securities, the investment manager subscribes to Institutional Shareholder Services, Inc. (ISS), an unaffiliated third-party corporate governance research service that provides in-depth analyses of shareholder meeting agendas, vote recommendations, vote execution services, ballot reconciliation services, recordkeeping and vote disclosure services. In addition, the investment manager subscribes to Glass, Lewis & Co., LLC (Glass Lewis), an unaffiliated third-party analytical research firm, to receive analyses and vote recommendations on the shareholder meetings of publicly held U.S. companies, as well as a limited subscription to its international research. Also, the investment manager has a supplemental subscription to Egan-Jones Proxy Services (Egan-Jones), an unaffiliated third party proxy advisory firm, to receive analyses and vote recommendations. Although analyses provided by ISS, Glass Lewis, Egan-Jones, and/or another independent third party proxy service provider (each a "Proxy Service") are

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thoroughly reviewed and considered in making a final voting decision, the investment manager does not consider recommendations from a Proxy Service or any third party to be determinative of the investment manager's ultimate decision. Rather, the investment manager exercises its independent judgment in making voting decisions. As a matter of policy, the officers, directors/trustees and employees of the investment manager and the Proxy Group will not be influenced by outside sources whose interests conflict with the interests of the Fund and its shareholders. Efforts are made to resolve all conflicts in the best interests of the investment manager's clients. Material conflicts of interest are identified by the Proxy Group based upon analyses of client, distributor, broker-dealer and vendor lists, information periodically gathered from directors and officers, and information derived from other sources, including public filings. In situations where a material conflict of interest is identified, the Proxy Group may vote consistent with the voting recommendation of a Proxy Service; or send the proxy directly to the Fund's board or a committee of the board with the investment manager's recommendation regarding the vote for approval.

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Where a material conflict of interest has been identified, but the items on which the investment manager's vote recommendations differ from a Proxy Service relate specifically to (1) shareholder proposals regarding social or environmental issues, (2) "Other Business" without describing the matters that might be considered, or (3) items the investment manager wishes to vote in opposition to the recommendations of an issuer's management, the Proxy Group may defer to the vote recommendations of the investment manager rather than sending the proxy directly to the Fund's board or a board committee for approval.

To avoid certain potential conflicts of interest, the investment manager will employ echo voting, if possible, in the following instances: (1) when the Fund invests in an underlying fund in reliance on any one of Sections 12(d) (1) (E), (F), or (G) of the 1940 Act, the rules thereunder, or pursuant to a SEC exemptive order thereunder; (2) when the Fund invests uninvested cash in affiliated money market funds pursuant to the rules under the 1940 Act or any exemptive orders thereunder ("cash sweep arrangement"); or (3) when required pursuant to the Fund's governing documents or applicable law. Echo voting means that the investment manager will vote the shares in the same proportion as the vote of all of the other holders of the underlying fund's shares.

The recommendation of management on any issue is a factor that the investment manager considers in determining how proxies should be voted. However, the investment manager does not consider recommendations from management to be determinative of the investment manager's ultimate decision. As a matter of practice, the votes with respect to most issues are cast in accordance with the position of the company's management. Each issue, however, is considered on its own merits, and the investment manager will not support the position of the company's management in any situation where it deems that the ratification of management's position would adversely affect the investment merits of owning that company's shares.

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*Engagement with issuers.* The investment manager believes that engagement with issuers is important to good corporate governance and to assist in making proxy voting decisions. The investment manager may engage with issuers to discuss specific ballot items to be voted on in advance of an annual or special meeting to obtain further information or clarification on the proposals. The investment manager may also engage with management on a range of environmental, social or corporate governance issues throughout the year.

**Investment manager's proxy voting policies and principles** The investment manager has adopted general proxy voting guidelines, which are summarized below. These guidelines are not an exhaustive list of all the issues that may arise and the investment manager cannot anticipate all future situations. In all cases, each proxy and proposal (including both management and shareholder proposals) will be considered based on the relevant facts and circumstances on a case-by-case basis.

*Board of directors.* The investment manager supports an independent, diverse board of directors, and prefers that key committees such as audit, nominating, and compensation committees be comprised of independent directors. The investment manager supports boards with strong risk management oversight. The investment manager will generally vote against management efforts to classify a board and will generally support proposals to declassify the board of directors. The investment manager will consider withholding votes from directors who have attended less than 75% of meetings without a valid reason. While generally in favor of separating Chairman and CEO positions, the investment manager will review this issue as well as proposals to restore or provide for cumulative voting on a case-by-case basis, taking into consideration factors such as the company's corporate governance guidelines or provisions and performance. The investment manager generally will support non-binding shareholder proposals to require a majority vote standard for the election of directors; however, if these proposals are binding, the investment manager will give careful review on a case-by-case basis of the potential ramifications of such implementation.

In the event of a contested election, the investment manager will review a number of factors in making a decision including management's track record, the company's financial performance, qualifications of candidates on both slates, and the strategic plan of the dissidents and/or shareholder nominees.

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*Ratification of auditors of portfolio companies.* The investment manager will closely scrutinize the independence, role and performance of auditors. On a case-by-case basis, the investment manager will examine proposals relating to non-audit relationships and non-audit fees. The investment manager will also consider, on a case-by-case basis, proposals to rotate auditors, and will vote against the ratification of auditors when there is clear and compelling evidence of a lack of independence, accounting irregularities or negligence. The investment manager may also consider whether the ratification of auditors has been approved by an appropriate audit committee that meets applicable composition and independence requirements.

*Management and director compensation.* A company's equity-based compensation plan should be in alignment with the shareholders' long-term interests. The investment manager believes that executive compensation should be directly linked to the performance of the company. The investment manager evaluates plans on a case-by-case basis by considering several factors to determine whether the plan is fair and reasonable, including the ISS quantitative model utilized to assess such plans and/or the Glass Lewis evaluation of the plans. The investment manager will generally oppose plans that have the potential to be excessively dilutive, and will almost always oppose plans that are structured to allow the repricing of underwater options, or plans that have an automatic share replenishment "evergreen" feature. The investment manager will generally support employee stock option plans in which the purchase price is at least 85% of fair market value, and when potential dilution is 10 or less.

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Severance compensation arrangements will be reviewed on a case-by-case basis, although the investment manager will generally oppose "golden parachutes" that are considered to be excessive. The investment manager will normally support proposals that require a percentage of directors' compensation to be in the form of common stock, as it aligns their interests with those of shareholders.

The investment manager will review non-binding say-on-pay proposals on a case-by-case basis, and will generally vote in favor of such proposals unless compensation is misaligned with performance and/or shareholders' interests, the company has not provided reasonably clear disclosure regarding its compensation practices, or there are concerns with the company's remuneration practices.

*Anti-takeover mechanisms and related issues.* The investment manager generally opposes anti-takeover measures since they tend to reduce shareholder rights. However, as with all proxy issues, the investment manager conducts an independent review of each anti-takeover proposal. On occasion, the investment manager may vote with management when the research analyst has concluded that the proposal is not onerous and would not harm the Fund or its shareholders' interests. The investment manager generally supports proposals that require shareholder rights' plans ("poison pills") to be subject to a shareholder vote and will closely evaluate such plans on a case-by-case basis to determine whether or not they warrant support. In addition, the investment manager will generally vote against any proposal to issue stock that has unequal or subordinate voting rights. The investment manager generally opposes any supermajority voting requirements as well as the payment of "greenmail." The investment manager generally supports "fair price" provisions and confidential voting. The investment manager will review a company's proposal to reincorporate to a different state or country on a case-by-case basis taking into consideration financial benefits such as tax treatment as well as comparing corporate governance provisions and general business laws that may result from the change in domicile.

*Changes to capital structure.* The investment manager realizes that a company's financing decisions have a significant impact on its shareholders, particularly when they involve the issuance of additional shares of common or preferred stock or the assumption of additional debt. The investment manager will review, on a case-by-case basis, proposals by companies to increase authorized shares and the purpose for the increase. The investment manager will generally not vote in favor of dual-class capital structures to increase the number of authorized shares where that class of stock would have superior voting rights. The investment manager will generally vote in favor of the issuance of



preferred stock in cases where the company specifies the voting, dividend, conversion and other rights of such stock and the terms of the preferred stock issuance are deemed reasonable. The investment manager will review proposals seeking preemptive rights on a case-by-case basis.

*Mergers and corporate restructuring.* Mergers and acquisitions will be subject to careful review by the research analyst to determine whether they would be beneficial to shareholders. The investment manager will analyze various economic and strategic factors in making the final decision on a merger or acquisition. Corporate restructuring proposals are also subject to a thorough examination on a case-by-case basis.

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*Environmental and social issues.* The investment manager considers environmental and social issues alongside traditional financial measures to provide a more comprehensive view of the value, risk and return potential of an investment. Companies may face significant financial, legal and reputational risks resulting from poor environmental and social practices, or negligent oversight of environmental or social issues. Franklin Templeton's "Responsible Investment Principles and Policies" describes the investment manager's approach to consideration of environmental, social and governance issues within the investment manager's processes and ownership practices.

In the investment manager's experience, those companies that are managed well are often effective in dealing with the relevant environmental and social issues that pertain to their business. As such, the investment manager will generally give management discretion with regard to environmental and social issues. However, in cases where management and the board have not demonstrated adequate efforts to mitigate material environmental or social risks, have engaged in inappropriate or illegal conduct, or have failed to adequately address current or emergent risks that threaten shareholder value, the investment manager may choose to support well-crafted shareholder proposals that serve to promote or protect shareholder value. This may include seeking appropriate disclosure regarding material environmental and social issues. The investment manager will review shareholder proposals on a case-by-case basis and may support those that serve to enhance value or mitigate risk, are drafted appropriately, and do not disrupt the course of business or require a disproportionate or inappropriate use of company resources.

The investment manager will consider supporting a shareholder proposal seeking disclosure and greater board oversight of lobbying and corporate political contributions if the investment manager believes that there is evidence of inadequate oversight by the company's board, if the company's current disclosure is significantly deficient, or if the disclosure is notably lacking in comparison to the company's peers.

*Governance matters.* The investment manager generally supports the right of shareholders to call special meetings and act by written consent. However, the investment manager will review such shareholder proposals on a case-by-case basis in an effort to ensure that such proposals do not disrupt the course of business or require a disproportionate or inappropriate use of company resources.

*Proxy access.* In cases where the investment manager is satisfied with company performance and the responsiveness of management, it will generally vote against shareholder proxy access proposals not supported by management. In other instances, the investment manager will consider such proposals on a case-by-case basis, taking into account factors such as the size of the company, ownership thresholds and holding periods, nomination limits (e.g., number of candidates that can be nominated), the intentions of the shareholder proponent, and shareholder base.

*Global corporate governance.* Many of the tenets discussed above are applied to the investment manager's proxy voting decisions for international investments. However, the investment manager must be flexible in these worldwide markets. Principles of good corporate governance may vary by country, given the constraints of a country's laws and acceptable practices in the markets. As a result, it is on occasion difficult to apply a consistent set of governance practices to all issuers. As experienced money managers, the investment manager's analysts are skilled in understanding the complexities of the regions in which they specialize and are trained to analyze proxy issues germane to their regions.

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The investment manager will generally attempt to process every proxy it receives for all domestic and foreign securities. However, there may be situations in which the investment manager may be unable to vote a proxy, or may choose not to vote a proxy, such as where: (i) a proxy ballot was not received from the custodian bank; (ii) a meeting notice was received too late; (iii) there are fees imposed upon the exercise of a vote and it is determined that such fees outweigh the benefit of voting; (iv) there are legal encumbrances to voting, including blocking restrictions in certain markets that preclude the ability to dispose of a security if the investment manager votes a proxy or where the investment manager is prohibited from voting by applicable law, economic or other sanctions, or other regulatory or market requirements, including but not limited to, effective Powers of Attorney; (v) the investment manager held shares on the record date but has sold them prior to the meeting date; (vi) a proxy voting service is not offered by the custodian in the market; (vii) the investment manager believes it is not in the best interest of the Fund or its shareholders to vote the proxy for any other reason not enumerated herein; or (viii) a security is subject to a securities lending or similar program that has transferred legal title to the security to another person.

In some foreign jurisdictions, even if the investment manager uses reasonable efforts to vote a proxy on behalf of the Fund, such vote or proxy may be rejected because of (a) operational or procedural issues experienced by one or more third parties involved in voting proxies in such jurisdictions; (b) changes in the process or agenda for the meeting by the issuer for which the investment manager does not have sufficient notice; or (c) the exercise by the issuer of its discretion to reject the vote of the investment manager. In addition, despite the best efforts of the Proxy Group and its agents, there may be situations where the investment manager's votes are not received, or properly tabulated, by an issuer or the issuer's agent.

The investment manager or its affiliates may, on behalf of one or more of the proprietary registered investment companies advised by the investment manager or its affiliates, determine to use its best efforts to recall any security on loan where the investment manager or its affiliates (a) learn of a vote on a material event that may affect a security on loan and (b) determine that it is in the best interests of such proprietary registered investment companies to recall the security for voting purposes.

*Procedures for meetings involving fixed income securities.* From time to time, certain custodians may process events for fixed income securities through their

proxy voting channels rather than corporate action channels for administrative convenience. In such cases, the Proxy Group will receive ballots for such events on the ISS voting platform. The Proxy Group will solicit voting instructions from the investment manager for each Fund involved. If the Proxy Group does not receive voting instructions from the investment manager, the Proxy Group will take no action on the event. The investment manager may be unable to vote a proxy for a fixed income security, or may choose not to vote a proxy, for the reasons described under the section entitled "Proxy Procedures."

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The Proxy Group will monitor such meetings involving fixed income securities for conflicts of interest in accordance with these procedures for fixed income securities. If a fixed income issuer is flagged as a potential conflict of interest, the investment manager may nonetheless vote as it deems in the best interests of the Fund. The investment manager will report such decisions on an annual basis to the Fund board as may be required.

Shareholders may view the complete Policies online at [franklintempleton.com](http://franklintempleton.com). Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954)527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2<sup>nd</sup> Street, Fort Lauderdale, FL 33301-1923, Attention: Proxy Group. Copies of the Fund's proxy voting records are available online at [franklintempleton.com](http://franklintempleton.com) and posted on the SEC website at [www.sec.gov](http://www.sec.gov). The proxy voting records are updated each year by August 31 to reflect the most recent 12-month period ended June 30.

**Item 8. Portfolio Managers of Closed-End Management Investment Company. N/A**

**Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers. N/A**

**Item 10. Submission of Matters to a Vote of Security Holders.**

There have been no changes to the procedures by which shareholders may recommend nominees to the Registrant's Board of Trustees that would require disclosure herein.

**Item 11. Controls and Procedures.**

**(a) Evaluation of Disclosure Controls and Procedures.** The Registrant maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Registrant's filings under the Securities Exchange Act of 1934 and the Investment Company Act of 1940 is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission. Such information is accumulated and communicated to the Registrant's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. The Registrant's management, including the principal executive officer and the principal financial officer, recognizes that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Within 90 days prior to the filing date of this Shareholder Report on Form N-CSR, the Registrant had carried out an evaluation, under the supervision and with the participation of the Registrant's management, including the Registrant's principal executive officer and the Registrant's principal financial officer, of the effectiveness of the design and operation of the Registrant's disclosure controls and procedures. Based on such evaluation, the Registrant's principal executive officer and principal financial officer concluded that the Registrant's disclosure controls and procedures are effective.

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**(b) Changes in Internal Controls.** There have been no changes in the Registrant's internal controls or in other factors that could materially affect the internal controls over financial reporting subsequent to the date of their evaluation in connection with the preparation of this Shareholder Report on Form N-CSR.

**Item 12. Exhibits.**

(a) (1) Code of Ethics

(a) (2) Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Laura F. Ferguson, Chief Executive Officer - Finance and Administration, and Mark H. Otani, Chief Financial Officer and Chief Accounting Officer

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Laura F. Ferguson, Chief Executive Officer - Finance and Administration, and Mark H. Otani, Chief Financial Officer and Chief Accounting Officer

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**TEMPLETON EMERGING MARKETS INCOME FUND**

By /s/Laura F. Fergerson

Laura F. Fergerson

Chief Executive Officer - Finance and Administration

Date April 26, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/Laura F. Fergerson

Laura F. Fergerson

Chief Executive Officer - Finance and Administration

Date April 26, 2016

By /s/Mark H. Otani

Mark H. Otani

Chief Financial Officer and Chief Accounting Officer

Date April 26, 2016