AUGUST 31, 2013

ANNUAL REPORT AND SHAREHOLDER LETTER

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Templeton Emerging Markets Bond Fund



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Mutual Series. Founded in 1949, Mutual Series is dedicated to a unique style of value investing, searching aggressively for opportunity among what it believes are undervalued stocks, as well as arbitrage situations and distressed securities.

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At Franklin Templeton Investments, we continuously seek to provide investors with strong risk-adjusted returns over the long term, as well as the reliable, accurate and personal service that has helped us become one of the most trusted names in financial services.

MUTUAL FUNDS | RETIREMENT PLANS | 529 COLLEGE SAVINGS PLANS | SEPARATELY MANAGED ACCOUNTS

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Shareholder Letter

Dear Shareholder:

We are pleased to bring you the inaugural annual report for Templeton Emerging Markets Bond Fund covering the period since inception on April 1, 2013, through the Fund's fiscal year-end on August 31, 2013. The Fund's investments will generally include fixed and floating rate debt from issuers in emerging market countries. The managers have the flexibility to invest in debt obligations of governments, government-related or corporate issuers worldwide as they seek to take advantage of income and capital appreciation opportunities as they may arise. The Fund can tap the knowledge and expertise of the Franklin Templeton Fixed Income Group and its global specialists covering every major sector of the fixed income market.

Many countries experienced growth during the five months ended August 31, 2013, supported by their central banks' monetary programs, and investor sentiment strengthened. Global developed market stocks, as measured by the MSCI World Index, generated gains in this environment. Although investor anxiety that the U.S. Federal Reserve Board would soon taper its asset purchase program contributed to short sell-offs, Treasury bill prices stabilized soon after. Stock performance also remained resilient amid late-period tension over potential military intervention in Syria. The U.S. dollar rose against most foreign currencies, long-term U.S. Treasury prices generally fell as yields rose, and developed and emerging market bonds declined.

We remain encouraged as the U.S. showed signs of continued economic growth and the eurozone economy expanded in the second quarter of 2013. With the positive trend in economic growth and the continued fiscal strength of many emerging markets, we believe the environment may be favorable for bottom-up investors. Keep in mind in all economic environments we remain committed to our long-term perspective and disciplined investment approach.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

First and foremost for us, this means conducting rigorous, fundamental analysis of securities with a continual emphasis on investment risk management.

Templeton Emerging Markets Bond Fund's annual report goes into greater detail about prevailing conditions during the period under review. In addition, vou will find Fund performance data, financial information and a discussion from the portfolio managers. Please remember all securities markets fluctuate, as do mutual fund share prices.

If you would like more frequent updates, franklintempleton.com provides daily prices, monthly performance figures, portfolio holdings and other information. You can also access your account, buy and sell shares, read timely articles and find helpful financial planning tools. We hope you will take advantage of these online services.

Historically, patient investors have achieved rewarding results by evaluating their goals, diversifying their assets globally and maintaining a disciplined investment program, all hallmarks of the Templeton investment philosophy developed more than 50 years ago. As always, we encourage you to discuss your goals with your financial advisor who can address concerns about volatility and diversification, periodically review your overall portfolio and help you stay focused on the long term. We firmly believe most people benefit from professional advice and that advice is invaluable as investors navigate changing market environments.

We thank you for investing with Franklin Templeton, welcome your questions and comments, and look forward to serving your investment needs in the years ahead.

Sincerely,

Christopher J. Molumphy, CFA

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President and Chief Executive Officer - Investment Management

Templeton Income Trust

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This letter reflects our analysis and opinions as of August 31, 2013. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.

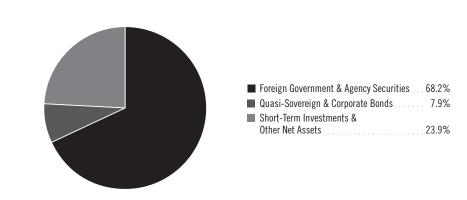
Annual Report

Templeton Emerging Markets Bond Fund

Your Fund's Goal and Main Investments: Templeton Emerging Markets Bond Fund seeks current income with capital appreciation as a secondary goal. Under normal market conditions, the Fund invests at least 80% of its net assets in a nondiversified portfolio of bonds issued by government or government-related entities that are located in emerging market countries, as well as bonds issued by emerging market corporate entities.

Portfolio Breakdown

Based on Total Net Assets as of 8/31/13



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. Please visit franklintempleton.com or call (800) 342-5236 for most recent month-end performance.

This inaugural annual report for Templeton Emerging Markets Bond Fund covers the period since the Fund's inception on April 1, 2013, through August 31, 2013.

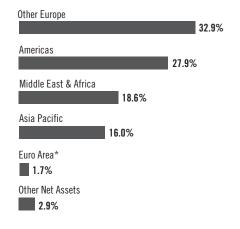
Performance Overview

Templeton Emerging Markets Bond Fund - Class A had a -5.10% cumulative total return from inception on April 1, 2013, through August 31, 2013. In comparison, U.S. dollar-denominated emerging market bonds, as measured by the Fund's benchmark, the J.P. Morgan (JPM) Emerging Markets Bond Index (EMBI) Global, had a -7.71% cumulative total return in U.S. dollar terms for

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 18.

Geographic Breakdown

Based on Total Net Assets as of 8/31/13



*The Fund's euro area investment was in Slovenia.

the same period. You can find more of the Fund's performance data in the Performance Summary beginning on page 8.

Economic and Market Overview

The global economic recovery was mixed during the period under review. The recovery in emerging markets moderated after many economies had previously returned to or exceeded pre-crisis activity levels. Although some developed economies, such as those of Australia and some Scandinavian countries, have also enjoyed relatively strong recoveries in the aftermath of the global financial crisis, growth in the G-3 (U.S., eurozone and Japan) continued to be slow by the standards of previous recoveries. As fears eased surrounding the issues of sovereign debt in Europe, the possibility of another recession in the U.S., and a potential "hard landing" in China, financial market performance was positive. Improving sentiment, relatively strong fundamentals and continued provision of global liquidity supported assets with inherent risk, and equity markets generally performed well. Policymakers in the largest developed economies continued to increase their already unprecedented efforts to supply liquidity. Actions elsewhere in the world were mixed, with some policymakers less willing to reverse previous tightening efforts in response to the external environment.

Fears of possible reductions to stimulative government policies contributed to periods of risk aversion, when credit spreads widened and equities and other assets perceived as risky declined, alternating with periods of heightened risk appetite, when spreads narrowed and investors again favored assets with inherent risk. Against this backdrop, increased liquidity creation continued. For example, the U.S. Federal Reserve Board (Fed) extended quantitative easing and tried to be more transparent about its intentions. Economic data among the largest economies remained inconsistent with some observers' predictions of a severe global economic slowdown.

During the period, the Fed increased the size of its quantitative easing program but announced later in the period that it might reduce the program at subsequent meetings. The announcement that the amount of bond purchases might be reduced led assets with inherent risk, particularly those in emerging markets, to sell off as market participants began to change their expectations of global liquidity conditions.

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Investment Strategy

We invest selectively in bonds from emerging markets around the world to generate income for the Fund, based upon our assessment of changing market, political and economic conditions, 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 and cross currency forward contracts, as well as currency and currency index futures contracts.

Manager's Discussion

The Fund purchased investment-grade and subinvestment-grade hard currency-denominated sovereign debt that typically compensates for greater credit risk by offering higher yields relative to U.S. Treasury and European benchmark bonds. Spreads widened between yields on sovereign credits and assets often considered safer, such as U.S. Treasuries, during the period. As financial markets began reflecting the underlying strength of emerging economies, many traditional emerging markets could borrow more cheaply than some eurozone members and, in several cases, U.S. states. U.S. dollardenominated emerging market debt had a -7.71% total return during the period, as measured by the JPM EMBI Global.¹ Overall, sovereign credit yield spreads over Treasuries widened 66 basis points (bps; 100 bps equal one percentage point) during the period.² Regionally, Latin American sovereign debt had a -8.79% total return, Asian debt -10.08%, and central and eastern European debt -5.62% for the period under review.²

As part of its investment strategy, the Fund used currency forward contracts to limit or add exposure to various currencies.

Latin America

The Fund's exposure to Latin American currencies detracted from absolute performance, but credit exposures and contributions from interest rate strategies were largely neutral. Central banks in Mexico and Chile held rates constant, while Brazil's central bank raised rates 175 bps during the period. The Mexican peso, Chilean peso and Brazilian real depreciated 7.59%, 7.47% and 15.18%, respectively, against the U.S. dollar.³

Europe-Middle East-Africa (EMEA)

The Fund's duration exposures in the EMEA region contributed to performance, but currency and credit positions detracted. The euro appreciated 2.69%

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 at a specific exchange rate on a future date.

What is a futures contract?

A futures contract is an agreement between the Fund and a counterparty made through a U.S. or foreign futures exchange to buy or sell a security at a specific price on a future date.

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.

^{2.} Source: J.P. Morgan. Regional returns are from subindexes of the JPM EMBI Global.

^{3.} Source: IDC/Exshare.

Currency Breakdown 8/31/13

	% of Tota Net Asset
Americas	64.1%
U.S. Dollar	43.9%
Mexican Peso	8.6%
Uruguayan Peso	8.6%
Chilean Peso	2.6%
Peruvian Nuevo Sol	0.4%
Asia Pacific	22.5%
Malaysian Ringgit	9.9%
South Korean Won	7.2%
Philippine Peso	6.1%
Indian Rupee	1.9%
Sri Lankan Rupee	1.0%
Indonesian Rupiah	0.8%
Japanese Yen*	-4.4%
Middle East & Africa	14.1%
Nigerian Naira	9.6%
Ghanaian Cedi	4.5%
Europe*	-0.7%
Hungarian Forint	4.7%
Polish Zloty	4.4%
Serbian Dinar	1.8%
Euro*	-11.6%

^{*}A negative figure reflects net "short" exposure, designed to benefit if the value of the associated currency decreases. Conversely, the Fund's value would potentially decline if the value of the associated currency increases.

against the U.S. dollar during the period as the European Central Bank maintained its commitment to preserving the European Monetary Union.3 The Polish zloty appreciated 0.45% against the U.S. dollar, while the Hungarian forint appreciated 3.64%.3 The Swedish krona and Norwegian krone depreciated 2.05% and 4.83% against the U.S. dollar.3

Asia

The Fund's exposure to Asian currencies detracted from performance as most currencies in the region depreciated against the U.S. dollar. Central banks in Malaysia and the Philippines kept policy rates constant while central banks in Australia, India, Sri Lanka and South Korea cut rates. Most of the currencies of these countries depreciated against the U.S. dollar; the Australian dollar depreciated 14.57%, the Indian rupee fell 17.74%, the Philippine peso declined 8.50%, and the Malaysian ringgit lost 5.73%.3 The South Korean won, however, gained 0.23% against the U.S. dollar.³ Contributions from credit and duration exposures in the region were largely neutral.

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



Michael Hasenstab, Ph.D. Lead Portfolio Manager



Lana Bunkien

Laura Burakreis Portfolio Manager

Portfolio Management Team Templeton Emerging Markets Bond Fund

The foregoing information reflects our analysis, opinions and portfolio holdings as of August 31, 2013, 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.

Dr. Michael Hasenstab is a senior vice president of Franklin Advisers, Inc., and co-director of the international bond department, overseeing the global fixed income portfolio management team. In addition, he is a member of the group's Fixed Income Policy Committee and is a portfolio manager for a number of Franklin Templeton funds. Dr. Hasenstab has won numerous awards globally, including being named Morningstar's 2010 Fixed Income Manager of the Year and recognized as one of the most influential fund managers by Investment News in 2010. Bloomberg Markets named him Top Global Bond Fund Manager in 2010 and Top U.S. and Global Bond Fund Manager in 2009. Additionally, he was named Global Bond Manager of the Year by Investment Week in 2008, 2010 and 2011, and also Best Global Manager by Standard & Poor's/BusinessWeek in 2006.

Dr. Hasenstab initially joined Franklin Templeton Investments in July 1995. After a leave of absence to obtain his Doctor of Philosophy (Ph.D.) degree, he rejoined the company in April 2001. He specializes in global macroeconomic analysis with a focus on currency, interest rate and sovereign credit analysis of developed and emerging market countries. Dr. Hasenstab has worked and traveled extensively abroad, with a special focus on Asia. Dr. Hasenstab holds a Ph.D. in economics from the Asia Pacific School of Economics and Management at Australian National University, a master's degree in economics of development from Australian National University and a B.A. in international relations/political economy from Carleton College in the U.S.

Laura Burakreis joined Franklin Templeton in August 2006 as a research analyst for the Franklin Templeton Fixed Income Group. She is a portfolio manager and analyst responsible for analysis of sovereign credits, global macroeconomic trends, and developments in developed and emerging market economies and financial systems. Ms. Burakreis has a regional focus on the economies of Europe, the Middle East and Africa. Prior to joining Franklin Templeton, Ms. Burakreis worked in various parts of the World Bank in Washington, D.C. At the World Bank, she assisted governments in the Middle East and North Africa design and implement financial sector reforms. Ms. Burakreis also negotiated the terms of debt issued by the International Bank of Reconstruction and Development in emerging and developed markets. Before joining the World Bank, she was a registered broker at Salomon Brothers in New York and sold foreign exchange and interest rate derivatives to institutional investors.

Ms. Burakreis holds an M.B.A. in finance from the University of Chicago, Graduate School of Business and an M.A. from the University of Chicago, Center for Middle Eastern Studies. She earned her B.A. in economics from The College at the University of Chicago.

Performance Summary as of 8/31/13

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities. 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. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses.

Price Information

Class A (Symbol: FEMGX)	Change	8/31/13	4/1/13
Net Asset Value (NAV)	-\$0.51	\$9.49	\$10.00
Class C (Symbol: n/a)	Change	8/31/13	4/1/13
Net Asset Value (NAV)	-\$0.53	\$9.47	\$10.00
Class R (Symbol: n/a)	Change	8/31/13	4/1/13
Net Asset Value (NAV)	-\$0.52	\$9.48	\$10.00
Class R6 (Symbol: n/a)	Change	8/31/13	5/1/13
Net Asset Value (NAV)	-\$0.65	\$9.50	\$10.15
Advisor Class (Symbol: n/a)	Change	8/31/13	4/1/13
Net Asset Value (NAV)	-\$0.49	\$9.51	\$10.00

Performance Summary (continued)

Performance¹

Cumulative total return excludes sales charges. Aggregate total returns and value of \$10,000 investment include maximum sales charges. Class A: 5.75% maximum initial sales charge; Class C: 1% contingent deferred sales charge in first year only; Class R/R6/Advisor Class: no sales charges.

Class A		Inception (4/1/13	3)
Cumulative Total Return ²		-5.10%	
Aggregate Total Return ³		-9.10%	
Value of \$10,000 Investment ⁴		\$9,090	
Aggregate Total Return (9/30/13) ^{3, 5}		-7.58%	
Total Annual Operating Expenses ⁶	1.26% (with waiver)	1.79% (without waiver)	
Class C		Inception (4/1/13	3)
Cumulative Total Return ²		-5.30%	
Aggregate Total Return ³		-6.25%	
Value of \$10,000 Investment ⁴		\$9,375	
Aggregate Total Return (9/30/13) ^{3, 5}		-4.60%	
Total Annual Operating Expenses ⁶	1.66% (with waiver)	2.19% (without waiver)	
Class R		Inception (4/1/13	3)
Cumulative Total Return ²		-5.20%	
Aggregate Total Return ³		-5.20%	
Value of \$10,000 Investment ⁴		\$9,480	
Aggregate Total Return (9/30/13) ^{3, 5}		-3.67%	
Total Annual Operating Expenses ⁶	1.51% (with waiver)	2.04% (without waiver)	
Class R6		Inception (5/1/13	3)
Cumulative Total Return ²		-6.40%	
Aggregate Total Return ³		-6.40%	
Value of \$10,000 Investment ⁴		\$9,360	
Aggregate Total Return (9/30/13) ^{3, 5}		-4.81%	
Total Annual Operating Expenses ⁶	0.97% (with waiver)	1.50% (without waiver)	
Advisor Class		Inception (4/1/13	3)
Cumulative Total Return ²		-4.90%	
Aggregate Total Return ³		-4.90%	
Value of \$10,000 Investment ⁴		\$9,510	
Aggregate Total Return (9/30/13) ^{3, 5}		-3.31%	
Total Annual Operating Expenses ⁶	1.01% (with waiver)	1.54% (without waiver)	

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. For most recent month-end performance, go to franklintempleton.com or call (800) 342-5236.

Performance Summary (continued)

Endnotes

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. 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. Currency rates may fluctuate significantly over short periods of time and can reduce returns. Derivatives, including currency management strategies, involve costs and can create economic leverage in the portfolio that may result in significant volatility and cause the Fund to participate in losses (as well as enable gains) on an amount that exceeds the Fund's initial investment. The Fund may not achieve the anticipated benefits and may realize losses when a counterparty fails to perform as promised. Special risks are associated with foreign investing, including currency rate fluctuations, economic instability and political developments. Investments in developing markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. The risks associated with higher yielding, lower rated securities include higher risks of default and loss of principal. The Fund is also nondiversified, which involves the risk of greater price fluctuation than a more diversified portfolio. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

Class C: These shares have higher annual fees and expenses than Class A shares.

Class R: Shares are available to certain eligible investors as described in the prospectus. These shares have higher annual fees and

expenses than Class A shares.

Class R6: Shares are available to certain eligible investors as described in the prospectus. Advisor Class: Shares are available to certain eligible investors as described in the prospectus.

- 1. The Fund has an expense reduction contractually guaranteed through at least 12/31/14 and a fee waiver associated with its investments in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year end. Fund investment results reflect the expense reduction and fee waiver, to the extent applicable; without these reductions, the results would have been lower.
- 2. Cumulative total return represents the change in value of an investment over the period indicated.
- 3. Aggregate total return represents the change in value of an investment over the period indicated. Because the Fund has existed for less than one year, average annual total return is not available.
- 4. These figures represent the value of a hypothetical \$10,000 investment in the Fund over the periods indicated.
- 5. In accordance with SEC rules, we provide standardized total return information through the latest calendar quarter.
- 6. Figures are as stated in the Fund's current prospectus. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.

Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs:

- Transaction costs, including sales charges (loads) on Fund purchases; and
- Ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses.

The following table shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

Actual Fund Expenses

The first line (Actual) for each share class listed in the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of Fund expenses.

You can estimate the expenses you paid during the period by following these steps. Of course, your account value and expenses will differ from those in this illustration:

- 1. Divide your account value by \$1,000. If an account had an \$8,600 value, then $$8,600 \div $1,000 = 8.6$.
- 2. Multiply the result by the number under the heading "Expenses Paid During Period." If Expenses Paid During Period were \$7.50, then $8.6 \times $7.50 = 64.50 .

In this illustration, the estimated expenses paid this period are \$64.50.

Hypothetical Example for Comparison with Other Funds

Information in the second line (Hypothetical) for each class in the table can help you compare ongoing costs of investing in the Fund with those of other mutual funds. This information may not be used to estimate the actual ending account balance or expenses you paid during the period. The hypothetical "Ending Account Value" is based on the actual expense ratio for each class and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Expenses Paid During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds.

Your Fund's Expenses (continued)

Please note that expenses shown in the table are meant to highlight ongoing costs and do not reflect any transaction costs, such as sales charges. Therefore, the second line for each class is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transaction costs were included, your total costs would have been higher. Please refer to the Fund prospectus for additional information on operating expenses.

Class A	Beginning Account Value Actual 4/1/13 Hypothetical 3/1/13	Ending Account Value 8/31/13	Expenses Paid During Period* Actual 4/1/13–8/31/13 Hypothetical 3/1/13–8/31/13
Actual	\$1,000	\$ 949.00	\$4.98
Hypothetical (5% return before expenses)	\$1,000	\$1,020.11	\$5.14
Class C			
Actual	\$1,000	\$ 947.00	\$6.77
Hypothetical (5% return before expenses)	\$1,000	\$1,018.25	\$7.02
Class R			
Actual	\$1,000	\$ 948.00	\$6.17
Hypothetical (5% return before expenses)	\$1,000	\$1,018.85	\$6.41
Class R6			
Actual (5/1/13-8/31/13)	\$1,000	\$ 935.00	\$3.20
Hypothetical (5% return before expenses)	\$1,000	\$1,021.07	\$4.18
Advisor Class			
Actual	\$1,000	\$ 951.00	\$4.09
Hypothetical (5% return before expenses)	\$1,000	\$1,020.97	\$4.28

^{*}Expenses are calculated using the most recent six-month expense ratio, net of expense waivers, annualized for each class (A: 1.01%; C: 1.38%; R: 1.26%; R6: 0.82%; and Advisor: 0.84%), multiplied by the average account value over the period, multiplied by 184/365 (Hypothetical) to reflect the one-half year period. For Actual Class A, C, R and Advisor expenses, the multiplier is 153/365 to reflect the number of days since these classes' inception. For Actual Class R6 expenses, the multiplier is 123/365 days to reflect the number of days since this class's inception.

Financial Highlights

	Period Ended August 31,
Class A	2013a
Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$10.00
Income from investment operations ^b :	
Net investment income ^c	0.18
Net realized and unrealized gains (losses)	(0.69)
Total from investment operations	(0.51)
Net asset value, end of period	\$ 9.49
Total return ^d	(5.10)%
Ratios to average net assets ^e	
Expenses before waiver and payments by affiliates	2.37%
Expenses net of waiver and payments by affiliates	1.21%
Net investment income	4.32%
Supplemental data	
Net assets, end of period (000's)	\$10,319
Portfolio turnover rate	8.80%

^aFor the period April 1, 2013 (commencement of operations) to August 31, 2013.

bThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

^cBased on average daily shares outstanding.

dTotal return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

eRatios are annualized for periods less than one year.

Financial Highlights (continued)

	Period Ended August 31,
Class C	2013a
Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$10.00
Income from investment operations ^b :	
Net investment income ^c	0.17
Net realized and unrealized gains (losses)	(0.70)
Total from investment operations	(0.53)
Net asset value, end of period	\$ 9.47
Total return ^d	(5.30)%
Ratios to average net assets ^e	
Expenses before waiver and payments by affiliates	2.81%
Expenses net of waiver and payments by affiliates	1.65%
Net investment income	3.88%
Supplemental data	
Net assets, end of period (000's)	\$281
Portfolio turnover rate	8.80%

^aFor the period April 1, 2013 (commencement of operations) to August 31, 2013.

The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

^cBased on average daily shares outstanding.

dTotal return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

eRatios are annualized for periods less than one year.

Financial Highlights (continued)

Class R	Period Ended August 31, 2013 ^a
Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$10.00
Income from investment operations ^b :	
Net investment income ^c	0.16
Net realized and unrealized gains (losses)	(0.68)
Total from investment operations	(0.52)
Net asset value, end of period	\$ 9.48
Total return ^d	(5.20)%
Ratios to average net assets ^e	
Expenses before waiver and payments by affiliates	2.65%
Expenses net of waiver and payments by affiliates	1.50%
Net investment income	4.04%
Supplemental data	
Net assets, end of period (000's)	\$9
Portfolio turnover rate	8.80%

^aFor the period April 1, 2013 (commencement of operations) to August 31, 2013.

bThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

^cBased on average daily shares outstanding.

dTotal return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.

eRatios are annualized for periods less than one year.

Financial Highlights (continued)

	Period Ended August 31,
Class R6	2013a
Per share operating performance	
(for a share outstanding throughout the period)	
Net asset value, beginning of period	\$10.15
Income from investment operations ^b :	
Net investment income ^c	0.17
Net realized and unrealized gains (losses)	(0.82)
Total from investment operations	(0.65)
Net asset value, end of period	\$ 9.50
Total return ^d	(6.40)%
Ratios to average net assets ^e	
Expenses before waiver and payments by affiliates	4.28%
Expenses net of waiver and payments by affiliates	0.96%
Net investment income	2.41%
Supplemental data	
Net assets, end of period (000's)	\$5
Portfolio turnover rate	8.80%

 $[\]ensuremath{^{\text{a}}} \text{For the period May 1, 2013}$ (effective date) to August 31, 2013.

bThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

^cBased on average daily shares outstanding.

dTotal return is not annualized for periods less than one year.

eRatios are annualized for periods less than one year.

Financial Highlights (continued)

	Period Ended August 31,
Advisor Class	2013a
Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$10.00
Income from investment operations ^b :	
Net investment income ^c	0.20
Net realized and unrealized gains (losses)	(0.69)
Total from investment operations	(0.49)
Net asset value, end of period	\$ 9.51
Total return ^d	(4.90)%
Ratios to average net assets ^e	
Expenses before waiver and payments by affiliates	2.16%
Expenses net of waiver and payments by affiliates	1.00%
Net investment income	4.53%
Supplemental data	
Net assets, end of period (000's)	\$116
Portfolio turnover rate	8.80%

 $[\]ensuremath{^{\text{a}}} \text{For the period April 1, 2013}$ (commencement of operations) to August 31, 2013.

bThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

^cBased on average daily shares outstanding.

dTotal return is not annualized for periods less than one year.

eRatios are annualized for periods less than one year.

Statement of Investments, August 31, 2013

Templeton Emerging Markets Bond Fund		Principal Amount*		
Foreign Government and Agency Securities 68.2%				
Argentina 1.9%				
Government of Argentina, senior bond, 7.00%, 10/03/15	226,000		\$	205,872
Ghana 6.4%				
Government of Ghana,				
24.00%, 5/25/15	5,000			2,447
21.00%, 10/26/15	886,000 100,000	GHS GHS		417,340 43,604
19.24%, 5/30/16	50,000			43,004 22,769
°144A, 7.875%, 8/07/23	200,000	ario		194,750
	200,000			680,910
			_	
Hungary 11.7%				
Government of Hungary,	115 000 000			500 100
5.50%, 12/22/16	115,000,000	HUF		509,182
5.375%, 2/21/23	790,000			744,733
				1,253,915
Indonesia 0.7%				
Government of Indonesia, FR27, 9.50%, 6/15/15	860,000,000	IDR		78,621
Malaysia 3.9%				
Government of Malaysia, 3.741%, 2/27/15	1,370,000	MYR		418,148
Marries 4 20/				
Mexico 4.3% Government of Mexico, 6.00%, 6/18/15	60,000b	MYN		463,370
Government of Mexico, 0.00 /6, 0/16/15	00,000	IVIXIN	_	403,370
Mongolia 1.5%				
^a Government of Mongolia, senior note, 144A, 5.125%, 12/05/22	200,000		_	161,732
Nigeria 2.0%				
Government of Nigeria, 4.00%, 4/23/15	40,000,000	NGN		213,494
Philippines 0.5%				
Government of the Philippines, senior note, 1.625%, 4/25/16	2,600,000	PHP		57,710
Polovid 4 20%				
Poland 4.2% Government of Poland, 5.50%, 4/25/15	1,400,000	PLN		449.920
dovernment of Folding, 5.50 %, 4/25/15	1,400,000	I LIV	_	773,320
Serbia 4.2%				
^a Government of Serbia, senior note, 144A, 7.25%, 9/28/21	250,000	DOD		251,626
Serbia Treasury Bond, 10.00%, 4/04/15	17,400,000	RSD	_	198,078
			_	449,704
Slovenia 1.7%				
^a Government of Slovenia, senior note, 144A, 5.50%, 10/26/22	200,000			184,761
South Korea 4.2%				
Korea Monetary Stabilization Bond, senior note, 2.74%, 2/02/15	500,000,000	KRW		450,410
Cut Lawler 1 00/	•			_
Sri Lanka 1.0% Government of Sri Lanka, C, 8.50%, 4/01/18	15,500,000	LKR		104,001
GOVERNMENT OF OTT Lanka, 0, 0.00/0, 4/01/10	13,300,000	LIVIN		104,001

Statement of Investments, August 31, 2013 (continued)

Templeton Emerging Markets Bond Fund		Principal Amount*		Value	
Foreign Government and Agency Securities (continued)					
Ukraine 11.8%					
^a Government of Ukraine, senior bond, 144A, 7.80%, 11/28/22	720,000		\$	626,382	
senior note, 144A, 7.50%, 4/17/23	530,000		Ψ	454,806	
^{a,c} Kyiv Finance PLC (City of Kiev), loan participation,					
senior note, 144A, 9.375%, 7/11/16	200,000			189,114	
			_	1,270,302	
Uruguay 8.2%					
dGovernment of Uruguay, senior note, Index Linked, 4.375%, 12/15/28	915,947			40,416	
Uruguay Notas del Tesoro, 10.25%, 8/22/15	17,800,000 1,600,000	UYU		779,402 57,832	
Graguay reasony bin, only, 5/14/15	1,000,000	010	_	877,650	
			_		
Total Foreign Government and Agency Securities				7 000 -00	
(Cost \$7,830,182)				7,320,520	
Quasi-Sovereign and Corporate Bonds 7.9%					
Russia 1.1%					
a.cAlfa Bond Issuance PLC (Alfa Bank OJSC), loan participation, secured note, 144A, 7.875%, 9/25/17	100,000			110,138	
	100,000		_	110,130	
South Africa 2.6%	220,000	ELID		07C CE2	
^a Edcon Pty. Ltd., senior secured note, 144A, 9.50%, 3/01/18	230,000	EUK	_	276,653	
Venezuela 4.2%	400.000			450.010	
Petroleos de Venezuela SA, senior sub. bond, 4.90%, 10/28/14	480,000			453,218	
Total Quasi-Sovereign and Corporate Bonds					
(Cost \$875,424)			_	840,009	
Total Investments before Short Term Investments					
(Cost \$8,705,606)				8,160,529	
				<u> </u>	
Short Term Investments 21.0%					
Foreign Government and Agency Securities 11.8% Nigeria 7.7%					
eNigeria Treasury Bill, 2/20/14	141,000,000	NGN		822,261	
Philippines 4.1%					
ePhilippine Treasury Bills,					
6/04/14	5,920,000	PHP		131,626	
9/04/13 - 7/02/14	13,940,000	PHP	_	311,515	
				443,141	
Total Foreign Government and Agency Securities					
(Cost \$1,314,458)				1,265,402	
Total Investments before Money Market Funds					
(Cost \$10,020,064)				9,425,931	
· · · · · · · · · · · · · · · · · · ·			_		

Statement of Investments, August 31, 2013 (continued)

Templeton Emerging Markets Bond Fund	Shares	Value
Short Term Investments (continued)		
Money Market Funds (Cost \$990,373) 9.2%		
United States 9.2%		
f,gInstitutional Fiduciary Trust Money Market Portfolio	990,373	\$ 990,373
Total Investments (Cost \$11,010,437) 97.1%		10,416,304
Other Assets, less Liabilities 2.9%		314,062
Net Assets 100.0%		\$10,730,366

^{*}The principal amount is stated in U.S. dollars unless otherwise indicated.

«See Note 7 regarding investments in the Institutional Fiduciary Trust Money Market Portfolio.

aSecurity 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 Trust's Board of Trustees. At August 31, 2013, the aggregate value of these securities was \$2,449,962, representing 22.83% of net assets.

bPrincipal amount is stated in 100 Mexican Peso Units.

^cSee Note 1(d) regarding loan participation notes.

^dPrincipal amount of security is adjusted for inflation. See Note 1(f).

eThe security is traded on a discount basis with no stated coupon rate.

fNon-income producing.

Statement of Investments, August 31, 2013 (continued)

Templeton Emerging Markets Bond Fund

At August 31, 2013, the Fund had the following forward exchange contracts outstanding. See Note 1(c).

Forward Exchange Contracts

0	C	T	0	C	Settlement	Unrealized	Unrealized
Currency	Counterparty	Туре	Quantity	Contract Amount*	Date	Appreciation	Depreciation
Euro	DBAB	Sell	393,000	505,398	10/07/13	\$ —	\$ (14,136)
Indian Rupee	JPHQ	Buy	13,837,500	226,249	10/07/13	_	(21,783)
Malaysian Ringgit	JPHQ	Buy	217,000	67,891	1/02/14	_	(2,631)
Philippine Peso	JPHQ	Buy	325,000	7,502	1/02/14	_	(226)
Euro	DBAB	Sell	155,000	199,315	4/04/14	_	(5,734)
Chilean Peso	DBAB	Buy	148,335,000	300,000	4/07/14	_	(18,030)
Euro	BZWS	Sell	367,000	472,898	4/07/14	_	(12,610)
Japanese Yen	BZWS	Sell	46,442,500	500,000	4/07/14	25,991	_
Malaysian Ringgit	JPHQ	Buy	629,300	200,000	4/07/14	_	(11,796)
Peruvian Nuevo Sol	DBAB	Buy	130,000	50,000	4/07/14	_	(4,947)
South Korean Won	JPHQ	Buy	227,006,000	200,000	4/07/14	2,221	_
South Korean Won	JPHQ	Buy	45,013,200	40,000	5/15/14	49	_
South Korean Won	JPHQ	Buy	11,204,500	10,000	5/16/14	_	(31)
South Korean Won	JPHQ	Buy	33,766,200	30,000	5/20/14	38	_
Euro	BZWS	Sell	105,000	135,161	5/21/14	_	(3,769)
South Korean Won	JPHQ	Buy	33,768,000	30,000	5/21/14	38	_
Mexican Peso	JPHQ	Buy	6,083,000	473,496	5/28/14	_	(28,749)
Philippine Peso	DBAB	Buy	5,631,080	130,000	6/30/14	_	(4,552)
Malaysian Ringgit	DBAB	Buy	389,000	120,000	7/01/14	_	(4,208)
Malaysian Ringgit	JPHQ	Buy	291,780	90,000	7/01/14	_	(3,147)
Philippine Peso	JPHQ	Buy	823,000	18,998	7/01/14	_	(664)
Malaysian Ringgit	JPHQ	Buy	70,000	21,703	7/02/14	_	(868)
Malaysian Ringgit	DBAB	Buy	16,110	5,001	7/03/14	_	(206)
Malaysian Ringgit	DBAB	Buy	151,500	46,960	7/07/14	_	(1,876)
Euro	DBAB	Sell	128,180	168,352	7/21/14	_	(1,303)
Malaysian Ringgit	HSBK	Buy	356,895	110,000	7/21/14		(3,865)
Unrealized appreciation (dep	oreciation)					28,337	(145,131)
Net unrealized appreciation	n (depreciation)						\$(116,794)

^{*}In U.S. dollars unless otherwise indicated.

At August 31, 2013, the Fund had the following interest rate swap contracts outstanding. See Note 1 (c).

Interest Rate Swap Contracts

Counterparty	Pay/Receive Floating Rate	Fixed Rate	Floating Rate	Notional Amount*	Expiration Date	Unrealized Appreciation	Unrealized Depreciation
JPHQ	Receive	3.018%	3-month USD BBA LIBOR	520,000	8/22/23	\$—	\$(2,466)
JPHQ	Receive	3.848%	3-month USD BBA LIBOR	300,000	8/22/43	_	(6,707)
			Net unrealized appreciation (depreciation)				\$(9,173)

^{*}In U.S. dollars unless otherwise indicated.

See Abbreviations on page 40.

Financial Statements

Statement of Assets and Liabilities

August 31, 2013

	Templeton Emerging Markets Bond Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	\$10,020,064
Cost - Sweep Money Fund (Note 7)	990,373
Total cost of investments	\$11,010,437
Value - Unaffiliated issuers	\$ 9,425,931
Value - Sweep Money Fund (Note 7)	990,373
Total value of investments	10,416,304
Foreign currency, at value (cost \$96,736)	95,521
Receivables:	
Capital shares sold	42,920
Interest	164,793
Affiliates	62,490
Variation margin	56,658
Offering costs	72,701
Unrealized appreciation on forward exchange contracts	28,337
Total assets	10,939,724
Liabilities:	
Payables:	
Capital shares redeemed	1,617
Distribution fees	1,128
Transfer agent fees	341
Professional fees	48,419
Unrealized depreciation on forward exchange contracts	145,131
Unrealized depreciation on swap contracts	9,173
Accrued expenses and other liabilities	3,549
Total liabilities	209,358
Net assets, at value	\$10,730,366
Net assets consist of:	
Paid-in capital	\$11,284,771
Undistributed net investment income	191,887
Net unrealized appreciation (depreciation)	(723,292)
Accumulated net realized gain (loss)	(23,000)
Net assets, at value	\$10,730,366

Financial Statements (continued)

Statement of Assets and Liabilities (continued)

August 31, 2013

Class A: \$10,319,349 Net assets, at value \$10,819,309 Shares outstanding 1,087,200 Net asset value per share* \$9,49 Maximum offering price per share (net asset value per share ÷ 95.75%) \$9.91 Class C: **** Net assets, at value \$280,701 Shares outstanding 29,631 Net asset value and maximum offering price per share* \$9.47 Class R: ***** Net assets, at value \$9,479 Shares outstanding 1,000 Net asset value and maximum offering price per share \$9,48 Class Re: *** Net assets, at value \$4,683 Shares outstanding 493 Net asset, at value and maximum offering price per share \$9,50 Advisor Class: *** Net asset value and maximum offering price per share \$9,50 Advisor Class: *** Net assets, at value \$116,154 Shares outstanding \$12,216 Net asset value and maximum offering price per share \$116,154 Shares outstanding \$116,154 <th></th> <th></th> <th>npleton ng Markets</th>			npleton ng Markets
Net assets, at value \$10,319,349 Shares outstanding 1,087,200 Net asset value per sharea \$9.49 Maximum offering price per share (net asset value per share ÷ 95.75%) \$9.91 Class C: *** Net assets, at value \$280,701 Shares outstanding 29,631 Net asset value and maximum offering price per sharea \$9.47 Class R: *** Net assets, at value \$9,479 Shares outstanding 1,000 Net asset value and maximum offering price per share \$9.48 Class R6: *** Net assets, at value \$4,683 Shares outstanding 493 Net asset value and maximum offering price per share \$9.50 Advisor Class: *** Net assets, at value \$116,154 Shares outstanding \$116,154 Shares outstanding \$116,154		Bon	d Fund
Shares outstanding 1,087,200 Net asset value per sharea \$9.49 Maximum offering price per share (net asset value per share ÷ 95.75%) \$9.91 Class C: *** Net assets, at value \$280,701 Shares outstanding 29,631 Net asset value and maximum offering price per sharea \$9.47 Class R: *** Net assets, at value \$9,479 Shares outstanding 1,000 Net asset value and maximum offering price per share \$9.48 Class R6: *** Net assets, at value \$4,683 Shares outstanding 493 Net asset value and maximum offering price per share \$9.50 Advisor Class: *** Net assets, at value \$116,154 Shares outstanding \$116,154 Shares outstanding \$12,216		ф1,	210 240
Net asset value per sharea \$9.49 Maximum offering price per share (net asset value per share ÷ 95.75%) \$9.91 Class C: *** Net assets, at value \$280,701 Shares outstanding 29,631 Net asset value and maximum offering price per sharea \$9.47 Class R: *** Net assets, at value \$9,479 Shares outstanding 1,000 Net asset value and maximum offering price per share \$9.48 Class R6: *** Net assets, at value \$4,683 Shares outstanding 493 Net asset value and maximum offering price per share \$9.50 Advisor Class: *** Net assets, at value \$116,154 Shares outstanding 12,216	,		
Maximum offering price per share (net asset value per share ÷ 95.75%) \$9.91 Class C: \$280,701 Net assets, at value \$29,631 Shares outstanding \$9.47 Class R: \$9,479 Net assets, at value \$9,479 Shares outstanding 1,000 Net asset value and maximum offering price per share \$9.48 Class R6: \$4,683 Shares outstanding 493 Net assets, at value and maximum offering price per share \$9.50 Advisor Class: \$116,154 Net assets, at value \$116,154 Shares outstanding \$12,216			1,087,200
Class C: Net assets, at value \$ 280,701 Shares outstanding 29,631 Net asset value and maximum offering price per sharea \$9,47 Class R: \$ 9,479 Shares outstanding 1,000 Net asset value and maximum offering price per share \$9.48 Class R6: \$ 4,683 Shares outstanding 493 Net asset value and maximum offering price per share \$9.50 Advisor Class: \$ 116,154 Shares outstanding \$ 116,154 Shares outstanding \$ 12,216	Net asset value per share ^a		\$9.49
Net assets, at value \$ 280,701 Shares outstanding 29,631 Net asset value and maximum offering price per share ^a \$ 9,47 Class R: \$ 9,479 Shares outstanding 1,000 Net asset value and maximum offering price per share \$ 9,48 Class R6: \$ 1 Net assets, at value \$ 4,683 Shares outstanding 493 Net asset value and maximum offering price per share \$ 9.50 Advisor Class: \$ 116,154 Shares outstanding \$ 12,216	Maximum offering price per share (net asset value per share ÷ 95.75%)		\$9.91
Shares outstanding 29,631 Net asset value and maximum offering price per sharea \$9.47 Class R: \$9,479 Shares outstanding 1,000 Net asset value and maximum offering price per share \$9.48 Class R6: \$4,683 Shares outstanding 493 Net asset value and maximum offering price per share \$9.50 Advisor Class: \$116,154 Shares outstanding \$112,216	Class C:		
Net asset value and maximum offering price per sharea \$9.47 Class R: \$9,479 Shares outstanding 1,000 Net asset value and maximum offering price per share \$9.48 Class R6: *** Net assets, at value \$4,683 Shares outstanding 493 Net asset value and maximum offering price per share \$9.50 Advisor Class: *** Net assets, at value \$116,154 Shares outstanding \$12,216	Net assets, at value	\$	280,701
Class R: \$ 9,479 Net assets, at value 1,000 Net asset value and maximum offering price per share \$9.48 Class R6: \$ 4,683 Net assets, at value \$ 4,683 Shares outstanding 493 Net asset value and maximum offering price per share \$9.50 Advisor Class: \$ 116,154 Shares outstanding \$ 12,216	Shares outstanding		29,631
Net assets, at value \$9,479 Shares outstanding 1,000 Net asset value and maximum offering price per share \$9.48 Class R6: Net assets, at value \$4,683 Shares outstanding 493 Net asset value and maximum offering price per share \$9.50 Advisor Class: Net assets, at value \$116,154 Shares outstanding \$12,216	Net asset value and maximum offering price per share ^a		\$9.47
Shares outstanding1,000Net asset value and maximum offering price per share\$9.48Class R6:Shares outstandingNet assets, at value\$4,683Shares outstanding493Net asset value and maximum offering price per share\$9.50Advisor Class:\$116,154Shares outstanding\$12,216	Class R:		
Net asset value and maximum offering price per share \$9.48 Class R6: Net assets, at value \$4,683 Shares outstanding 493 Net asset value and maximum offering price per share \$9.50 Advisor Class: Net assets, at value \$116,154 Shares outstanding 12,216	Net assets, at value	\$	9,479
Class R6:** 4,683Net assets, at value\$ 4,683Shares outstanding493Net asset value and maximum offering price per share\$9.50Advisor Class:** 116,154Shares outstanding\$ 12,216	Shares outstanding		1,000
Net assets, at value \$ 4,683 Shares outstanding 493 Net asset value and maximum offering price per share \$9.50 Advisor Class: Net assets, at value \$ 116,154 Shares outstanding 12,216	Net asset value and maximum offering price per share		\$9.48
Shares outstanding493Net asset value and maximum offering price per share\$9.50Advisor Class:\$116,154Shares outstanding12,216	Class R6:		
Net asset value and maximum offering price per share \$9.50 Advisor Class: Net assets, at value \$116,154 Shares outstanding \$12,216	Net assets, at value	\$	4,683
Advisor Class: Net assets, at value \$ 116,154 Shares outstanding 12,216	Shares outstanding		493
Net assets, at value . \$ 116,154 Shares outstanding . 12,216	Net asset value and maximum offering price per share		\$9.50
Shares outstanding	Advisor Class:		
	Net assets, at value	\$	116,154
Net asset value and maximum offering price per share	Shares outstanding		12,216
	Net asset value and maximum offering price per share		\$9.51

^aRedemption price is equal to net asset value less contingent deferred sales charges, if applicable.

Financial Statements (continued)

Statement of Operations

for the period ended August 31, 2013^a

	Templeton Emerging Markets Bond Fund
Investment income:	
Interest	\$ 248,318
Expenses:	
Management fees (Note 3a)	46,788
Class A	9,212
Class C	473
Class R	20
Class A	916
Class C	90
Class R	1
Class R6	35
Advisor Class	21
Custodian fees(Note 4)	2,300
Reports to shareholders	1,073
Registration and filing fees	617
Professional fees	49,743
Amortization of offering costs	51,299
Other	1,506
Total expenses	164,094
Expenses waived/paid by affiliates (Note 3f)	(109,278)
Net expenses	54,816
Net investment income	193,502
Realized and unrealized gains (losses): Net realized gain (loss) from:	
Investments	(28,688)
Foreign currency transactions	(23,821)
Net realized gain (loss)	(52,509)
Net change in unrealized appreciation (depreciation) on:	
Investments	(603,306)
Translation of other assets and liabilities denominated in foreign currencies	(119,986)
Net change in unrealized appreciation (depreciation)	(723,292)
Net realized and unrealized gain (loss)	(775,801)
Net increase (decrease) in net assets resulting from operations	\$(582,299)

^aFor the period April 1, 2013 (commencement of operations) to August 31, 2013.

Financial Statements (continued)

Statements of Changes in Net Assets

Increase (decrease) in net assets: Operations:	Templeton Emerging Markets Bond Fund Period Ended August 31, 2013 ^a
Net investment income	\$ 193,502
Net realized gain (loss) from investments and foreign currency transactions	(52,509)
assets and liabilities denominated in foreign currencies	(723,292)
Net increase (decrease) in net assets resulting from operations	(582,299)
Capital share transactions: (Note 2)	
Class A	10,875,591
Class C	300,958
Class R	10,000
Class R6	5,000
Advisor Class	121,116
Total capital share transactions	11,312,665
Net increase (decrease) in net assets	10,730,366
Net assets:	
End of period	\$10,730,366
Undistributed net investment income included in net assets:	
End of period	\$ 191,887

^aFor the period April 1, 2013 (commencement of operations) to August 31, 2013.

Notes to Financial Statements

Templeton Emerging Markets Bond Fund

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Templeton Income Trust (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company, consisting of four separate funds. The Templeton Emerging Markets Bond Fund (Fund) is included in this report. The financial statements of the remaining funds in the Trust are presented separately. Effective April 1, 2013, the Fund commenced operations offering four classes of shares: Class A, Class C, Class R, and Advisor Class. Effective May 1, 2013, the Fund began offering a new class of shares, Class R6. Each class of shares differs by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees primarily due to differing arrangements for distribution and transfer agent fees.

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. Under procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator, investment manager and other affiliates have formed the 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 marketbased 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 the close of the NYSE on the date that the values of the foreign debt securities are determined. Investments in open-end mutual funds are valued at the closing net asset value.

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

- 1. Organization and Significant Accounting Policies (continued)
- a. Financial Instrument Valuation (continued)

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 market 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.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before the daily close of business on the NYSE. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at the close of the NYSE. In order to minimize the potential for these differences, the VLOC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

In addition, certain foreign markets may be open on days that the NYSE is closed, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

1. Organization and Significant Accounting Policies (continued)

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 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 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 on 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 on 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.

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

- 1. Organization and Significant Accounting Policies (continued)
- c. Derivative Financial Instruments (continued)

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counterparties. 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. At August 31, 2013, the Fund had OTC derivatives in a net liability position of \$135,579.

Collateral requirements differ by type of derivative. Collateral terms are contract specific for OTC derivatives. 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, 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.

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.

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

1. Organization and Significant Accounting Policies (continued)

c. Derivative Financial Instruments (continued)

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 principal 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, required initial margin deposits of cash or securities are pledged by the Fund. Subsequent payments, known as variation margin, are made or received by the Fund, depending on fluctuations in the value of the centrally cleared interest rate swaps. Such variation margin is accounted for as a payable or receivable on the Statement of Assets and Liabilities and settled daily until the contract is closed, at which time the gains or losses are realized. 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.

See Note 10 regarding other derivative information.

d. 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 Fund. 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.

e. 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.

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

1. Organization and Significant Accounting Policies (continued)

e. Income and Deferred Taxes (continued)

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 recognizes the tax benefits of uncertain tax positions only when the position is "more likely than not" to be sustained upon examination by the tax authorities based on the technical merits of the tax position. As of August 31, 2013, and for all open tax years, the Fund has determined that no liability for unrecognized tax benefits is required in the Fund's financial statements related to uncertain tax positions taken on a tax return (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 statute of limitation.

f. Security Transactions, Investment Income, Expenses and Distributions

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 accounting principles generally accepted in the United States of America. 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.

Common expenses incurred by the Trust are allocated among the funds based on the ratio of net assets of each fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, not including class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

1. Organization and Significant Accounting Policies (continued)

f. Security Transactions, Investment Income, Expenses and Distributions (continued)

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 interest income on the Statement of Operations.

g. Offering Costs

Offering costs are amortized on a straight line basis over twelve months.

h. Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

2. Shares of Beneficial Interest

At August 31, 2013, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Period Ended August 31, 2013 ^a		
	Shares	Amount	
Class A Shares:			
Shares sold	1,109,374 \$11,095,66		
Shares redeemed	(22,174)	.) (220,078)	
Net increase (decrease)	1,087,200	\$10,875,591	
Class C Shares:			
Shares sold	59,422	\$ 584,508	
Shares redeemed	(29,791)	(283,550)	
Net increase (decrease)	29,631	\$ 300,958	

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

2. Shares of Beneficial Interest (continued)

	Period Ended August 31, 2013 ^a		
	Shares	Shares Amount	
Class R Shares:			
Shares sold	1,000	\$	10,000
Net increase (decrease)	1,000	\$	10,000
Class R6 Shares ^b :			
Shares sold	493	\$	5,000
Net increase (decrease)	493	\$	5,000
Advisor Class Shares:			
Shares sold	12,625	\$	125,153
Shares redeemed	(409)		(4,037)
Net increase (decrease)	12,216	\$	121,116

 $^{{}^{\}mathrm{a}}\!\mathsf{For}$ the period April 1, 2013 (commencement of operations) to August 31, 2013.

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:

Subsidiary	Affiliation
Franklin Advisers, Inc. (Advisers)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

a. Management Fees

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

Annualized Fee Rate	Net Assets
1.050%	Up to and including \$1 billion
1.030%	Over \$1 billion, up to and including \$5 billion
1.010%	Over \$5 billion, up to and including \$10 billion
0.990%	Over \$10 billion, up to and including \$15 billion
0.970%	Over \$15 billion, up to and including \$20 billion
0.950%	In excess of \$20 billion

^bFor the period May 1, 2013 (effective date) to August 31, 2013.

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

3. Transactions with Affiliates (continued)

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. Distribution Fees

The Board has adopted distribution plans for each share class, with the exception of Class R6 and Advisor Class shares, pursuant to Rule 12b-1 under the 1940 Act. Distribution fees are not charged on shares held by affiliates. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods. In addition, under the Fund's Class C and R compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

The maximum annual plan rates, based on the average daily net assets, for each class, are as follows:

Class A	0.25%
Class C	0.65%
Class R	0.50%

d. Sales Charges/Underwriting Agreements

Front-end sales charges and contingent deferred sales charges (CDSC) do not represent expenses of the Fund. These charges are deducted from the proceeds of sales of Fund shares prior to investment or from redemption proceeds prior to remittance, as applicable. Distributors has advised the Fund of the following commission transactions related to the sales and redemptions of the Fund's shares for the period:

Sales charges retained net of commissions paid to	
unaffiliated broker/dealers	\$874
CDSC retained	\$405

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

3. Transactions with Affiliates (continued)

e. Transfer Agent Fees

Each class of shares, except for Class R6, pays transfer agent fees to Investor Services for its performance of shareholder servicing obligations and reimburses Investor Services for out of pocket expenses incurred, including shareholding servicing fees paid to third parties. These fees are allocated daily based upon their relative proportion of such classes' aggregate net assets. Class R6 pays Investor Services transfer agent fees specific to that class.

For the period ended August 31, 2013, the Fund paid transfer agent fees of \$1,063, of which \$808 was retained by Investor Services.

f. Waiver and Expense Reimbursements

Advisers and FT Services have contractually agreed in advance to waive or limit their respective fees and to assume as their own expense certain expenses otherwise payable by the Fund so that the expenses (excluding distribution fees, and acquired fund fees and expenses) for Class A, Class C, Class R and Advisor Class of the Fund does not exceed 1.00%, and Class R6 does not exceed 0.96% (other than certain non-routine expenses or costs, including those relating to litigation, indemnification, reorganizations, and liquidations) until December 31, 2014. Investor Services has contractually agreed in advance to waive or limit its fees so that the Class R6 transfer agent fees does not exceed 0.01% until December 31, 2014.

g. Other Affiliated Transactions

At August 31, 2013, Advisers owned 88.41% of the Fund's outstanding shares.

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 August 31, 2013, there were no credits earned.

5. INCOME TAXES

For tax purposes, capital losses may be carried over to offset future capital gains, if any. At August 31, 2013, the Fund had short-term capital loss carryforwards of \$23,000.

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

5. INCOME TAXES (continued)

At August 31, 2013, the cost of investments, net unrealized appreciation (depreciation), undistributed ordinary income for income tax purposes were as follows:

Cost of investments	\$1	1,030,907
Unrealized appreciation	\$	23,627
Unrealized depreciation		(638,230)
Net unrealized appreciation (depreciation)	\$	(614,603)
Distributable earnings – undistributed ordinary income	\$	152,027

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of bond discounts and premiums and offering costs.

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the period ended August 31, 2013, aggregated \$9,418,536 and \$676,340, respectively.

7. INVESTMENTS IN INSTITUTIONAL FIDUCIARY TRUST MONEY MARKET PORTFOLIO

The Fund invests in the Institutional Fiduciary Trust Money Market Portfolio (Sweep Money Fund), an open-end investment company managed by Advisers. Management fees paid by the Fund are reduced on assets invested in the Sweep Money Fund, in an amount not to exceed the management and administrative fees paid by the Sweep Money Fund.

8. CREDIT RISK AND DEFAULTED SECURITIES

At August 31, 2013, the Fund had 58.18% 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.

9. 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.

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

10. OTHER DERIVATIVE INFORMATION

At August 31, 2013, the Fund's investments in derivative contracts are reflected on the Statement of Assets and Liabilities as follows:

Asset Derivatives Liability Derivatives Derivative Contracts Not Accounted for as Statement of Assets and Fair Value Statement of Assets and Fair Value **Hedging Instruments Liabilities Location** Amount **Liabilities Location** Amount Interest rate contracts Unrealized appreciation on Unrealized depreciation on \$ 9,173 swap contracts swap contracts Foreign exchange contracts Unrealized appreciation on Unrealized depreciation on forward exchange contracts 28,337 forward exchange contracts 145,131

For the period ended August 31, 2013, the effect of derivative contracts on the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Locations	Realized Gain (Loss) for the Period	Change in Unrealized Appreciation (Depreciation) for the Period
Interest rate contracts	Net realized gain (loss) from swap contracts / Net change in unrealized appreciation (depreciation) on investments	\$ —	\$ (9,173)
Foreign exchange contracts	Net realized gain (loss) from foreign currency transactions / Net change in unrealized appreciation (depreciation) on translation of other assets and liabilities denominated in		
	foreign currencies	_	(116,794)

For the period ended August 31, 2013, the average month end market value of derivatives represented 1.00% of average month end net assets. The average month end number of open derivative contracts for the period was 20.

At August 31, 2013, the Fund's OTC derivative assets and liabilities, are as follows:

	Gross and Net Amounts of Assets and Liabilities Presented in the Statement of Assets and Liabilities		
	Assetsa	Liabilitiesa	
Derivatives Forward Exchange Contracts	\$28,337	\$145,131	
Swap Contracts	_	9,173	
Total	\$28,337	\$154,304	

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.

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

10. OTHER DERIVATIVE INFORMATION (continued)

At August 31, 2013, the Fund's OTC derivative assets which may be offset against the Fund's OTC derivative liabilities, and collateral received from the counterparty, is as follows:

		Amounts Not Offset in the Statement of Assets and Liabilities				
	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)	
Counterparty						
BZWS	\$25,991	\$(16,379)	\$—	\$	\$9,612	
DBAB	_	_	_		_	
HSBK	_	_	_		_	
JPHQ	2,346	(2,346)	_	_		
Total	\$28,337	\$(18,725)	\$—	\$—	\$9,612	

At August 31, 2013, the Fund's OTC derivative liabilities which may be offset against the Fund's OTC derivative assets, and collateral pledged to the counterparty, is as follows:

	Amounts Not Offset in the Statement of Assets and Liabilities					
	Gross and Net Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments Available for Offset	Financial Instruments Collateral Pledged	Cash Collateral Pledged	Net Amount (Not less than zero)	
Counterparty						
BZWS	\$ 16,379	\$(16,379)	\$	\$—	\$ —	
DBAB	54,992	_	_	_	54,992	
HSBK	3,865	_	_	_	3,865	
JPHQ	79,068	(2,346)			76,722	
Total	\$154,304	\$(18,725)	\$—	\$—	\$135,579	

See Note 1(c) regarding derivative financial instruments.

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

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)

The inputs or methodology used for valuing financial instruments are not an indication of the risk associated with investing in those financial instruments.

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.

A summary of inputs used as of August 31, 2013, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:				
Foreign Government and Agency Securities ^a	\$ —	\$7,320,520	\$ —	\$ 7,320,520
Quasi-Sovereign and Corporate Bonds ^a	_	840,009	_	840,009
Short Term Investments	990,373	1,265,402	_	2,255,775
Total Investments in Securities	\$990,373	\$9,425,931	\$ —	\$10,416,304
Forward Exchange Contracts	\$ —	\$ 28,337	\$ —	\$ 28,337
Liabilities:				
Swaps	_	9,173	_	9,173
Forward Exchange Contracts	_	145,131	_	145,131

^aFor 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 investments at the end of the period.

Notes to Financial Statements (continued)

Templeton Emerging Markets Bond Fund

12. New Accounting Pronouncements

In June 2013, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-08, Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements. The ASU modifies the criteria used in defining an investment company under U.S. Generally Accepted Accounting Principles and also sets forth certain measurement and disclosure requirements. Under the ASU, an entity that is registered under the 1940 Act automatically qualifies as an investment company. The ASU is effective for interim and annual reporting periods beginning after December 15, 2013. The Fund is currently reviewing the requirements and believes the adoption of this ASU will not have a material impact on its financial statements.

13. 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

Co	un	tο	rn	aı	rtv
CU	u	LC	ıμ	a	LY

BZWS - Barclays Bank PLC DBAB - Deutsche Bank AG HSBK - HSBC Bank PLC

JPHQ - JPMorgan Chase Bank, N.A.

Currency

EUR - Euro

GHS - Ghanaian Cedi **HUF** - Hungarian Forint

IDR - Indonesian Rupiah KRW - South Korean Won LKR - Sri Lankan Rupee

MXN - Mexican Peso MYR - Malaysian Ringgit

NGN - Nigerian Naira PHP - Philippine Peso

PLN - Polish Zloty RSD - Serbian Dinar

UYU - Uruguayan Peso

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of the Templeton Income Trust and Shareholders of **Templeton Emerging Markets Bond Fund**

In our opinion, the accompanying statement of assets and liabilities, including the statement of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Templeton Emerging Markets Bond Fund (the "Fund") at August 31, 2013, and the results of its operations, the changes in its net assets and the financial highlights for the period April 1, 2013 (commencement of operations) through August 31, 2013, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of the financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at August 31, 2013 by correspondence with the custodian, transfer agent and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California October 18, 2013

Tax Information (unaudited)

Templeton Emerging Markets Bond Fund

At August 31, 2013, more than 50% of the Fund's total assets were invested in securities of foreign issuers. In most instances, foreign taxes were withheld from income paid to the Fund on these investments. The Fund elects to treat foreign taxes paid as allowed under Section 853 of the Code. This election will allow shareholders of record as of the 2013 distribution date, to treat their proportionate share of foreign taxes paid by the Fund as having been paid directly by them. The shareholder shall consider these amounts as foreign taxes paid in the tax year in which they receive the Fund distribution.

By mid-February 2014, shareholders will receive Form 1099-DIV which will include their share of taxes withheld and foreign source income distributed during the calendar year 2013.

Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupations during at least the past five years and number of U.S. registered portfolios overseen in the Franklin Templeton Investments fund complex are shown below. Generally, each board member serves until that person's successor is elected and qualified.

Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Harris J. Ashton (1932) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Trustee	Since 1992	141	Bar-S Foods (meat packing company) (1981-2010).
Principal Occupation During at	Least the Past 5	5 Years:		

Director of various companies; and formerly, Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).

Ann Torre Bates (1958)	Trustee	Since 2008	38	SLM Corporation (Sallie Mae), Ares
300 S.E. 2nd Street				Capital Corporation (specialty finance
Fort Lauderdale, FL 33301-1923	3			company) and Allied Capital Corporation
				(financial services) (2003-2010).

Principal Occupation During at Least the Past 5 Years:

Independent strategic and financial consultant; and formerly, Executive Vice President and Chief Financial Officer, NHP Incorporated (manager of multifamily housing) (1995-1997); and Vice President and Treasurer, US Airways, Inc. (until 1995).

Frank J. Crothers (1944)	Trustee	Since 2003	27	Talon Metals Corp. (mining exploration),
300 S.E. 2nd Street				Fortis, Inc. (utility holding company)
Fort Lauderdale, FL 33301-1923				and AML Foods Limited (retail
				distributors).

Principal Occupation During at Least the Past 5 Years:

Director and Vice Chairman, Caribbean Utilities Company, Ltd.; director of various other private business and nonprofit organizations; and formerly, Chairman, Atlantic Equipment and Power Ltd. (1977-2003).

Edith E. Holiday (1952)	Lead	Trustee since	141	Hess Corporation (exploration and
300 S.E. 2nd Street	Independent	2001 and Lead		refining of oil and gas), H.J. Heinz
Fort Lauderdale, FL 33301-1923	Trustee	Independent		Company (processed foods and allied
		Trustee since		products) (1994-2013), RTI
		2007		International Metals, Inc. (manufacture
				and distribution of titanium), Canadian
				National Railway (railroad) and White
				Mountains Insurance Group, Ltd.
				(holding company)

Principal Occupation During at Least the Past 5 Years:

Director or Trustee of various companies and trusts; and formerly, Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison – United States Treasury Department (1988-1989).

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
J. Michael Luttig (1954)	Trustee	Since 2009	141	Boeing Capital Corporation (aircraft
300 S.E. 2nd Street				financing) (2006-2013).
Fort Lauderdale, FL 33301-1923				

Principal Occupation During at Least the Past 5 Years:

Executive Vice President, General Counsel and member of Executive Council, The Boeing Company (aerospace company); and formerly, Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).

David W. Niemiec (1949)	Trustee	Since 2005	34	Emeritus Corporation (assisted living)
300 S.E. 2nd Street				(1999-2010) and OSI Pharmaceuticals,
Fort Lauderdale, FL 33301-1923	3			Inc. (pharmaceutical products)
				(2006-2010).

Principal Occupation During at Least the Past 5 Years:

Advisor, Saratoga Partners (private equity fund); and formerly, Managing Director, Saratoga Partners (1998-2001) and SBC Warburg Dillon Read (investment banking) (1997-1998); Vice Chairman, Dillon, Read & Co. Inc. (investment banking) (1991-1997); and Chief Financial Officer, Dillon, Read & Co. Inc. (1982-1997).

Frank A. Olson (1932)	Trustee	Since 2003	141	Hess Corporation (exploration and
300 S.E. 2nd Street				refining of oil and gas) (1998-2013).
Fort Lauderdale, FL 33301-19)23			

Principal Occupation During at Least the Past 5 Years:

Chairman Emeritus, The Hertz Corporation (car rental) (since 2000) (Chairman of the Board (1980-2000) and Chief Executive Officer (1977-1999)); and formerly, Chairman of the Board, President and Chief Executive Officer, UAL Corporation (airlines) (until 1987).

Larry D. Thompson (1945) 300 S.E. 2nd Street	Trustee	Since 2005	141	Cbeyond, Inc. (business communications provider) (2010-2012),
Fort Lauderdale, FL 33301-1923				The Southern Company (energy company) (2010-2012) and
				The Washington Post Company
				(education and media organization).

Principal Occupation During at Least the Past 5 Years:

Executive Vice President - Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (July 2012); and formerly, John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2011-2012); Senior Vice President – Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

Constantine D. Tseretopoulos	Trustee	Since 2003	27	None
(1954)				
300 S.E. 2nd Street				

Principal Occupation During at Least the Past 5 Years:

Fort Lauderdale, FL 33301-1923

Physician, Chief of Staff, owner and operator of the Lyford Cay Hospital (1987-present); director of various nonprofit organizations; and formerly, Cardiology Fellow, University of Maryland (1985-1987); and Internal Medicine Resident, Greater Baltimore Medical Center (1982-1985).

Robert E. Wade (1946)	Trustee	Since 2006	45	El Oro Ltd (investments).			
300 S.E. 2nd Street							
Fort Lauderdale, FL 33301-1923							
Principal Occupation During at Least the Past 5 Years:							
Attorney at law engaged in private practice (1972-2008) and member of various boards.							

Interested Board Members and Officers

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
**Gregory E. Johnson (1961) One Franklin Parkway	Trustee	Since 2007	152	None
San Mateo, CA 94403-1906				

Principal Occupation During at Least the Past 5 Years:

Chairman of the Board, Member - Office of the Chairman, Director, President and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments; and Chairman, Investment Company Institute.

**Rupert H. Johnson, Jr. (1940)	Chairman of	Chairman of the	141	None
One Franklin Parkway	the Board and	Board and Trustee		
San Mateo, CA 94403-1906	Trustee and	since June 2013,		
	Vice President	and Vice President		
		since 1996		

Principal Occupation During at Least the Past 5 Years:

Vice Chairman, Member - Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 41 of the investment companies in Franklin Templeton Investments.

Alison E. Baur (1964)	Vice President Sin	nce 2012 N	Not Applicable	Not Applicable
One Franklin Parkway				
San Mateo CA 94403-1906				

Principal Occupation During at Least the Past 5 Years:

Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.

Laura F. Fergerson (1962)	Chief	Since 2009	Not Applicable	Not Applicable	
One Franklin Parkway	Executive				
San Mateo, CA 94403-1906	Officer -				
	Finance and				
	Administration				

Principal Occupation During at Least the Past 5 Years:

Senior Vice President, Franklin Templeton Services, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.

Aliya S. Gordon (1973)	Vice President	Since 2009	Not Applicable	Not Applicable
One Franklin Parkway				
San Mateo, CA 94403-1906				

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; officer of 46 of the investment companies in Franklin Templeton Investments; and formerly, Litigation Associate, Steefel, Levitt & Weiss, LLP (2000-2004).

Steven J. Gray (1955)	Vice President	Since 2009	Not Applicable	Not Applicable	
One Franklin Parkway					
San Mateo, CA 94403-1906					

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc.; and officer of 46 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Selena I Holmes (1965)	Vice President	Since 2012	Not Applicable	Not Applicable

100 Fountain Parkway St. Petersburg, FL 33716-1205 Compliance

Principal Occupation During at Least the Past 5 Years:

Director, Global Compliance Monitoring; and officer of 46 of the investment companies in Franklin Templeton Investments.

Christopher J. Molumphy (1962) President and Since 2002 Not Applicable Not Applicable

One Franklin Parkway Chief Executive San Mateo, CA 94403-1906 Officer -Investment

Management

Principal Occupation During at Least the Past 5 Years:

Director and Executive Vice President, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 22 of the investment companies in Franklin Templeton Investments.

Kimberly H. Novotny (1972) Vice President Since March 2013 Not Applicable Not Applicable

300 S.E. 2nd Street

Fort Lauderdale, FL 33301-1923

Principal Occupation During at Least the Past 5 Years:

Senior Corporate Counsel, Franklin Templeton Investments; Vice President, Secretary and Trust Officer, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 46 of the investment companies in Franklin Templeton Investments.

Mark H. Otani (1968)	Treasurer,	Since 2009	Not Applicable	Not Applicable
One Franklin Parkway	Chief Financial			
San Mateo, CA 94403-1906	Officer and			
	Chief			
	Accounting			
	Officer			

Principal Occupation During at Least the Past 5 Years:

Director, Global Fund Accounting Operations, Franklin Templeton Investments; and officer of 14 of the investment companies in Franklin Templeton Investments.

Robert C. Rosselot (1960) Chief Since March 2013 Not Applicable Not Applicable 300 S.E. 2nd Street Compliance Fort Lauderdale, FL 33301-1923 Officer

Principal Occupation During at Least the Past 5 Years:

Director, Global Compliance, Franklin Templeton Investments; officer of 46 of the investment companies in Franklin Templeton Investments; and formerly, Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).

Name, Year of Birth and Address	Position	Length of	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Karen L. Skidmore (1952)	Vice President	Since 2009	Not Applicable	Not Applicable

One Franklin Parkway San Mateo, CA 94403-1906 Vice President Since 2009 Not Applicable Not Applicable

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; and officer of 46 of the investment companies in Franklin Templeton Investments.

Craig S. Tyle (1960) Vice President Since 2005 Not Applicable Not Applicable One Franklin Parkway San Mateo, CA 94403-1906

Principal Occupation During at Least the Past 5 Years:

General Counsel and Executive Vice President, Franklin Resources, Inc.; officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments; and formerly, Partner, Shearman & Sterling, LLP (2004-2005); and General Counsel, Investment Company Institute (ICI) (1997-2004).

Lori A. Weber (1964) Secretary and Secretary since Not Applicable Not Applicable 300 S.E. 2nd Street Vice President March 2013 and Fort Lauderdale, FL 33301-1923 Vice President since 2011

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; Vice President, Fiduciary Trust International of the South; and officer of 46 of the investment companies in Franklin Templeton Investments.

- Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.
- Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.
- Note 3: Effective June 13, 2013, Charles B. Johnson ceased to be a trustee of the Fund.

The Sarbanes-Oxley Act of 2002 and Rules adopted by the U.S. Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated each of Ann Torre Bates and David W. Niemiec as an audit committee financial expert. The Board believes that Ms. Bates and Mr. Niemiec qualify as such an expert in view of their extensive business background and experience. Ms. Bates has served as a member of the Fund Audit Committee since 2008. She currently serves as a director of SLM Corporation and Ares Capital Corporation and was formerly a director of Allied Capital Corporation from 2003 to 2010, Executive Vice President and Chief Financial Officer of NHP Incorporated and Vice President and Treasurer of US Airways, Inc. Mr. Niemiec has served as a member of the Fund Audit Committee since 2006, currently serves as an Advisor to Saratoga Partners and was formerly its Managing Director from 1998 to 2001. Mr. Niemiec was formerly a director of Emeritus Corporation from 1999 to 2010 and OSI Pharmaceuticals, Inc. from 2006 to 2010, Managing Director of SBC Warburg Dillon Read from 1997 to 1998, and was Vice Chairman from 1991 to 1997 and Chief Financial Officer from 1982 to 1997 of Dillon, Read & Co. Inc. As a result of such background and experience, the Board believes that Ms. Bates and Mr. Niemiec have each acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Ms. Bates and Mr. Niemiec are independent Board members as that term is defined under the applicable U.S. Securities and Exchange Commission Rules and Releases.

The Statement of Additional Information (SAI) includes additional information about the board members and is available, without charge, upon request. Shareholders may call (800) DIAL BEN/342-5236 to request the SAI.

^{*}We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

^{**} Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Rupert H. Johnson, Jr. is considered to be an interested person of the Fund under the federal securities laws due to his position as officer and director and major shareholder of Resources.

Shareholder Information

Templeton Emerging Markets Bond Fund

Proxy Voting Policies and Procedures

The Trust's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Trust uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Trust's complete Policies online at 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 Trust's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

Quarterly Statement of Investments

The Trust 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-O by visiting the Commission's website at 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.

Householding of Reports and Prospectuses

You will receive the Fund's financial reports every six months as well as an annual updated summary prospectus (prospectus available upon request). To reduce Fund expenses, we try to identify related shareholders in a household and send only one copy of the financial reports and summary prospectus. This process, called "householding," will continue indefinitely unless you instruct us otherwise. If you prefer not to have these documents householded, please call us at (800) 632-2301. At any time you may view current prospectuses/summary prospectuses and financial reports on our website. If you choose, you may receive these documents through electronic delivery.

Franklin Templeton Funds

Literature Request. To receive a summary prospectus and/or prospectus, please call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information. Please carefully read a prospectus before investing. To ensure the highest quality of service, we may monitor, record and access telephone calls to or from our service departments. These calls can be identified by the presence of a regular beeping tone.

VALUE

Franklin All Cap Value Fund
Franklin Balance Sheet Investment Fund
Franklin Large Cap Value Fund
Franklin MicroCap Value Fund
Franklin MidCap Value Fund
Franklin Small Cap Value Fund
Mutual Beacon Fund
Mutual Quest Fund
Mutual Recovery Fund²
Mutual Shares Fund

BLEND

Franklin Focused Core Equity Fund Franklin Large Cap Equity Fund Franklin Rising Dividends Fund

GROWTH

Franklin DynaTech Fund Franklin Flex Cap Growth Fund Franklin Growth Fund Franklin Growth Opportunities Fund Franklin Small Cap Growth Fund Franklin Small-Mid Cap Growth Fund

SECTOR

Franklin Biotechnology Discovery Fund
Franklin Global Listed Infrastructure Fund
Franklin Global Real Estate Fund
Franklin Gold & Precious Metals Fund
Franklin Natural Resources Fund
Franklin Real Estate Securities Fund
Franklin Utilities Fund
Mutual Financial Services Fund

GLOBAL

Franklin World Perspectives Fund Mutual Global Discovery Fund Templeton Global Opportunities Trust Templeton Global Smaller Companies Fund Templeton Growth Fund Templeton World Fund

INTERNATIONAL

Franklin India Growth Fund
Franklin International Growth Fund
Franklin International Small Cap Growth Fund
Mutual European Fund
Mutual International Fund
Templeton Asian Growth Fund
Templeton BRIC Fund
Templeton China World Fund
Templeton Developing Markets Trust
Templeton Emerging Markets Small Cap Fund
Templeton Foreign Fund
Templeton Foreign Smaller Companies Fund
Templeton Frontier Markets Fund

HYBRID

Franklin Balanced Fund
Franklin Convertible Securities Fund
Franklin Equity Income Fund
Franklin Income Fund
Templeton Emerging Markets Balanced Fund
Templeton Global Balanced Fund

ASSET ALLOCATION

Franklin LifeSmart™ Retirement Target Funds (2015-2050)⁵

Franklin Templeton Corefolio® Allocation Fund
Franklin Templeton Founding Funds Allocation Fund
Franklin Templeton Conservative Allocation Fund
Franklin Templeton Growth Allocation Fund
Franklin Templeton Moderate Allocation Fund
Franklin Templeton Global Allocation Fund
Franklin Templeton Multi-Asset Real Return Fund

FIXED INCOME

Franklin Adjustable U.S. Government Securities Fund⁶
Franklin Floating Rate Daily Access Fund
Franklin Global Government Bond Fund
Franklin High Income Fund
Franklin Limited Maturity U.S. Government
Securities Fund⁶

Franklin Real Return Fund
Franklin Short Duration U.S. Government ETF
Franklin Strategic Income Fund
Franklin Strategic Mortgage Portfolio
Franklin Templeton Hard Currency Fund
Franklin Total Return Fund

Franklin Low Duration Total Return Fund

Franklin U.S. Government Securities Fund⁶
Templeton Constrained Bond Fund
Templeton Emerging Markets Bond Fund
Templeton Global Bond Fund

Templeton Global Total Return Fund
Templeton International Bond Fund

TAX-FREE INCOME⁷

National

Double Tax-Free Income Fund⁸ Federal Tax-Free Income Fund High Yield Tax-Free Income Fund Insured Tax-Free Income Fund^{9,10}

Limited-/Intermediate-Term

California Intermediate-Term Tax-Free Income Fund Federal Intermediate-Term Tax-Free Income Fund Federal Limited-Term Tax-Free Income Fund New York Intermediate-Term Tax-Free Income Fund

State-Specific

Alabama	Kentucky	New York
Arizona	Louisiana	(2 funds)
California	Maryland	North Carolina
(4 funds)10	Massachusetts	Ohio
Colorado	Michigan	Oregon
Connecticut	Minnesota	Pennsylvania
Florida	Missouri	Tennessee
Georgia	New Jersey	Virginia

INSURANCE FUNDS

Franklin Templeton Variable Insurance Products Trust¹¹

- 1. The fund is closed to new investors. Existing shareholders and select retirement plans may add to their accounts.
- 2. The fund is a continuously offered, closed-end fund. Shares may be purchased daily; there is no daily redemption. However, each quarter, pending board approval, the fund will authorize the repurchase of 5%–25% of the outstanding number of shares. Investors may tender all or a portion of their shares during the tender period.
- 3. Effective 6/3/13, the fund closed to new investors, with limited exceptions.
- 4. Effective 6/28/13, the fund closed to new investors. Existing shareholders and select retirement plans may add to their accounts.
- 5. Effective 5/1/13, the Franklin Templeton Retirement Target Funds changed their names to Franklin LifeSmart Retirement Target Funds. The funds' investment goals and principal investment strategies remained unchanged. These funds' target dates are in five-year increments.
- 6. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.
- 7. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.
- 8. The fund is closed to all new investments (other than reinvestment of dividends and capital gains distributions).
- 9. The fund invests primarily in insured municipal securities.
- 10. Effective at the close of market 3/1/13, Franklin Insured Tax-Free Income Fund and Franklin California Insured Tax-Free Income Fund closed to all new investments (other than reinvestment of dividends and capital gains distributions).
- 11. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts.

VALUE | BLEND | GROWTH | SECTOR | GLOBAL | INTERNATIONAL | HYBRID | ASSET ALLOCATION | FIXED INCOME | TAX-FREE INCOM



< GAIN FROM OUR PERSPECTIVE® >

Annual Report and Shareholder Letter
TEMPLETON EMERGING MARKETS
BOND FUND

Investment Manager

Franklin Advisers, Inc.

Distributor

Franklin Templeton Distributors, Inc. (800) DIAL BEN®/342-5236 franklintempleton.com

Shareholder Services

(800) 632-2301

Authorized for distribution only when accompanied or preceded by a summary prospectus and/or prospectus. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. A prospectus contains this and other information; please read it carefully before investing.

To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular beeping tone.