

WESTERN ASSET EMERGING MARKETS INCOME FUND INC.
Form N-CSR
November 07, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-7066

Salomon Brothers Emerging Markets Income Fund Inc.
(Exact name of registrant as specified in charter)

125 Broad Street, New York, NY
(Address of principal executive offices)

10004
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

300 First Stamford Place, 4th Floor

Stamford, CT 06902
(Name and address of agent for service)

Registrant's telephone number, including area code: (800) 725-6666

Date of fiscal year end: August 31

Date of reporting period: August 31, 2006

ITEM 1. REPORT TO STOCKHOLDERS.

The **Annual** Report to Stockholders is filed herewith.

Salomon Brothers
Emerging Markets
Income Fund Inc.

ANNUAL REPORT

AUGUST 31, 2006

INVESTMENT PRODUCTS: NOT FDIC INSURED NO BANK GUARANTEE MAY LOSE VALUE

Salomon Brothers
Emerging Markets
Income Fund Inc.

Annual Report August 31, 2006

What's Inside

Fund Objective

The Fund's primary investment objective is to seek high current income. As a secondary objective, the Fund seeks capital appreciation.

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Letter from the Chairman

R. JAY GERKEN, CFA

Chairman, President and Chief Executive Officer

Dear Shareholder,

While the U.S. economy continued to expand during the reporting period, it did so at an uneven pace. After expanding 4.1% in the third quarter of 2005, gross domestic product (GDP)ⁱ growth slipped to 1.7% during the fourth quarter. The economy then rebounded sharply in the first quarter of 2006, with GDP rising 5.6%, its best showing since the third quarter of 2003. However, the economy then took a step backwards in the second quarter of 2006, as GDP growth was 2.6%, according to final estimates released by the U.S. Bureau of Economic Analysis. The decline was largely attributed to lower consumer spending, triggered by higher interest rates and oil prices, as well as a cooling housing market. In addition, business spending fell during the quarter.

The Federal Reserve Board (Fed)ⁱⁱ continued to raise interest rates during most of the reporting period. Since it began its tightening campaign in June 2004, the Fed increased rates 17 consecutive times, bringing the federal funds rateⁱⁱⁱ from 1.00% to 5.25%. However, in August 2006, the Fed paused from raising rates. In its official statement, the Fed said, ...the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.

Both short- and long-term yields rose over the reporting period. However, after peaking in late June with two and 10 year Treasuries hitting 5.29% and 5.25%, respectively rates fell sharply on hopes that the Fed would end its tightening cycle. Overall, during the 12 months ended August 31, 2006, two-year Treasury yields increased from 3.84% to 4.79%. Over the same period, 10-year Treasury yields moved from 4.02% to

4.74%. Looking at the 12-month period as a whole, the overall bond market, as measured by the Lehman Brothers U.S. Aggregate Index^v, returned 1.71%.

Given continued strong corporate profits and low default rates, high yield bonds generated positive returns during the reporting period. While there were notable company specific issues, mostly in the automobile industry, they were not enough to drag down the overall high yield market. During the 12-month period ended August 31, 2006, the Citigroup High Yield Market Index^v returned 5.06%.

Despite periods of weakness, emerging markets debt generated strong results over the 12-month period, as the JPMorgan Emerging Markets Bond Index Global^{vi} returned 9.02%. A strong global economy, solid domestic spending and high-energy prices supported many emerging market countries. We believe this was enough to overcome the negatives associated with rising global interest rates.

Please read on for a more detailed look at prevailing economic and market conditions during the Fund's fiscal year and to learn how those conditions have affected Fund performance.

Information About Your Fund

As you may be aware, several issues in the mutual fund industry (not directly affecting closed-end investment companies, such as this Fund) have come under the scrutiny of federal and state regulators. Affiliates of the Fund's Manager have, in recent years, received requests for information from various government regulators regarding market timing, late trading, fees, and other mutual fund issues in connection with various investigations. The regulators appear to be examining, among other things, the open-end funds' response to market timing and shareholder exchange activity, including compliance with prospectus disclosure related to these subjects. The Fund is not in a position to predict the outcome of these requests and investigations, or whether these may affect the Fund.

Important information with regard to recent regulatory developments that may affect the Fund is contained in the Notes to Financial Statements included in this report.

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As always, thank you for your confidence in our stewardship of your assets. We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA
Chairman, President and Chief Executive Officer

September 28, 2006

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

- i Gross domestic product is a market value of goods and services produced by labor and property in a given country.
- ii The Federal Reserve Board is responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- iii The federal funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans.
- iv The Lehman Brothers U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.
- v The Citigroup High Yield Market Index is a broad-based unmanaged index of high yield securities.
- vi The JPMorgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds, and local market instruments. Countries covered are Algeria, Argentina, Brazil, Bulgaria, Chile, China, Colombia, Cote d'Ivoire, Croatia, Ecuador, Greece, Hungary, Lebanon, Malaysia, Mexico, Morocco, Nigeria, Panama, Peru, the Philippines, Poland, Russia, South Africa, South Korea, Thailand, Turkey and Venezuela.

Fund Overview

Special Shareholder Notices

Following the purchase of substantially all of Citigroup's asset management business in December 2005, Legg Mason, Inc. (Legg Mason) undertook an internal reorganization to consolidate the advisory services provided to the legacy Citigroup funds through a more limited number of advisers. As part of this reorganization, at a meeting held on June 26, 2006, the Fund's Board approved a new management agreement with Legg Mason Partners Fund Advisor, LLC (LMPFA), under which LMPFA became the investment adviser for the Fund effective August 1, 2006.

Western Asset Management Company (Western Asset) became the subadviser for the Fund, under a new sub-advisory agreement between LMPFA and Western Asset, effective August 1, 2006. LMPFA and Western Asset are wholly-owned subsidiaries of Legg Mason. The portfolio managers who are responsible for the day-to-day management of the Fund remain the same immediately prior to and immediately after the date of these changes.

LMPFA provides administrative and certain oversight services to the Fund. LMPFA has delegated to the subadviser, the day-to-day portfolio management of the Fund. The management fee for the Fund remains unchanged.

In addition to these advisory changes, effective October 9, 2006, the Fund's name is Western Asset Emerging Markets Income Fund Inc.

Q. What were the overall market conditions during the Fund's reporting period?

A. The global bond market experienced periods of volatility over the last 12 months, but ultimately generated positive results. The global bond market's ups and downs were particularly evident in more risky asset classes, such as emerging market debt. For example, in October 2005, March 2006 and May 2006, emerging market debt performed poorly due to heightened risk aversion. This was often tied to the actions of the Federal Reserve Board (Fed). However, looking at the period as a whole, emerging market debt ultimately generated solid returns.

Performance Review

For the 12 months ended August 31, 2006, the Salomon Brothers Emerging Markets Income Fund Inc. returned 8.74%, based on its net asset value (NAV)ⁱⁱ and 5.84% based on its New York Stock Exchange (NYSE) market price per share. In comparison, the Fund's unmanaged benchmark, the JPMorgan Emerging Markets Bond Index Global (EMBI Global)ⁱⁱⁱ returned 9.02% and its Lipper Emerging Markets Debt Closed-End Funds Category Average^{iv} increased 9.60% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the 12-month period, the Fund made distributions to shareholders totaling \$3.2138 per share. The performance table shows the Fund's 12-month total return based on its NAV and market price as of August 31, 2006. **Past performance is no guarantee of future results.**

Performance Snapshot as of August 31, 2006 (unaudited)

Price Per Share	12-Month Total Return
\$15.66 (NAV)	8.74%
\$15.29 (Market Price)	5.84%

All figures represent past performance and are not a guarantee of future results.

Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions, in additional shares.

Q. What were the most significant factors affecting Fund performance?

What were the leading contributors to performance?

A. During the first half of the reporting period, the Fund's performance was driven predominantly by strong country selection. In particular, an overweight in Argentina and underweights in China and Russia enhanced results. The use of leverage also positively contributed to the Fund's performance.

During the second half of the reporting period, a modest overweight in Argentina contributed to performance. Argentina's central bank has been focusing on reserve accumulation and economic growth has been good, helping the country's debt to outperform the EMBI Global Index. Small overweights to Mexico and Brazil also were positive to performance due to improving fundamentals and rising reserves. In Mexico, these positives were enough to overcome the weakness triggered by the turmoil associated with its July election. Elsewhere, the Fund's currency exposure was roughly neutral to slightly positive.

What were the leading detractors from performance?

A. During the first half of the period, the Fund's overweight to Mexico and underweight to Venezuela detracted from performance. In addition, security selection in Brazil and Argentina were negative contributors to results.

During the second half of the reporting period, the Fund's large overweight in Russia also detracted from results. Russia continued to run a massive trade surplus driven, to a large extent, by high commodity prices. Despite this, Russia lagged the EMBI Global Index slightly in the second half of the reporting period. Elsewhere, the Fund's durationv

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positioning was beneficial for most of the period. However, its short duration detracted from performance in July and August when interest rates declined.

Q. Were there any significant changes to the Fund during the reporting period?

A. Earlier in the period, we decreased the Fund's exposure to Brazil, Mexico and Russia in favor of BB-rated credits from countries such as Peru and Turkey. We shortened the Fund's duration to bring it in line with the benchmark.

Looking for Additional Information?

The Fund is traded under the symbol EMD and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under symbol XEMDX on most financial websites. *Barron's* and *The Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as www.leggmason.com/InvestorServices.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102, Monday through Friday from 8:00 a.m. to 6:00 p.m. Eastern Time, for the Fund's current NAV, market price and other information.

Thank you for your investment in the Salomon Brothers Emerging Markets Income Fund Inc. As ever, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Western Asset Management Company

September 28, 2006

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

RISKS: The Fund may invest in high-yield and foreign securities, including emerging markets, which involve risks beyond those inherent solely in higher-rated and domestic investments. High yield bonds involve greater credit and liquidity risks than investment grade bonds. Investing in foreign securities is subject to certain risks not associated with domestic investing, such as currency fluctuations, and changes in political and economic conditions. These risks are magnified in emerging or developing markets. Derivatives, such as options or futures, can be illiquid and harder to value, especially in declining markets. A small investment in certain derivatives may have a potentially large impact on the Fund's performance.

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

- i The Federal Reserve Board is responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- ii NAV is calculated by subtracting total liabilities from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is at the Fund's market price as determined by supply of and demand for the Fund's shares.
- iii The JPMorgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds, and local market instruments. Countries covered are Algeria, Argentina, Brazil, Bulgaria, Chile, China, Colombia, Cote d'Ivoire, Croatia, Ecuador, Greece, Hungary, Lebanon, Malaysia, Mexico, Morocco, Nigeria, Panama, Peru, the Philippines, Poland, Russia, South Africa, South Korea, Thailand, Turkey and Venezuela.
- iv Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the 12-month period ended August 31, 2006, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 13 funds in the Fund's Lipper category.
- v Duration is a common gauge of the price sensitivity of a fixed income asset or portfolio to a change in interest rates.

Fund at a Glance (unaudited)

Investment Breakdown

As a Percent of Total Investments

Schedule of Investments (August 31, 2006)

SALOMON BROTHERS EMERGING MARKETS INCOME FUND INC.

Face Amount	Security	Value
SOVEREIGN BONDS 82.0%		
Argentina 3.9%		
	Republic of Argentina:	
500,000DEM	7.000% due 3/18/04 (a)	\$ 103,507
1,000,000EUR	9.000% due 4/26/06 (a)	407,313
550,000EUR	9.000% due 7/6/10 (a)	219,308
33,750	5.590% due 8/3/12 (b)	31,414
950,000DEM	11.750% due 11/13/26 (a)	189,330
747,599ARS	Bonds, 2.000% due 1/3/10 (b)	469,381
640,539ARS	Discount Bonds, 5.830% due 12/31/33 (b)	240,472
	GDP Linked Securities:	
10,662,020ARS		