

Franklin Income A

Ticker: FKINX Load: 4.25% NAV: \$2.49 Yield: 5.9% Total Assets: \$42,314 mil Mstar Category: Conservative Allocation

Governance and Management

Stewardship Grade: C

Portfolio Manager(s)

The fund is team managed. Charles Johnson and Ed Perks run this fund. The former is the chairman of Franklin, while the latter is a 10-year veteran of the firm and has run Franklin Convertible Securities since early 1999.

Strategy

This fund's management takes a value-oriented, contrarian approach to investing. It buys beaten-down blue chips, utilities stocks, and high-yield bonds in an effort to provide shareholders a fat yield and an attractive total return. It will also venture into emerging-markets debt as opportunities present themselves and has a history of investing across the capital structure of a single issuer (common stock, convertible bonds, traditional debt).

Performance 04-30-06

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2002	4.42	-5.98	-5.94	7.14	-1.06
2003	1.47	14.24	3.16	9.51	30.96
2004	1.62	-0.44	4.24	6.36	12.17
2005	-1.28	3.63	1.50	-1.91	1.85
2006	4.46	—	—	—	—

Trailing	Total Return%	+/- DJ 60%	+/- DJ 40%	%Rank Cat	Growth of \$10,000
3 Mo	2.71	0.47	2.35	3	10,271
6 Mo	7.14	-2.82	2.58	8	10,714
1 Yr	10.88	-5.09	2.15	13	11,088
3 Yr Avg	13.67	-2.48	4.03	2	14,687
5 Yr Avg	9.07	0.72	2.96	2	15,436
10 Yr Avg	9.37	0.68	1.57	1	24,490
15 Yr Avg	10.65	0.95	2.04	1	45,632

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	9.44	8	2.32	98
5 Yr (estimated)	5.30	7	2.61	97
10 Yr (estimated)	5.75	18	2.89	100

Potential Capital Gain Exposure: 6% of assets

Morningstar's Take by Andrew Gogerty 03-28-06

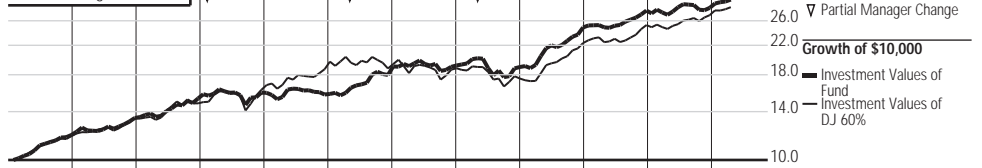
Don't just gawk at Franklin Income's record, but also understand how it got there.

It's not surprising that this fund has been so popular. Its three-, five-, and 10-year trailing returns through March 27, 2006, rank in the top 3% of the conservative-allocation category and have likely been a strong selling point. The fund's 6% current yield also tops all but one of its peers', furthering its appeal to income-oriented investors--such as those in or near retirement.

It's important to recognize that this \$41 billion fund doesn't offer the typical mix of blue-chip stocks and high-quality bonds often seen in this category. Manager Ed Perks has great flexibility in executing the fund's income-focused mandate. He looks across the market's capital structure for undervalued securities, meaning the portfolio will often hold multiple securities (stocks, bonds, convertibles) from the same firm. Moreover, Perks isn't shy about piling into lower-quality debt, which increases credit risk, and concentrating the fund's equity portfolio in

Historical Profile

Return High
Risk High
Rating ★★★★★
Highest



Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	04-06	History
NAV	2.32	2.36	2.53	2.36	2.15	2.36	2.18	1.99	2.41	2.52	2.40	2.49	NAV
Total Return %	21.29	10.45	16.85	0.95	-0.74	20.59	0.65	-1.06	30.96	12.17	1.85	5.82	Total Return %
+/-DJ 60%	1.49	-0.21	4.95	-11.37	-18.07	22.26	3.45	5.71	3.58	-0.80	-5.14	0.23	+/-DJ 60%
+/-DJ 40%	3.13	1.56	2.75	-10.78	-8.60	13.80	-2.57	2.96	13.30	3.16	-2.84	3.95	+/-DJ 40%
Income Return %	8.91	8.04	7.90	7.36	7.91	8.70	7.91	7.69	8.12	6.67	6.14	2.04	Income Return %
Capital Return %	12.38	2.41	8.95	-6.41	-8.65	11.89	-7.26	-8.75	22.84	5.50	-4.29	3.78	Capital Return %
Total Rtn % Rank Cat	39	45	17	96	96	1	43	23	1	1	77	4	Total Rtn % Rank Cat
Income \$	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.16	0.16	0.16	0.15	0.06	Income \$
Capital Gains \$	0.03	0.01	0.03	0.01	0.01	0.03	0.02	0.01	0.01	0.01	0.01	0.00	Capital Gains \$
Expense Ratio %	0.71	0.70	0.72	0.72	0.73	0.76	0.73	0.72	0.73	0.68	0.65	—	Expense Ratio %
Income Ratio %	8.26	8.27	7.45	6.83	7.46	8.01	7.54	6.67	6.63	5.11	5.54	—	Income Ratio %
Turnover Rate %	59	25	16	22	17	24	28	51	48	32	29	—	Turnover Rate %
Net Assets \$mil	6,217	7,082	8,044	7,784	6,285	6,136	6,243	6,521	11,466	17,016	22,276	23,991	Net Assets \$mil

Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	6.17			
3 Yr	12.04	High	High	★★★★★
5 Yr	8.12	High	High	★★★★★
10 Yr	8.90	High	+ Avg	★★★★★
Incept	10.95			

Other Measures	Standard Index	Best Fit Index
Alpha	0.1	0.1
Beta	0.83	0.83
R-Squared	67	67
Standard Deviation	6.52	
Mean	13.67	
Sharpe Ratio	1.63	

Portfolio Analysis 03-31-06

Total Stocks: 51	Share change since 12-31-05	Sectors	P/E Ratio	YTD Return %	% Net Assets
Merck & Co., Inc. Common	+	Health	16.4	9.36	3.52
Bank of America Corporati	+	Financial	11.9	5.72	2.30
Pfizer Inc. Common Stock	+	Health	21.8	3.62	2.28
FirstEnergy Corporation C	+	Utilities	20.0	10.13	1.65
Dominion Resources, Inc.	+	Utilities	24.5	-4.00	1.41
Southern Company Common S	+	Utilities	14.9	-6.21	1.34
AT&T, Inc. Common Stock	+	Telecom	17.8	5.75	1.30
J.P. Morgan Chase & Co. C	+	Financial	17.9	9.23	1.20
PG & E Corporation Common	+	Utilities	16.8	6.65	1.15

Total Fixed-Income: 496	Date of Maturity	Amount \$000	Value \$000	% Net Assets
General Mtrs Accep 6.875%	09-15-11	800,000	746,486	1.80
Cch I 111%	10-01-15	850,000	710,813	1.71
Ford Mtr 7.45%	07-16-31	660,000	493,350	1.19
Nortel Networks Cv 4.25%	09-01-08	500,000	476,250	1.15
Tenet Healthcare 6.375%	12-01-11	515,000	467,363	1.13
Cablevision Sys 8%	04-15-12	440,000	431,200	1.04
Ford Motor Cr 7.375%	10-28-09	450,000	423,382	1.02
Ford Motor Cr 7.375%	02-01-11	450,000	414,391	1.00
General Mtrs Accep 7.75%	01-19-10	420,000	409,834	0.99

Equity Style

Style: Value
Size: Large-Cap

Value Measures	Rel Category
Price/Earnings	13.93 0.89
Price/Book	1.88 0.77
Price/Sales	1.41 1.00
Price/Cash Flow	3.15 0.44
Dividend Yield %	3.81 1.84
Growth Measures	% Rel Category
Long-Term Erngs	5.80 0.52
Book Value	8.05 0.96
Sales	7.66 0.90
Cash Flow	-5.54 NMF
Historical Erngs	-0.03 NMF
Market Cap %	
Giant 45.3	Small 0.2
Large 41.5	Micro 0.0
Mid 13.0	Avg \$mil: 32,124

Composition



Fixed-Income Style

Duration: —
Quality: —

Value Measures	Rel Category		
Avg Eff Duration 1	—		
Avg Eff Maturity	—		
Avg Credit Quality	—		
Avg Wtd Coupon	6.92%		
*figure provided by fund			
Sector Weightings	% of Stocks	Rel DJ 60%	3 Year High Low
Info	8.45	—	—
Software	0.00	—	0 0
Hardware	0.00	—	1 0
Media	0.00	—	1 0
Telecom	8.45	—	8 5
Service	32.72	—	—
Health	19.12	—	19 9
Consumer	0.00	—	0 0
Business	0.00	—	0 0
Financial	13.60	—	17 10
Mfg	58.82	—	—
Goods	0.00	—	6 0
Ind Mtrls	2.35	—	6 2
Energy	11.08	—	14 9
Utilities	45.39	—	51 41

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Inception: 08-31-48
Advisor: Franklin Advisers, Inc.
Subadvisor: None
NTF Plans: Schwab Instl NTF

Minimum Purchase: \$1000 Add: \$50 IRA: \$250
Min Auto Inv Plan: \$50 Add: \$50
Sales Fees: 4.25%L, 0.15%S, 2.00%R
Management Fee: 0.63% mx./0.36% mn.
Actual Fees: Mgt:0.41% Dist:0.15%
Expense Projections: 3Yr:\$642 5Yr:\$772 10Yr:\$1201
Income Distrib: