

Western Asset Income Fund
Form N-CSR
March 01, 2013

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 811-02351

Western Asset Income Fund
(Exact name of registrant as specified in charter)

620 Eighth Avenue, 49th Floor, New York, N.Y.
(Address of principal executive offices)

10018
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place,

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

Registrant's telephone number, including area code: (888)777-0102

Date of fiscal year end: December 31

Date of reporting period: December 31, 2012

ITEM 1. REPORT TO STOCKHOLDERS.

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

December 31, 2012

Annual Report

**Western Asset Income Fund
(PAI)**

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

II Western Asset Income Fund

Fund objectives

The Fund seeks a high level of current income, consistent with prudent investment risk. Capital appreciation is a secondary objective.

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Letter from the president

Dear Shareholder,

We are pleased to provide the annual report of Western Asset Income Fund for the twelve-month reporting period ended December 31, 2012. Please read on for a detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

Recent regulations adopted by the Commodity Futures Trading Commission (the CFTC) require operators of registered investment companies, including closed-end funds, to register as commodity pool operators unless the fund limits its investments in commodity interests. Effective December 31, 2012, your Fund's manager has claimed the exclusion from the definition of commodity pool operator. More information about the CFTC rules and their effect on the Fund is included later in this report on page 37.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, www.lmcef.com. Here you can gain immediate access to market and investment information, including:

- Fund prices and performance,
- Market insights and commentaries from our portfolio managers, and
- A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

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R. Jay Gerken, CFA

President

January 31, 2013

Investment commentary

Economic review

The U.S. economy continued to grow over the twelve months ended December 31, 2012, but it did so at an uneven pace. U.S. gross domestic product (GDP) growth, as reported by the U.S. Department of Commerce, was 2.0% in the first quarter of 2012. The economy then slowed in the second quarter, as GDP growth was a tepid 1.3%. Economic growth accelerated to 3.1% in the third quarter, partially due to increased private inventory investment, higher federal government spending and moderating imports. However, this was a temporary uptick, as the Commerce Department's initial estimate showed that fourth quarter GDP contracted 0.1%. This was the first negative reading since the second quarter of 2009, and was driven by a reversal of the above factors, as private inventory investment and federal government spending weakened.

While there was some improvement in the U.S. job market, unemployment remained elevated throughout the reporting period. When the period began, unemployment, as reported by the U.S. Department of Labor, was 8.3%. Unemployment then generally declined and was 7.8% in September 2012, the lowest rate since January 2009, but still high by historical standards. The unemployment rate then rose to 7.9% in October, before falling to 7.8% in November, where it remained in December. The number of longer-term unemployed continued to be a headwind for the economy, as roughly 39% of the 12.2 million people without a job have been out of work for more than six months.

Meanwhile, the housing market brightened, as sales generally improved and home prices continued to rebound.

According to the National Association of Realtors (NAR), while existing-home sales dipped 1.0% on a seasonally adjusted basis in December 2012 versus the previous month, they were still 12.8% higher than in December 2011. In addition, the NAR reported that the median existing-home price for all housing types was \$180,800 in December 2012, up 11.5% from December 2011. This marked the tenth consecutive month that home prices rose compared to the same period a year earlier. Furthermore, the inventory of homes available for sale fell 8.5% in December, which represents a 4.4 month supply at the current sales pace. This represents the lowest inventory since May 2005.

The manufacturing sector expanded during much of the reporting period, although it experienced several soft patches. Based on the Institute for Supply Management's PMI (PMI) ii, after expanding 34 consecutive months, the PMI fell to 49.7 in June 2012, which represented the first contraction in the manufacturing sector since July 2009 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). Manufacturing continued to contract in July and August before ticking up to 51.5 in September and 51.7 in October. The PMI fell back to contraction territory with a reading of 49.5 in November, its lowest level since July 2009. However, manufacturing again expanded in December, with the PMI increasing to 50.7.

The Federal Reserve Board (Fed) iii took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As has been the case since December 2008, the Fed kept the federal funds rate iv at a historically low range

IV Western Asset Income Fund

Investment commentary (continued)

between zero and 0.25%. In January 2012, the Fed extended the period it expects to keep rates on hold until at least through late 2014. At its June 2012 meeting, the Fed announced that it would continue its program of purchasing longer-term Treasury securities and selling an equal amount of shorter-term Treasury securities (often referred to as "Operation Twist") until the end of 2012. In September, the Fed announced a third round of quantitative easing ("QE3"), which involves purchasing \$40 billion each month of agency mortgage-backed securities on an open-end basis. In addition, the Fed further extended the duration that it expects to keep the federal funds rate on hold, until at least mid-2015. Finally, at its meeting in December, the Fed announced that it would continue purchasing \$40 billion per month of agency mortgage-backed securities, as well as initially purchasing \$45 billion a month of longer-term Treasuries. The Fed also said that it would keep the federal funds rate on hold ...as long as the unemployment rate remains above 6.5%, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2.0% longer-run goal, and longer-term inflation expectations continue to be well anchored.

As always, thank you for your confidence in our stewardship of your assets.

Sincerely,

R. Jay Gerken, CFA

President

January 31, 2013

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results.

- i Gross domestic product ("GDP") is the market value of all final goods and services produced within a country in a given period of time.
- ii The Institute for Supply Management's PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.
- iii The Federal Reserve Board ("Fed") is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

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- iv The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

Fund overview

Q. What is the Fund's investment strategy?

A. The Fund seeks a high level of current income, consistent with prudent investment risk, through investment in a diversified portfolio of debt securities. To a lesser extent, the Fund may also invest in privately placed debt securities and in certain equity securities. Capital appreciation is a secondary investment objective.

The Fund's investment policies provide that its portfolio be invested as follows: at least 75% in debt securities rated within the four highest grades, and in government securities, bank debt, commercial paper, cash or cash equivalents; up to 25% in other fixed-income securities, convertible bonds, convertible preferred and preferred stock; and not more than 25% in securities restricted as to resale.

At Western Asset Management Company (Western Asset), the Fund's adviser, we utilize a fixed-income team approach, with decisions derived from interaction among various investment management sector specialists. The sector teams are comprised of Western Asset's senior portfolio management personnel, research analysts and an in-house economist. Under this team approach, management of client fixed-income portfolios will reflect a consensus of interdisciplinary views within the Western Asset organization. The individuals responsible for development of investment strategy, day-to-day portfolio management, oversight and coordination of the Fund are Stephen A. Walsh, Ryan K. Brist and Michael C. Buchanan.

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

A. The spread sectors (non-Treasuries) overcame several periods of heightened risk aversion and outperformed equal-duration Treasuries over the twelve months ended December 31, 2012. To a great extent, demand for the spread sectors was robust during the first two months of the reporting period. This was due to several factors, including signs that the U.S. economy was gathering momentum and some progress in the European sovereign debt crisis. However, fears that the economy may be experiencing a soft patch and contagion fears from Europe led to flights to quality during portions of March, April and May 2012. The spread sectors then generally rallied over the last seven months of the period as investor sentiment was largely positive.

Short-term U.S. Treasury yields fluctuated in 2012, but ended the year where they began. In contrast, 10-year Treasury yields fell from 1.89% to 1.78% during the twelve months ended December 31, 2012. When the period began, two-year Treasury yields were 0.25%. They moved as low as 0.21% on January 17, 2012 and as high as 0.41% on March 20, 2012. Ten-year Treasury yields were 1.89% at the beginning of the period and peaked at 2.39% on March 19, 2012. On July 25, 2012, ten-year Treasuries closed at an all-time low of 1.43%. Yields then moved higher due to some positive developments in Europe and additional Federal Reserve Board (Fed) actions to stimulate the economy. When the reporting period

2 Western Asset Income Fund 2012 Annual Report

Fund overview (cont d)

ended on December 31, 2012, two-year Treasury yields were 0.25% and ten-year Treasury yields were 1.78%.

All told, the Barclays U.S. Aggregate Indexⁱⁱⁱ returned 4.22% for the twelve months ended December 31, 2012. The overall credit market, as represented by the Barclays U.S. Credit Index^{iv} (the Index), returned 9.39% over the same period. During this period, as measured by the Index, lower-rated BBB-rated bonds outperformed highly-rated AAA-rated securities, returning 11.32% and 3.53%, respectively. Comparatively, riskier fixed-income securities, including high-yield bonds, produced superior results. Over the fiscal year, the Barclays U.S. Corporate High Yield 2% Issuer Cap Index^v gained 15.78%.

Q. How did we respond to these changing market conditions?

A. A number of adjustments were made to the Fund's portfolio during the reporting period. We increased the Fund's allocation to the Basic Industry¹, Capital Goods², Consumer Cyclical³ and Transportation sectors. In contrast, we pared the Fund's exposure to the Consumer Non-cyclical⁴, Communications and Financials sectors. From a credit quarter perspective, we added to the Fund's weighting to BBB-rated securities and reduced its allocation to securities rated A and higher. We actively participated in the new issue market and purchased securities that we felt were attractively valued.

During the reporting period, we used U.S. Treasury futures to manage the Fund's duration^{vi} and yield curve^{vii} positioning. The use of these derivatives detracted from results.

Performance review

For the twelve months ended December 31, 2012, Western Asset Income Fund returned 14.84% based on its net asset value (NAV)^{viii} and 12.76% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmarks, the Barclays U.S. Corporate High Yield Index^{ix} and the Barclays U.S. Credit Index, returned 15.81% and 9.39%, respectively, for the same period. The Lipper Corporate Debt Closed-End Funds BBB-Rated Category Average^x returned 10.41% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling \$0.72 per share. The performance table shows the Fund's twelve-month total return based on its NAV and market price as of December 31, 2012. **Past performance is no guarantee of future results.**

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- 1 Basic Industry consists of the following industries: Chemicals, Metals & Mining and Paper.
- 2 Capital Goods consists of the following industries: Aerospace & Defense, Building Materials, Diversified Manufacturing, Construction Machines, Packaging and Environmental.
- 3 Consumer Cyclical consists of the following industries: Automotive, Entertainment, Gaming, Home Construction, Lodging, Retailers, Restaurants, Textiles and other consumer services.
- 4 Consumer Non-cyclical consists of the following industries: Consumer Products, Food/Beverage, Health Care, Pharmaceuticals, Supermarkets and Tobacco.

Performance Snapshot as of December 31, 2012

Price Per Share	12-Month Total Return*
\$15.04 (NAV)	14.84%
\$14.82 (Market Price)	12.76%

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 return assumes the reinvestment of all distributions at NAV.

Total return assumes the reinvestment of all distributions in additional shares in accordance with the Fund's Dividend Reinvestment Plan.

Q. What were the leading contributors to performance?

A. The largest contributor to the Fund's relative performance during the reporting period was its overweight allocation to high-yield bonds. This was beneficial as the high-yield market outperformed the Index during the twelve-months ended December 31, 2012.

The Fund's large overweight to Financials was beneficial as it was the best performing sector in the Barclays U.S. Credit Index. In particular, the Fund's overweights to large U.S. banks, such as Citigroup Inc. and Bank of America Corp., as well as U.S. financial institutions Goldman Sachs and American International Group, Inc. were additive for performance. An overweight to Royal Bank of Scotland Group PLC was also beneficial.

Maintaining large underweights to non-corporate bonds and the Technology sector were beneficial for performance given their underperformance versus the Barclays U.S. Credit Index.

Q. What were the leading detractors from performance?

A. The largest detractor from the Fund's relative performance for the period was its positioning in a number of sectors. In particular, overweights to the Basic Industry, Consumer Cyclical, Energy and Transportation sectors were detrimental to results as they lagged the Barclays U.S. Credit

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Index.

Overweights to a number of individual securities also detracted from performance, including European oil refiner Petroplus Finance and natural gas, natural gas liquids and oil production company WPX Energy, Inc.

Looking for additional information?

The Fund is traded under the symbol PAI and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XPAIX 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.lmcef.com.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Time, for the Fund's current NAV, market price and other information.

Thank you for your investment in Western Asset Income Fund. As

Fund overview (cont'd)

always, 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

January 22, 2013

RISKS: Bonds are subject to a variety of risks, including interest rate, credit and inflation risks. As interest rates rise, bond prices fall, reducing the value of a fixed-income investment's price. The Fund may invest in high-yield bonds, which are rated below investment grade and carry more risk than higher-rated securities. To the extent that the Fund invests in asset-backed, mortgage-backed or mortgage-related securities, its exposure to prepayment and extension risks may be greater than investments in other fixed-income securities. Leverage may result in greater volatility of NAV and the market price of common shares and increases a shareholder's risk of loss. The Fund may invest, to a limited extent, in foreign securities, including emerging markets, which are subject to additional risks. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.

Portfolio holdings and breakdowns are as of December 31, 2012 and are subject to change and may not be representative of the portfolio managers' current or future investments. Please refer to pages 9 through 20 for a list and percentage breakdown of the Fund's holdings.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. Portfolio holdings are subject to change at any time and may not be representative of the portfolio managers' current or future investments. The Fund's top five sector holdings (as a percentage of net assets) as of December 31, 2012: Financials (38.7%), Energy (14.9%), Consumer Discretionary (8.1%), Industrials (7.4%) and Materials (7.1%). The Fund's portfolio composition is subject to change at any time.

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

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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.

Fund overview (cont d)

- i Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.
- ii The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- iii The Barclays 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.
- iv The Barclays U.S. Credit Index is an index composed of corporate and non-corporate debt issues that are investment grade (rated Baa3/BBB or higher).
- v The Barclays U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- vi Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.
- vii The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.
- viii Net asset value (NAV) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total investments) 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 the Fund's market price as determined by supply of and demand for the Fund's shares.
- ix The Barclays U.S. Corporate High Yield Index covers the universe of fixed-rate, non-investment grade debt, including corporate and non-corporate sectors. Pay-in-kind (PIK) bonds, Eurobonds and debt issues from countries designated as emerging markets are excluded, but Canadian and global bonds (SEC registered) of issuers in non-emerging market countries are included. Original issue zero coupon bonds, step-up coupon structures and 144-A securities are also included.
- x Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended December 31, 2012, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 12 funds in the Fund's Lipper category.

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Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

The bar graph above represents the Fund's portfolio as of December 31, 2012 and December 31, 2011, and does not include derivatives such as written options and futures contracts. The Fund's portfolio is actively managed. As a result, the composition of its portfolio holdings and sectors is subject to change at any time.

Spread duration (unaudited)**Economic Exposure December 31, 2012**

Spread duration measures the sensitivity to changes in spreads. The spread over Treasuries is the annual risk-premium demanded by investors to hold non-Treasury securities. Spread duration is quantified as the % change in price resulting from a 100 basis points change in spreads. For a security with positive spread duration, an increase in spreads would result in a price decline and a decline in spreads would result in a price increase. This chart highlights the market sector exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

ABS	Asset-Backed Securities
Benchmark	Barclays U.S. Credit Index
EM	Emerging Markets
HY	High Yield
IG Credit	Investment Grade Credit
MBS	Mortgage-Backed Securities
PAI	Western Asset Income Fund

Effective duration (unaudited)

Interest Rate Exposure December 31, 2012

Effective duration measures the sensitivity to changes in relevant interest rates. Effective duration is quantified as the % change in price resulting from a 100 basis points change in interest rates. For a security with positive effective duration, an increase in interest rates would result in a price decline and a decline in interest rates would result in a price increase. This chart highlights the interest rate exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

Benchmark	Barclays U.S. Credit Index
EM	Emerging Markets
HY	High Yield
IG Credit	Investment Grade Credit
PAI	Western Asset Income Fund

Schedule of investments

December 31, 2012

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Corporate Bonds & Notes 93.5%				
Consumer Discretionary 8.1%				
Automobiles 1.0%				
Escrow GCB General Motors			\$2,710,000	\$ 0*(a)(b)(c)
Ford Motor Credit Co., LLC, Senior Notes	7.000%	4/15/15	610,000	680,173
Ford Motor Credit Co., LLC, Senior Notes	8.125%	1/15/20	410,000	525,364
Ford Motor Credit Co., LLC, Senior Notes	4.250%	9/20/22	220,000	232,625
Total Automobiles				1,438,162
Hotels, Restaurants & Leisure 0.1%				
NCL Corp. Ltd., Senior Secured Notes	11.750%	11/15/16	180,000	203,400
Household Durables 0.0%				
NVR Inc., Senior Notes	3.950%	9/15/22	10,000	10,363
Media 5.4%				
Comcast Corp., Bonds	6.400%	5/15/38	950,000	1,213,833
Comcast Corp., Notes	6.450%	3/15/37	220,000	282,301
Comcast Corp., Senior Notes	6.950%	8/15/37	160,000	216,971
Comcast Corp., Senior Notes	4.650%	7/15/42	200,000	210,813
Interpublic Group of Cos. Inc., Senior Notes	2.250%	11/15/17	320,000	315,396
Interpublic Group of Cos. Inc., Senior Notes	3.750%	2/15/23	150,000	150,400
News America Inc., Senior Notes	6.550%	3/15/33	545,000	655,974
News America Inc., Senior Notes	7.750%	12/1/45	130,000	183,741
TCI Communications Inc.	8.750%	8/1/15	160,000	190,927
Time Warner Cable Inc., Senior Notes	8.750%	2/14/19	520,000	701,563
Time Warner Entertainment Co., LP, Senior Notes	8.375%	7/15/33	530,000	773,519
Time Warner Inc., Senior Debentures	7.700%	5/1/32	595,000	831,915
Time Warner Inc., Senior Notes	4.900%	6/15/42	150,000	160,912
UBM PLC, Notes	5.750%	11/3/20	640,000	675,158(d)
WPP Finance 2010, Senior Notes	4.750%	11/21/21	840,000	909,801
WPP Finance UK, Senior Notes	8.000%	9/15/14	180,000	199,051
Total Media				7,672,275
Multiline Retail 0.5%				
Macy's Retail Holdings Inc., Notes	5.750%	7/15/14	400,000	428,959
Target Corp., Senior Notes	4.000%	7/1/42	270,000	277,392
Total Multiline Retail				706,351
Specialty Retail 1.1%				
American Greetings Corp., Senior Notes	7.375%	12/1/21	160,000	164,400
Gap Inc., Senior Notes	5.950%	4/12/21	730,000	835,146
QVC Inc., Senior Secured Notes	5.125%	7/2/22	490,000	513,611(d)
Total Specialty Retail				1,513,157
Total Consumer Discretionary				11,543,708

See Notes to Financial Statements.

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Schedule of investments (cont d)

December 31, 2012

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Consumer Staples 3.9%				
Beverages 1.4%				
Anheuser-Busch InBev Worldwide Inc., Senior Notes	5.375%	1/15/20	\$260,000	\$ 316,429
Anheuser-Busch InBev Worldwide Inc., Senior Notes	3.750%	7/15/42	120,000	120,555
Heineken NV, Senior Notes	4.000%	10/1/42	140,000	135,402(d)
Pernod-Ricard SA, Senior Bonds	5.750%	4/7/21	530,000	633,947(d)
Pernod-Ricard SA, Senior Notes	5.500%	1/15/42	670,000	780,791(d)
Total Beverages				1,987,124
Food & Staples Retailing 0.0%				
Safeway Inc., Senior Notes	4.750%	12/1/21	40,000	41,212
Food Products 0.4%				
Kraft Foods Group Inc., Senior Notes	3.500%	6/6/22	320,000	341,557(d)
Kraft Foods Group Inc., Senior Notes	5.000%	6/4/42	200,000	224,900(d)
Total Food Products				566,457
Tobacco 2.1%				
Altria Group Inc., Senior Notes	9.700%	11/10/18	160,000	223,989
Altria Group Inc., Senior Notes	9.250%	8/6/19	40,000	55,646
Altria Group Inc., Senior Notes	4.750%	5/5/21	70,000	79,329
Lorillard Tobacco Co., Senior Notes	8.125%	6/23/19	300,000	382,808
Lorillard Tobacco Co., Senior Notes	8.125%	5/1/40	270,000	352,165
Lorillard Tobacco Co., Senior Notes	7.000%	8/4/41	320,000	388,533
Philip Morris International Inc., Senior Notes	6.875%	3/17/14	490,000	527,611
Philip Morris International Inc., Senior Notes	4.500%	3/20/42	260,000	282,551
Reynolds American Inc., Senior Notes	4.750%	11/1/42	720,000	726,392
Total Tobacco				3,019,024
Total Consumer Staples				5,613,817
Energy 14.9%				
Energy Equipment & Services 0.6%				
Baker Hughes Inc., Senior Notes	7.500%	11/15/18	370,000	490,158
Baker Hughes Inc., Senior Notes	5.125%	9/15/40	240,000	288,865
Total Energy Equipment & Services				779,023
Oil, Gas & Consumable Fuels 14.3%				
Anadarko Finance Co., Senior Notes	7.500%	5/1/31	465,000	615,226
Anadarko Petroleum Corp., Senior Notes	6.375%	9/15/17	35,000	41,807
Apache Corp.	6.900%	9/15/18	100,000	127,532
Apache Corp., Senior Notes	6.000%	1/15/37	190,000	239,958
Apache Corp., Senior Notes	5.100%	9/1/40	80,000	90,939
Apache Corp., Senior Notes	5.250%	2/1/42	90,000	104,209
Arch Coal Inc., Senior Notes	7.000%	6/15/19	260,000	241,800

See Notes to Financial Statements.

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
<i>Oil, Gas & Consumable Fuels continued</i>				
ConocoPhillips, Notes	6.500%	2/1/39	\$ 810,000	\$ 1,148,693
ConocoPhillips, Senior Notes	6.000%	1/15/20	310,000	393,400
Devon Energy Corp., Senior Notes	5.600%	7/15/41	320,000	380,111
Devon Financing Corp. ULC, Debentures	7.875%	9/30/31	380,000	552,679
Duke Capital LLC, Senior Notes	6.250%	2/15/13	800,000	805,074
El Paso Corp., Medium-Term Notes	7.800%	8/1/31	2,000,000	2,331,904
Enbridge Energy Partners LP	9.875%	3/1/19	120,000	162,486
Energy Transfer Partners LP, Senior Notes	9.700%	3/15/19	170,000	228,993
Enterprise Products Operating LLC, Senior Notes	6.125%	10/15/39	320,000	386,590
EOG Resources Inc., Senior Notes	5.875%	9/15/17	540,000	653,205
Hess Corp., Notes	7.875%	10/1/29	1,180,000	1,640,665
Hess Corp., Senior Bonds	6.000%	1/15/40	300,000	365,981
Kerr-McGee Corp., Notes	6.950%	7/1/24	1,080,000	1,368,303
LUKOIL International Finance BV, Bonds	6.356%	6/7/17	310,000	355,415(d)
Noble Energy Inc., Senior Notes	6.000%	3/1/41	390,000	469,796
Pemex Project Funding Master Trust, Senior Bonds	6.625%	6/15/35	2,635,000	3,346,450
Petrobras International Finance Co., Global Notes	5.875%	3/1/18	879,000	1,006,376
Petrobras International Finance Co., Senior Notes	6.750%	1/27/41	780,000	988,328
Phillips 66, Senior Notes	5.875%	5/1/42	160,000	192,534(d)
Shell International Finance BV, Senior Notes	6.375%	12/15/38	250,000	351,241
Transcontinental Gas Pipe Line Co. LLC, Senior Notes	5.400%	8/15/41	310,000	367,305
Transcontinental Gas Pipe Line Co. LLC, Senior Notes	4.450%	8/1/42	450,000	463,209
Williams Cos. Inc., Debentures	7.500%	1/15/31	47,000	58,761
Williams Cos. Inc., Senior Notes	7.750%	6/15/31	37,000	47,208
Williams Cos. Inc., Senior Notes	8.750%	3/15/32	610,000	845,541
<i>Total Oil, Gas & Consumable Fuels</i>				20,371,719
Total Energy				21,150,742
Financials 35.7%				
<i>Capital Markets 5.7%</i>				
GFI Group Inc., Senior Notes	8.625%	7/19/18	110,000	96,525
Goldman Sachs Capital I, Capital Securities	6.345%	2/15/34	555,000	576,082
Goldman Sachs Capital II, Junior Subordinated Bonds	4.000%	6/1/43	880,000	687,350(e)
Goldman Sachs Group Inc., Senior Notes	6.000%	5/1/14	40,000	42,570
Goldman Sachs Group Inc., Senior Notes	5.375%	3/15/20	270,000	309,428
Goldman Sachs Group Inc., Senior Notes	5.250%	7/27/21	510,000	581,388
Goldman Sachs Group Inc., Senior Notes	6.250%	2/1/41	570,000	699,345
Goldman Sachs Group Inc., Subordinated Notes	6.750%	10/1/37	640,000	725,329
Merrill Lynch & Co. Inc., Senior Notes	6.400%	8/28/17	300,000	352,307
Merrill Lynch & Co. Inc., Subordinated Notes	5.700%	5/2/17	1,000,000	1,097,500

See Notes to Financial Statements.

12 Western Asset Income Fund 2012 Annual Report

Schedule of investments (cont d)

December 31, 2012

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Capital Markets continued				
Merrill Lynch & Co. Inc., Subordinated Notes	6.110%	1/29/37	\$ 320,000	\$ 349,296
Morgan Stanley, Medium-Term Notes	6.625%	4/1/18	100,000	117,858
Morgan Stanley, Senior Notes	6.000%	5/13/14	860,000	910,714
Morgan Stanley, Senior Notes	5.500%	7/24/20	100,000	112,501
Morgan Stanley, Senior Notes	6.375%	7/24/42	90,000	105,507
State Street Corp., Junior Subordinated Notes	4.956%	3/15/18	480,000	543,692
UBS AG Stamford CT, Subordinated Notes	7.625%	8/17/22	340,000	375,543
Vesey Street Investment Trust I, Senior Notes	4.404%	9/1/16	310,000	334,512
Total Capital Markets				8,017,447
Commercial Banks 10.5%				
Barclays Bank PLC, Subordinated Notes	10.179%	6/12/21	240,000	326,741(d)
Barclays Bank PLC, Subordinated Notes	7.625%	11/21/22	320,000	319,600
BBVA US Senior SAU, Senior Notes	3.250%	5/16/14	340,000	340,304
BBVA US Senior SAU, Senior Notes	4.664%	10/9/15	1,150,000	1,179,114
CIT Group Inc., Secured Notes	5.250%	4/1/14	370,000	382,950(d)
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, Senior Notes	5.250%	5/24/41	570,000	669,324
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA, Subordinated Notes	3.950%	11/9/22	470,000	481,296
Credit Agricole SA, Subordinated Notes	8.375%	10/13/19	560,000	593,600(d)(e)(f)
HSBC Finance Capital Trust IX, Junior Subordinated Notes	5.911%	11/30/35	1,350,000	1,346,625(e)
Intesa Sanpaolo SpA, Senior Notes	3.625%	8/12/15	1,240,000	1,240,732(d)
M&T Bank Corp., Junior Subordinated Notes	6.875%	6/15/16	600,000	624,816(d)(f)
Mizuho Financial Group Cayman Ltd.	5.790%	4/15/14	550,000	577,260(d)
Nordea Bank AB, Subordinated Notes	4.875%	5/13/21	510,000	547,113(d)
Oversea-Chinese Banking Corp. Ltd., Subordinated Notes	3.150%	3/11/23	390,000	398,131(d)(e)
Rabobank Nederland NV, Junior Subordinated Notes	11.000%	6/30/19	708,000	957,570(d)(e)(f)
Royal Bank of Scotland Group PLC, Junior Subordinated Bonds	7.648%	9/30/31	1,140,000	1,151,400(e)(f)
Royal Bank of Scotland Group PLC, Subordinated Notes	5.000%	10/1/14	580,000	595,955
Royal Bank of Scotland Group PLC, Subordinated Notes	5.050%	1/8/15	170,000	175,914
Royal Bank of Scotland Group PLC, Subordinated Notes	6.125%	12/15/22	1,270,000	1,340,462
Wachovia Capital Trust III, Junior Subordinated Bonds	5.570%	2/14/13	1,190,000	1,184,050(e)(f)
Wells Fargo Capital X, Capital Securities	5.950%	12/15/36	450,000	459,000
Total Commercial Banks				14,891,957

See Notes to Financial Statements.

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Consumer Finance 3.5%				
Ally Financial Inc., Senior Notes	7.500%	12/31/13	\$1,551,000	\$1,638,244
Ally Financial Inc., Subordinated Notes	8.000%	12/31/18	201,000	235,170
American Express Co., Subordinated Debentures	6.800%	9/1/66	370,000	397,288(e)
Capital One Financial Corp., Senior Notes	6.750%	9/15/17	230,000	280,894
HSBC Finance Corp., Senior Notes	6.676%	1/15/21	1,300,000	1,542,282
SLM Corp., Senior Notes	7.250%	1/25/22	830,000	915,075
Total Consumer Finance				5,008,953
Diversified Financial Services 10.8%				
Bank of America Corp., Senior Notes	6.500%	8/1/16	70,000	80,833
Bank of America Corp., Senior Notes	7.625%	6/1/19	70,000	89,570
Bank of America Corp., Senior Notes	5.625%	7/1/20	30,000	35,569
Bank of America Corp., Senior Notes	5.875%	2/7/42	320,000	399,229
Bank of America Corp., Subordinated Notes	5.420%	3/15/17	100,000	109,536
Beaver Valley Funding Corp., Senior Secured Bonds	9.000%	6/1/17	98,000	99,722
Capital One Capital VI	8.875%	5/15/40	190,000	190,000
Citigroup Inc., Junior Subordinated Notes	5.950%	1/30/23	1,400,000	1,417,500(e)(f)
Citigroup Inc., Junior Subordinated Notes	5.900%	2/15/23	50,000	50,489(e)(f)
Citigroup Inc., Senior Notes	6.375%	8/12/14	620,000	670,003
Citigroup Inc., Senior Notes	5.500%	10/15/14	270,000	289,667
Citigroup Inc., Senior Notes	6.010%	1/15/15	210,000	229,470
Citigroup Inc., Senior Notes	8.500%	5/22/19	1,280,000	1,721,135
Citigroup Inc., Senior Notes	8.125%	7/15/39	450,000	673,702
Citigroup Inc., Senior Notes	5.875%	1/30/42	240,000	296,195
Citigroup Inc., Subordinated Notes	6.125%	8/25/36	550,000	599,432
General Electric Capital Corp., Junior Subordinated Bonds	6.250%	12/15/22	600,000	653,388(e)(f)
General Electric Capital Corp., Notes	5.300%	2/11/21	530,000	615,214
General Electric Capital Corp., Senior Notes	5.900%	5/13/14	600,000	643,029
General Electric Capital Corp., Senior Notes	6.875%	1/10/39	280,000	380,604
General Electric Capital Corp., Subordinated Debentures	6.375%	11/15/67	700,000	738,500(e)
ILFC E-Capital Trust I	4.520%	12/21/65	220,000	166,914(d)(e)
ILFC E-Capital Trust II, Bonds	6.250%	12/21/65	790,000	675,450(d)(e)
International Lease Finance Corp., Senior Notes	8.750%	3/15/17	190,000	219,450
International Lease Finance Corp., Senior Notes	8.875%	9/1/17	470,000	552,288
International Lease Finance Corp., Senior Notes	6.250%	5/15/19	130,000	138,450
International Lease Finance Corp., Senior Notes	8.250%	12/15/20	190,000	226,575
International Lease Finance Corp., Senior Secured Notes	7.125%	9/1/18	600,000	696,000(d)

See Notes to Financial Statements.

14 Western Asset Income Fund 2012 Annual Report

Schedule of investments (cont d)

December 31, 2012

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
<i>Diversified Financial Services continued</i>				
JPMorgan Chase & Co., Subordinated Notes	6.125%	6/27/17	\$ 720,000	\$ 841,160
UFJ Finance Aruba AEC	6.750%	7/15/13	355,000	366,212
ZFS Finance USA Trust II, Bonds	6.450%	12/15/65	1,440,000	1,540,800(d)(e)
<i>Total Diversified Financial Services</i>				15,406,086
<i>Insurance 5.0%</i>				
Allstate Corp., Junior Subordinated Debentures	6.500%	5/15/57	480,000	510,600(e)
American International Group Inc., Junior Subordinated Debentures	6.250%	3/15/37	80,000	85,400
American International Group Inc., Senior Notes	6.400%	12/15/20	90,000	111,672
AXA SA, Subordinated Bonds	8.600%	12/15/30	200,000	250,676
Delphi Financial Group Inc., Senior Notes	7.875%	1/31/20	170,000	207,936
ING Capital Funding Trust III, Junior Subordinated Bonds	3.911%	3/31/13	1,470,000	1,395,577(e)(f)
ING US Inc., Senior Notes	5.500%	7/15/22	810,000	879,018(d)
Liberty Mutual Group Inc., Junior Subordinated Bonds	7.800%	3/15/37	70,000	77,875(d)
Liberty Mutual Insurance Co., Subordinated Notes	7.875%	10/15/26	490,000	611,911(d)
MetLife Inc., Junior Subordinated Debentures	6.400%	12/15/36	1,210,000	1,293,763
MetLife Inc., Senior Notes	4.125%	8/13/42	160,000	160,021
Prudential Financial Inc., Junior Subordinated Debentures	8.875%	6/15/38	340,000	413,100(e)
Prudential Holdings LLC, Bonds, AGM-Insured	7.245%	12/18/23	260,000	326,569(d)
Teachers Insurance & Annuity Association of America College Retirement Equity Fund, Notes	6.850%	12/16/39	400,000	542,510(d)
Willis North America Inc., Senior Notes	5.625%	7/15/15	230,000	251,284
<i>Total Insurance</i>				7,117,912
<i>Real Estate Investment Trusts (REITs) 0.1%</i>				
Health Care REIT Inc., Senior Notes	5.875%	5/15/15	130,000	143,490
<i>Thriffs & Mortgage Finance 0.1%</i>				
Santander Holdings USA Inc., Senior Notes	4.625%	4/19/16	160,000	167,278
<i>Total Financials</i>				50,753,123
<i>Health Care 3.8%</i>				
<i>Biotechnology 0.8%</i>				
Amgen Inc., Senior Notes	5.150%	11/15/41	580,000	652,712
Gilead Sciences Inc., Senior Notes	4.400%	12/1/21	220,000	250,792
Gilead Sciences Inc., Senior Notes	5.650%	12/1/41	240,000	298,151
<i>Total Biotechnology</i>				1,201,655
<i>Health Care Equipment & Supplies 0.2%</i>				
Hospira Inc., Senior Notes	6.050%	3/30/17	210,000	243,802

See Notes to Financial Statements.

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Health Care Providers & Services 2.6%				
Aetna Inc., Senior Notes	6.500%	9/15/18	\$240,000	\$ 298,396
Catholic Health Initiatives, Secured Bonds	4.350%	11/1/42	30,000	30,595
HCA Inc., Senior Notes	6.250%	2/15/13	930,000	934,650
HCA Inc., Senior Notes	5.750%	3/15/14	65,000	67,925
Humana Inc.	8.150%	6/15/38	190,000	268,801
Humana Inc., Senior Notes	6.450%	6/1/16	220,000	249,891
Humana Inc., Senior Notes	4.625%	12/1/42	210,000	212,059
Tenet Healthcare Corp., Senior Secured Notes	10.000%	5/1/18	732,000	832,650
Tenet Healthcare Corp., Senior Secured Notes	8.875%	7/1/19	300,000	336,000
UnitedHealth Group Inc., Senior Notes	6.000%	11/15/17	31,000	37,823
UnitedHealth Group Inc., Senior Notes	3.950%	10/15/42	110,000	109,537
WellPoint Inc., Notes	5.875%	6/15/17	290,000	344,196
Total Health Care Providers & Services				3,722,523
Pharmaceuticals 0.2%				
AbbVie Inc., Senior Notes	4.400%	11/6/42	270,000	287,046(d)
Total Health Care				5,455,026
Industrials 7.4%				
Aerospace & Defense 1.3%				
Esterline Technologies Corp., Senior Notes	7.000%	8/1/20	750,000	830,625
Exelis Inc., Senior Notes	4.250%	10/1/16	470,000	495,488
Exelis Inc., Senior Notes	5.550%	10/1/21	520,000	567,477
Total Aerospace & Defense				1,893,590
Airlines 1.8%				
Continental Airlines Inc., Pass-Through Certificates	9.250%	5/10/17	181,277	198,045
Continental Airlines Inc., Pass-Through Certificates	6.545%	2/2/19	130,144	141,857
Continental Airlines Inc., Pass-Through Certificates, Senior Secured Notes	6.125%	4/29/18	140,000	141,050
Continental Airlines Inc., Pass-Through Certificates, Senior Secured Notes	7.250%	11/10/19	192,848	222,739
Continental Airlines Inc., Pass Through Trust, Secured Notes	6.250%	4/11/20	170,000	180,200
Continental Airlines Inc., Senior Secured Notes	7.256%	3/15/20	171,408	187,691
Delta Air Lines Inc., Pass-Through Certificates, Secured Notes	8.021%	8/10/22	102,677	112,298
Delta Air Lines Inc., Pass-Through Trust, Senior Secured Notes	7.750%	12/17/19	237,754	272,228
United Air Lines Inc., Pass-Through Trust, Pass-Through Certificates, Secured Notes	9.750%	1/15/17	111,627	129,208
United Air Lines Inc., Senior Secured Notes	9.875%	8/1/13	249,000	250,401(d)
United Air Lines Inc., Senior Secured Notes	12.000%	11/1/13	340,000	342,550(d)
US Airways, Pass-Through Trust, Senior Secured Bonds	5.900%	10/1/24	360,000	392,400
Total Airlines				2,570,667

See Notes to Financial Statements.

16 Western Asset Income Fund 2012 Annual Report

Schedule of investments (cont d)

December 31, 2012

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
Commercial Services & Supplies 0.6%				
Republic Services Inc., Senior Notes	5.500%	9/15/19	\$ 130,000	\$ 153,952
Republic Services Inc., Senior Notes	5.250%	11/15/21	330,000	388,938
Waste Management Inc., Senior Notes	7.750%	5/15/32	250,000	352,886
Total Commercial Services & Supplies				895,776
Electrical Equipment 0.8%				
Eaton Corp., Senior Notes	4.150%	11/2/42	1,070,000	1,082,094(d)
Industrial Conglomerates 1.2%				
General Electric Co., Senior Notes	4.125%	10/9/42	1,070,000	1,100,653
United Technologies Corp., Senior Notes	6.125%	2/1/19	200,000	249,246
United Technologies Corp., Senior Notes	4.500%	6/1/42	340,000	377,795
Total Industrial Conglomerates				1,727,694
Machinery 0.7%				
Valmont Industries Inc., Senior Notes	6.625%	4/20/20	790,000	930,126
Road & Rail 1.0%				
Burlington Northern Santa Fe LLC, Senior Notes	4.400%	3/15/42	1,350,000	1,416,953
Total Industrials				10,516,900
Information Technology 0.9%				
Computers & Peripherals 0.2%				
Hewlett-Packard Co., Senior Notes	4.650%	12/9/21	310,000	311,206
IT Services 0.6%				
Electronic Data Systems Corp., Notes	7.450%	10/15/29	420,000	492,463
Mantech International Corp., Senior Notes	7.250%	4/15/18	320,000	340,000
Total IT Services				832,463
Semiconductors & Semiconductor Equipment 0.1%				
National Semiconductor Corp., Senior Notes	6.600%	6/15/17	110,000	135,847
Total Information Technology				1,279,516
Materials 7.1%				
Chemicals 1.0%				
Dow Chemical Co., Debentures	7.375%	11/1/29	800,000	1,059,826
Dow Chemical Co., Senior Notes	4.375%	11/15/42	170,000	168,897
Ecolab Inc., Senior Notes	5.500%	12/8/41	140,000	167,026
Total Chemicals				1,395,749
Containers & Packaging 0.9%				
Rock-Tenn Co., Senior Notes	4.450%	3/1/19	470,000	507,072(d)
Rock-Tenn Co., Senior Notes	3.500%	3/1/20	150,000	153,959(d)
Rock-Tenn Co., Senior Notes	4.900%	3/1/22	460,000	497,115(d)
Rock-Tenn Co., Senior Notes	4.000%	3/1/23	80,000	81,271(d)

Total Containers & Packaging

1,239,417

See Notes to Financial Statements.

Western Asset Income Fund

Security	Rate	Maturity Date	Face Amount	Value
<i>Metals & Mining 5.0%</i>				
ArcelorMittal, Senior Notes	4.250%	2/25/15	\$ 340,000	\$ 343,421
ArcelorMittal, Senior Notes	4.250%	8/5/15	340,000	343,425
ArcelorMittal, Senior Notes	5.000%	2/25/17	10,000	10,094
Barrick Gold Corp., Senior Notes	5.250%	4/1/42	560,000	615,858
Cliffs Natural Resources Inc., Senior Notes	3.950%	1/15/18	110,000	110,713
Cliffs Natural Resources Inc., Senior Notes	5.900%	3/15/20	480,000	510,403
Cliffs Natural Resources Inc., Senior Notes	4.800%	10/1/20	20,000	19,876
Cliffs Natural Resources Inc., Senior Notes	4.875%	4/1/21	140,000	139,043
FMG Resources (August 2006) Pty Ltd., Senior Notes	7.000%	11/1/15	740,000	777,000(d)
Freeport-McMoRan Copper & Gold Inc., Senior Notes	3.550%	3/1/22	90,000	89,260
Rio Tinto Finance USA Ltd., Senior Notes	9.000%	5/1/19	660,000	906,528
Rio Tinto Finance USA PLC, Senior Notes	4.125%	8/21/42	280,000	284,858
Southern Copper Corp., Senior Notes	5.375			