EMERGING MARKETS INCOME FUND INC
Form N-30D
May 07, 2002

The Emerging Markets
Income Fund Inc

March 19, 2002

Dear Shareholders:

We are pleased to provide the semi-annual report for The Emerging Markets Income Fund Inc (the "Fund") for the period ended February 28, 2002. In this report we summarize the period's prevailing economic and market conditions and outline the investment strategy of Salomon Brothers Asset Management Inc ("SBAM"), the Fund's investment manager. A detailed summary of the Fund's performance can be found in the appropriate sections that follow.

During the six months ended February 28, 2002, the net asset value ("NAV")1 of the Fund increased from $12.91 per share at August 31, 2001 to $13.93 per share at February 28, 2002. Dividends of $0.825 per share from net investment income were paid during the period. Assuming reinvestment of these dividends in additional shares of the Fund, the total return for the six months ended February 28, 2002 based on NAV was 15.22%. In comparison, the J.P. Morgan Emerging Markets Bond Index Plus ("EMBI+")2, a standard measure of return for emerging-markets debt, returned 1.68% for the same time period.

EMERGING MARKET DEBT 3

Developments in Argentina set the tone for emerging markets during the Fund's semi-annual period. Argentina, the worst performer in the EMBI+, returned negative 55.61%. Most notable was the reduction of the country's weighting in the Index. In January 2001, Argentina's weighting stood at 22%, the largest in the EMBI+. At the end of February 2002, it stood at 2.54%. Nonetheless, in what can only be described as a difficult period for the global financial markets, 15 out of the EMBI+'s 18 countries outperformed the Index's return for the period.

During the Fund's semi-annual period, the U.S. Federal Reserve Board ("Fed") continued easing (i.e., reducing) short-term interest rates from 3.00% to 1.75%, where they remained at the end of February 2002. The combination of a weak economy, uncertainty about downside risks, and low and

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1 The 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 results (total net assets) by the total number of Fund's shares outstanding. The NAV fluctuates with changes in the value of the securities in which the Fund has invested. However, the price at which the investor may buy or sell shares of the Fund is at their market (NYSE) price as determined by supply of and demand for the Fund's shares.

2 The EMBI+ is a total-return index that tracks the traded market for U.S. dollar-denominated Brady and other similar sovereign restructured bonds traded in the emerging markets. An investor cannot invest directly in an index.

3 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.

falling inflation drove the Fed's rate cuts. At their meeting on January 30, 2002, the federal policymakers left the benchmark U.S. interest rate unchanged for the first time in a year, citing signs that the economy was beginning to recover from recession. The overnight target rate remains at 1.75%, a 40-year low.

Oil prices, an important driver of value in several emerging markets, experienced considerable price volatility during the period. A number of factors contributed to this volatility, including a global oversupply of oil, a slump in the aviation industry and a slowing U.S. economy. Oil prices traded in a wide range during the period, from $27.20 to $19.44 per barrel, as investors focused on the declining demand for oil. Prices closed the period at $21.74 per barrel. In December, the Organization of the Petroleum Exporting Countries' ("OPEC")4 11-member cartel decided to cut production by 1.5 million barrels per day for six months starting January 1, 2002. The move follows an unprecedented agreement by five non-OPEC members, including Russia, Mexico and Norway, who participated in the cut.

Return volatility 5 for emerging market debt remained below historical levels. The volatility for the 12 months ended February 28, 2002 was 14.19%. This level gradually increased throughout 2001 as the Turkish banking crisis, the September 11th terrorist attacks and the demise of the Argentine economy all added to the uncertainty in emerging markets. SBAM believes the market's ability to view problems on a country-by-country basis and not extrapolate isolated problems into broader market risks is a positive development illustrating a maturity of the asset class.

LATIN AMERICA

Latin American debt returned negative 6.63% for the period as measured by the EMBI+, and was unquestionably affected by the deteriorating situation in Argentina. Most notable in this region was the divergence of Brazil from Argentina, as Brazilian debt returned an impressive 15.72% (as measured by the EMBI+) for the period despite Argentina's financial woes.

BRAZILIAN DEBT returned 15.72% for the period as measured by the EMBI+. The breakaway from Argentine contagion and return to positive performance was, in our opinion, the most convincing change in the Latin American sector over the past six months. The events in November and December showed that the historically close relationship between Brazilian and Argentine securities may have changed. This year is an election year in Brazil and SBAM believes that will cause some near-term volatility in its markets. However, SBAM believes that Brazil is well-positioned to withstand this volatility. The Fund maintained its slight overweight in Brazilian securities relative to the benchmark for the period.

MEXICAN DEBT returned 9.34% for the period as measured by the EMBI+. Mexican debt benefited as some investors sought to reduce risk in their portfolios by selling volatile Argentine debt in exchange for more stable Mexican debt. Subdued economic activity combined with currency strength may put a cap on inflation pressures, suggesting market interest rates could decline further

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4 OPEC is an international organization of 11 developing countries, each of which is heavily reliant on oil revenues as its main source of income. Membership is open to any country that is a substantial net exporter of oil and which shares the ideals of the organization. The current members are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela.

5 Return volatility is the standard deviation of monthly returns over the period

being measured.

from current levels in 2002. More recently, in February, the market reacted favorably to the anticipated Standard & Poor's Ratings Service investment-grade upgrade and Mexican bonds rallied as sovereign spreads contracted. The Fund has maintained its exposure to Mexican debt since SBAM believes Mexico is one of the most economically stable countries in the emerging markets.

ARGENTINE DEBT returned negative 55.61% for the period as measured by the EMBI+. This was the worst performance in the Index and was the driving contributor of poor performance in the Latin American region for the period. The country continues to be mired in a four-year recession made worse by recent political turmoil. Argentina announced a debt moratorium (default) on all external debt obligations in December. President De la Rua resigned after last-minute attempts to form a coalition government with the opposition Peronist Party failed. De la Rua was in the second year of his four-year term. Recently, the Argentine government announced a series of measures to strengthen its embattled economy and move closer to an agreement with the International Monetary Fund ("IMF")6. However, much uncertainty remains over how the situation in Argentina will play out in 2002. The country's ability to reach political consensus on a fiscal program will likely shape the near-term direction of the economy. The Fund remains underweight Argentine debt relative to the EMBI+ and SBAM continues to monitor developments in Argentina very closely.

EASTERN EUROPE/MIDDLE EAST/AFRICA

Non-Latin American debt, which represents 40% of the EMBI+'s market capitalization, largely outperformed the Latin American debt for the period, returning 20.55%.

RUSSIAN DEBT, the best performer for the period, returned 30.23% as measured by the EMBI+. The Russian economy continues to benefit from high domestic consumption, abundant foreign reserves and limited external financing requirements. These improving credit fundamentals have not gone unnoticed, as Moody's Investors Service recently revised upward its foreign-currency bond rating two notches from B2 to Ba3, citing an improved capacity on the part of Russia to service its debt. Positive comments by the government on debt reduction and the elimination of the 2003 debt hump added momentum to a supportive technical picture. The Fund remained overweight Russian debt for the period, as it positively contributed to portfolio performance.

TURKISH DEBT returned 23.01% for the period as measured by the EMBI+. Following the September terrorist attacks on the U.S., market sentiment improved toward Turkey due to the country's strategic importance combined with its improved relations with the IMF. During the period, the IMF affirmed its commitment, granting Turkey an $11.4 billion injection to restore confidence in the banking sector. The Fund had a slight overweight position in Turkish sovereign debt, which positively contributed to the Fund's performance.

OUTLOOK

Emerging market debt returned 1.68% for the period, as measured by the EMBI+. At the beginning of the Fund's semi-annual period, emerging debt markets generally came under pressure from the developed world's economic slowdown, poor equity market performance, the terrorist attacks on the

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6 The IMF is an international organization of 183 member countries established to promote international monetary cooperation, exchange stability, and orderly exchange arrangements.

U.S. and Argentina's financial woes. However, we believe positive technicals and declining risk aversion have been driving market performance more than fundamentals since November. In SBAM's view, the recent rally in the global equity markets thus far in 2002 bodes well for the emerging debt markets. The EMBI+ (ex-Argentina) returned 14.63% for the period, relatively strong performance for such volatile financial markets. EMBI+ sovereign spreads 7 over U.S. Treasury securities closed the period at 644 basis points 8. For the remainder of 2002, we think the prospect of U.S. recovery may be supportive for Asia and Latin America. SBAM continues to remain invested in a diversified portfolio of emerging-markets debt securities.

ANNUAL SHAREHOLDER AND SPECIAL MEETINGS

The Fund held its annual shareholders meeting on December 13, 2001 and a special meeting on February 1, 2002. At the meeting on December 13, 2001, shareholders elected Stephen J. Treadway to the Fund's Board of Directors. At the special meeting on February 1, 2002, shareholders approved a new management agreement between the Fund and SBAM and the retention by, and reimbursement to, SBAM of its costs incurred in connection with services rendered to the Fund. The following table provides information concerning the matters voted on at the meetings:

DECEMBER 13, 2001

Election of a Director.

NOMINEE	VOTES FOR	VOTES WITHHELD	VOTES AGAINST
Stephen J. Treadway	3,806,736	0	51,715

FEBRUARY 1, 2002

1. Approval of new management agreement between the Fund and SBAM.

VOTES FOR	VOTES WITHHELD	VOTES AGAINST
3,772,248	65,754	51,910

2. Approval of the rentention by, and reimbursement to, SBAM of its cost incurred in connection with services rendered to the Fund.

VOTES FOR	VOTES WITHHELD	VOTES AGAINST
3,749,553	82,982	57,377

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7 Sovereign bonds are bonds issued by non-U.S. governments. Yield spread is the difference between yields on securities of the same quality but different maturities or the difference between yields on securities of the same maturity but different quality.
8 A basis point is 0.01%, or one one-hundredth of a percent.

T H E E M E R G I N G M A R K E T S I N C O M E F U N D I N C

In a continuing effort to provide timely information concerning the Fund, stockholders may call 888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 6:00 p.m. (EST), for the Fund's current NAV, market price and other information regarding the Fund's portfolio holdings and allocations. For information concerning your Fund stock account, please call American Stock Transfer & Trust Company at 800-937-5449 (718-921-5200 if calling from within New York City).

We appreciate your confidence and look forward to serving you in future years.

Sincerely,

/s/ Heath B. McLendon

Heath B. McLendon
Co-Chairman of the Board

/s/ Stephen J. Treadway

Stephen J. Treadway
Co-Chairman of the Board

/s/ Peter J. Wilby

Peter J. Wilby
Executive Vice President

/s/ James E. Craige

James E. Craige
Executive Vice President

The information provided in this letter represents the opinion of the manager and is not intended to be a forecast of future events, a guarantee of future results or investment advice. Further, there is no assurance that certain securities will remain in or out of the Fund. Please refer to pages 6 through 9 for a list and percentage breakdown of the Fund's holdings. Also, please note any discussion of the Fund's holdings is as of February 28, 2002 and is subject to change.

T H E E M E R G I N G M A R K E T S I N C O M E F U N D I N C

Statement of Investments (unaudited)
February 28, 2002

FACE AMOUNT (a)	Bonds -- 92.2%

		ARGENTINA -- 3.2%
		Republic of Argentina:
	5,323,000	due 4/10/05 (b) ....
ARS	200,000	8.750% due 7/10/02 (b) ....
ARS	130,000	11.750% due 2/12/07 (b) ....
ARS	50	10.000% due 9/19/08 (b)...
	1,000,000	Zero Coupon Bond, due 10/15/03 ....
		BRAZIL -- 24.5%
		Federal Republic of Brazil:
	1,850,000	9.625% due 7/15/05 ....
	27,000	12.250% due 3/6/30 ....
	17,732,304	C Bond, 8.000% due 4/15/14 ....
	1,852,941	NMB, Series L, 3.250% due 4/15/09* ....
		BULGARIA -- 4.8%
		Republic of Bulgaria:
	3,450,000	DISC, Series A, 2.8125% due 7/28/24* ....
	495,880	IAB, 2.8125% due 7/28/11* ....
		COLOMBIA -- 2.4%
		Republic of Colombia:
	1,750,000	11.750% due 2/25/20 ....
	100,000	8.375% due 2/15/27 ....
		COSTA RICA -- 0.6%
	350,000	Republic of Costa Rica, 9.995% due 8/1/20# ....
		ECUADOR -- 5.1%
		Republic of Ecuador:
	900,000	12.000% due 11/15/12 ....
	726,000	5.000% due 8/15/30*,# ....
	5,087,000	5.000% due 8/15/30* ....
		INDONESIA -- 0.4%
	1,500,000	Tjiwi Kimia International Finance Company B.V., 10.000% due 8/1/04(c)(d)..

See accompanying notes to financial statements.

Statement of Investments (unaudited) (continued)
February 28, 2002

FACE AMOUNT (a)	Bonds -- 92.2% (continued)
	IVORY COAST -- 1.0%
	Republic of Ivory Coast:
375,000	due 3/29/18(c)(d) ....
2,107,000	FLIRB, due 3/29/18(c)(d) ....
909,150	PDI Bond, due 3/29/18(c)(d) ....
	JAMAICA -- 1.0%
	Government of Jamaica:
350,000	10.875% due 6/10/05 ....
350,000	12.750% due 9/1/07# ....
	MEXICO -- 9.7%
	PEMEX, Project Funding Master Trust:
1,500,000	9.125% due 10/13/10 ....
1,750,000	8.000% due 11/15/11 ....
	United Mexican States:
700,000	11.375% due 9/15/16 ....
2,000,000	11.500% due 5/15/26 ....
	PANAMA -- 1.9%
	Republic of Panama:
100,000	9.625% due 2/8/11 ....
1,388,880	IRB, 4.750% due 7/17/14* ....
	PERU -- 4.7%
4,250,000	Republic of Peru, PDI Bond, 4.500% due 3/7/17* ....
	PHILIPPINES -- 4.1%
	Republic of the Philippines:
1,925,000	9.875% due 1/15/19 ....
1,000,000	FRN, 4.945% due 6/18/04* ....
	RUSSIA -- 21.0%
	Russian Government:
1,200,000	10.000% due 6/26/07 ....
75,000	8.250% due 3/31/10 ....
1,842,360	8.250% due 3/31/10# ....
550,000	11.000% due 7/24/18 ....
17,000,000	5.000% due 3/31/30* ....
569,500	5.000% due 3/31/30*,# ....

See accompanying notes to financial statements.

T H E E M E R G I N G M A R K E T S I N C O M E F U N D I N C

Statement of Investments (unaudited) (continued)
February 28, 2002

FACE AMOUNT (a)	Bonds -- 92.2% (concluded)
	TURKEY -- 4.9%
	Republic of Turkey:
310,000	12.375% due 6/15/09 ....
1,500,000	11.750% due 6/15/10 ....
700,000	11.500% due 1/23/12 ....
1,040,000	11.875% due 1/15/30 ....
	URUGUAY -- 0.7%
526,315	Republic of Uruguay, DCB, Series B, 2.875% due 2/18/07* ....
	VENEZUELA -- 2.2%
1,900,000	Republic of Venezuela, 13.625% due 8/15/18 ....
	TOTAL BONDS (cost -- $65,736,708)..

	Loan Participations+ -- 5.0%
	The People's Democratic Republic of Algeria:
14,161	Tranche 1, 4.3125% due 9/4/06* (J.P. Morgan Chase & Co.) ....
527,500	Tranche 3, 4.3125% due 3/4/10* (J.P. Morgan Chase & Co.) ....
3,433,067	Kingdom of Morocco, Tranche A, 2.78125% due 1/1/09* (Credit Suisse First Boston Inc., Morgan Stanley Dean Witter & Co.) ...
	TOTAL LOAN PARTICIPATIONS (cost -- $3,423,726)...........................

	Purchase Put Options (d) -- 0.1%
3,999,940	Venezuela DCB, 2.875% due 12/18/2007, Put @ 77.625, Expire 3/15/02..
COP 1,000,000	Colombian Peso, Put @ 2,280, Expire 4/23/02 ....

TOTAL PURCHASE PUT OPTIONS (cost -- $103,999)...........................

SHARES	Rights (d) -- 0.0%
1,000	United Mexican States Rights, Expire 6/3/03 (Cost -- $0) ....

WARRANTS	Warrants (d) -- 0.0%
500	Asia Pulp and Papers Warrants, Expire 3/15/05# (Cost -- $0) ....

See accompanying notes to financial statements.

T H E E M E R G I N G M A R K E T S I N C O M E F U N D I N C

Statement of Investments (unaudited) (concluded)
February 28, 2002

PRINCIPAL AMOUNT	Repurchase Agreements -- 2.7%
1,000,000	Greenwich Capital Markets, Inc., 1.850% due 3/1/02; Proceeds at maturity -- $1,000,051; (Fully collateralized by U.S. Treasury Note, 6.000% due 9/30/02; Market value -- $1,020,434)..
929,000	UBS PaineWebber Inc., 1.870% due 3/1/02; Proceeds at maturity -- $929,048; (Fully collateralized by U.S. Treasury Bond, 9.000% due 11/15/18; Market value -- $947,800)...

TOTAL REPURCHASE AGREEMENTS (cost -- $1,929,000)........................

TOTAL INVESTMENTS -- 100.0% (Cost -- $71,193,433**).....................

See accompanying notes to financial statements.

T H E E M E R G I N G M A R K E T S I N C O M E F U N D I N C

Statement of Assets and Liabilities (unaudited)
February 28, 2002

ASSETS	
Investments, at value (cost -- $71,193,433)	$72,760,
Cash	
Cash in foreign currency, at value (Cost -- $27,622)	13,
Receivable for securities sold	8,494,
Interest receivable	1,663,
Prepaid expenses	17,
Total Assets	82,949,
LIABILITIES	
Loan payable (Note 4)	20,000,
Payable for securities purchased	6,003,
Loan interest payable	96,
Management fee payable (Note 2)	120,
Advisory fee payable (Note 2)	20,
Accrued expenses	177,
Total Liabilities	26,419,
Net Assets	$56,530,
NET ASSETS	
Common Stock ($0.001 par value, authorized 100,000,000; 4,058,023 shares outstanding)	$ 4,
Additional paid-in capital	56,165,
Undistributed net investment income	541,
Accumulated net realized loss on investments	(1,733,
Net unrealized appreciation on investments and foreign currency	1,552,
Net Assets	$56,530,
NET ASSET VALUE PER SHARE ($56,530,539 / 4,058,023 shares)	$13

See accompanying notes to financial statements.

T H E   E M E R G I N G   M A R K E T S   I N C O M E   F U N D   I N C

Statement of Operations (unaudited)
For the Six Months Ended February 28, 2002

INCOME	
Interest (includes discount accretion of $785,997)	$ 4,354
EXPENSES	

Interest on loan	432
Management fee	177
Advisory fee	127
Shareholder communications	32
Custodian	30
Audit and tax services	25
Directors' fees and expenses	16
Legal	9
Listing fees	7
Transfer agent expenses	7
Other	15
Total Expenses	881
Net Investment Income	3,473
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS	
Net Realized Loss on:	
Investments	(153
Foreign currency transactions	(1
Net Realized Loss	(155
Change in Net Unrealized Appreciation (Depreciation) on:	
Investments	4,171
Foreign currency contracts and other assets and liabilities denominated in foreign currencies	(14
Decrease in Net Unrealized Depreciation	4,157
Net Gain on Investments and Foreign Currency Transactions	4,001
NET INCREASE IN NET ASSETS FROM OPERATIONS	$ 7,475

See accompanying notes to financial statements.

T H E   E M E R G I N G   M A R K E T S   I N C O M E   F U N D   I N C

Statement of Changes in Net Assets
For the Six Months Ended February 28, 2002 (unaudited)
and the Year Ended August 31, 2001

	FEBRUARY 28	AUGUST
OPERATIONS		
Net investment income	$ 3,473,210	$ 6,701
Net realized gain (loss)	(155,179)	2,225
(Increase) decrease in net unrealized depreciation	4,157,139	(6,675

Increase in Net Assets From Operations	7,475,170	2,251
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net investment income	(3,338,668)	(6,647
Decrease in Net Assets From Distributions to Shareholders	(3,338,668)	(6,647
CAPITAL SHARE TRANSACTIONS		
Proceeds from shares issued in reinvestment of dividends (15,135 and 22,128 shares issued)	185,247	291
Total Increase (Decrease) in Net Assets	4,321,749	(4,103
NET ASSETS		
Beginning of period	52,208,790	56,312
End of period (includes undistributed net investment income of $541,647 and $407,105, respectively)	$56,530,539	$52,208

Statement of Cash Flows (unaudited)
For the Six Months Ended February 28, 2002

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:	
Purchases of long-term portfolio investments	$(53,597
Proceeds from disposition of long-term portfolio investments and principal paydowns	55,879
Net purchases of short-term investments	(1,378
	903
Net investment income	3,473
Adjustments to reconcile net investment income to net cash provided by operating activities:	
Accretion of discount on investments	(785
Net change in receivables/payables related to operations	(237
Net Cash Provided by Operating Activities	3,353
CASH FLOWS USED BY FINANCING ACTIVITIES:	
Proceeds from shares issued in reinvestment of dividends	185
Cash distributions paid	(3,338
Net Cash Used by Financing Activities	(3,153
Net Decrease in Cash	199
Payable to Bank at Beginning of Period	(185
Cash at End of Period	$ 13

See accompanying notes to financial statements.

T H E E M E R G I N G M A R K E T S I N C O M E F U N D I N C

Notes to Financial Statements (unaudited)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Emerging Markets Income Fund Inc (the "Fund") was incorporated in Maryland on July 30, 1992 and is registered as a non-diversified, closed-end, management investment company under the Investment Company Act of 1940, as amended. The Board of Directors authorized 100 million shares of $.001 par value common stock. The Fund's primary investment objective is to seek high current income. As a secondary objective, the Fund seeks capital appreciation. In pursuit of these objectives, the Fund invests primarily in U.S. dollar denominated debt securities of government and government related issuers located in emerging market countries, and of entities organized to restructure the outstanding debt of these issuers.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

(A) SECURITIES VALUATION. In valuing the Fund's assets, all securities for which market quotations are readily available are valued (i) at the last sale price prior to the time of determination if there was a sale on the date of determination, (ii) at the mean between the last current bid and asked prices if there was no sales price on such date and bid and asked quotations are available, and (iii) at the bid price if there was no sales price on such date and only bid quotations are available. Publicly traded foreign government debt securities are typically traded internationally in the over-the-counter market, and are valued at the mean between the last current bid and asked price as of the close of business of that market. However, where the spread between bid and asked price exceeds five percent of the par value of the security, the security is valued at the bid price. Securities may also be valued by independent pricing services which use prices provided by market-makers or estimates of market values obtained from yield data relating to instruments or securities with similar characteristics. Short-term investments having a maturity of 60 days or less are valued at amortized cost, unless the Board of Directors determines that such valuation does not constitute fair value. Securities for which reliable quotations are not readily available and all other securities and assets are valued at fair value as determined in good faith by, or under procedures established by, the Board of Directors.

(B) SECURITIES TRANSACTIONS AND INVESTMENT INCOME. Securities transactions are recorded on the trade date. Interest income is accrued on a daily basis. Discount on securities purchased is accreted on an effective yield basis over the life of the security. The Fund uses the specific identification method for determining realized gain or loss on investments sold.

(C) FOREIGN CURRENCY TRANSLATION. The books and records of the Fund are maintained in U.S. dollars. Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S.

dollar amounts at the date of valuation using the 12:00 noon rate of exchange reported by Reuters. Purchases and sales of portfolio securities and income and expense items denominated in foreign currencies are translated into U.S. dollars at rates of exchange prevailing on the respective dates of such transactions. Net realized gains and losses on foreign currency transactions represent net gains and losses from sales and maturities of forward currency contracts, disposition of foreign currencies, currency gains and losses realized between the trade and settlement dates on securities transactions and the difference between the amount of income accrued and the U.S. dollar equivalent amount actually received. The Fund does not isolate that portion of gains and losses on investments which is due to changes in foreign

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

exchange rates from that which is due to changes in market prices of the securities. Such fluctuations are included with the net realized and unrealized gain or loss from investments. However, pursuant to U.S. federal income tax regulations, certain net foreign exchange gains/losses included in realized gain/loss are included in or are a reduction of ordinary income for federal income tax purposes.

(D) FEDERAL INCOME TAXES. It is the Fund's intention to continue to meet the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income and capital gains, if any, to its shareholders. Therefore, no federal income tax or excise tax provision is required.

(E) REPURCHASE AGREEMENTS. When entering into repurchase agreements, it is the Fund's policy to take possession, through its custodian, of the underlying collateral and to monitor its value at the time the arrangement is entered into and during the term of the repurchase agreement to ensure that it equals or exceeds the repurchase price. In the event of default of the obligation to repurchase, the Fund has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. Under certain circumstances, in the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings.

(F) DISTRIBUTION OF INCOME AND GAINS. The Fund declares and pays dividends to shareholders quarterly from net investment income. Net realized gains, if any, in excess of loss carryovers are expected to be distributed annually. Dividends and distributions to shareholders are recorded on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized gains are determined in accordance with federal income tax regulations, which may differ from GAAP due primarily to differences in the treatment of foreign currency gains/losses and deferral of wash sales and post-October losses incurred by the Fund. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal income tax basis treatment; temporary differences do not require reclassification. Dividends and distributions which exceed net investment income and net realized capital gains for financial reporting purposes but not for tax purposes are reported as distributions in excess of net investment income or distributions in excess of net realized capital gains. To the extent they exceed net investment income and net realized capital gains for tax purposes, they are reported as tax return of capital.

(G) FORWARD FOREIGN CURRENCY CONTRACTS. A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The contract is marked-to-market to reflect the change in the currency exchange rate. The change in market value is recorded by the Fund as an unrealized gain or loss. The Fund records a realized gain or loss on delivery of the currency or at the time the forward contract is extinguished (compensated) by entering into a closing transaction prior to delivery. This gain or loss, if any, is included in net realized gain (loss) on foreign currency transactions.

(H) OPTION CONTRACTS. When the Fund writes or purchases a call or a put option, an amount equal to the premium received or paid by the Fund is recorded as a liability or asset, the value of which is marked-to-market to reflect the current market value of the option. When the option

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

expires, the Fund realizes a gain or loss equal to the amount of the premium received or paid. When the Fund enters into a closing transaction by purchasing or selling an offsetting option, it realizes a gain or loss without regard to any unrealized gain or loss on the underlying security. When a written call option is exercised, the Fund realizes a gain or loss from the sale of the underlying security and the proceeds from such sale are increased by the premium originally received on the option. If a written put option is exercised, the amount of the premium received reduces the cost of the security that the Fund purchased upon exercise of the option.

(I) CASH FLOW INFORMATION. The Fund invests in securities and distributes dividends from net investment income and net realized gains from investment transactions which are paid in cash. These activities are reported in the Stat