LMP REAL ESTATE INCOME FUND INC.
Form N-CSR
February 25, 2015

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 **811-21098**

LMP Real Estate Income Fund Inc.

(Exact name of registrant as specified in charter)

620 Eighth Avenue, 49th Floor, New York, NY 10018

(Address of principal executive offices) (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, 2014**

ITEM 1. REPORT TO STOCKHOLDERS.

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

Annual Report

December 31, 2014

LMP

REAL ESTATE INCOME FUND INC. (RIT)

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

What s inside

Fund objectives

The Fund s primary investment objective is high current income and the Fund s secondary investment objective is capital appreciation.

Letter from the chairman

Dear Shareholder,

We are pleased to provide the annual report of LMP Real Estate Income Fund Inc. for the twelve-month reporting period ended December 31, 2014. 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.

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,

Kenneth D. Fuller

Chairman, President and Chief Executive Officer

January 30, 2015

Investment commentary

Economic review

Despite weakness in early 2014, the U.S. economy expanded at a solid pace during the twelve months ended December 31, 2014 (the reporting period). The U.S. Department of Commerce reported that in the first quarter of 2014, U.S. gross domestic product (GDP)[i] contracted 2.1%. This was the first negative GDP report in three years and partially attributed to severe winter weather. Thankfully, this setback was very brief, as second quarter GDP growth was 4.6%. The rebound in GDP growth was driven by several factors, including an acceleration in personal consumption expenditures (PCE), increased private inventory investment and exports, as well as an upturn in state and local government spending. The economy then gained further momentum as third quarter GDP growth was 5.0%, its strongest reading since the third quarter of 2003. This was driven by contributions from PCE, exports, nonresidential fixed investment and government spending. After the reporting period ended, the U.S. Department of Commerce s initial estimate showed that fourth quarter 2014 GDP growth was 2.6%. Moderating growth was due to several factors, including an upturn in imports, a downturn in federal government spending and decelerations in nonresidential fixed investment and in exports.

The U.S. manufacturing sector was another tailwind for the economy. Based on figures for the Institute for Supply Management s Purchasing Managers Index (PMI)[ii], U.S. manufacturing expanded during all twelve months of the reporting period (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). After a reading of 56.5 in December 2013, the PMI fell to 51.3 in January 2014, but generally rose over the next several months, reaching a high of 59.0 in August, its best reading since March 2011. While the PMI dipped to 56.6 in September, it rose back to 59.0 in October. Manufacturing activity then moderated over the last two months of the year and the PMI was 55.5 in December. However, for 2014 as a whole the PMI averaged 55.8, the best annual reading since 2010.

The improving U.S. job market was another factor supporting the overall economy during the reporting period. When the period began, unemployment, as reported by the U.S. Department of Labor, was 6.6%. Unemployment generally declined throughout the reporting period and reached a low of 5.6% in December 2014, the lowest level since June 2008.

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 it has since December 2008, the Fed kept the federal funds rate[iv] at a historically low range between zero and 0.25%. The Fed also ended its asset purchase program that was announced in December 2012. At that time, the Fed said it would continue purchasing $40 billion per month of agency mortgage-backed securities (MBS), as well as $45 billion per month of longer-term Treasuries. Following the meeting that concluded on December 18, 2013, the Fed announced that it would begin reducing its monthly asset purchases, saying Beginning in January 2014, the Committee will add to its holdings of agency MBS at a pace of $35 billion per month rather than $40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of $40 billion per month rather than $45 billion

Investment commentary (cont d)

per month. At each of the Fed s next six meetings (January, March, April, June, July and September 2014), it announced further $10 billion tapering of its asset purchases. At its meeting that ended on October 29, 2014, the Fed announced that its asset purchase program had concluded. During its last meeting of the year that concluded on December 17, 2014, the Fed said that Based on its current assessment, the Committee judges that it can be patient to maintain the 0 to 1/4 percent target range for the federal funds rate for a considerable time . Finally, at its meeting that ended on January 28, 2015, after the reporting period ended, the Fed said Based on its current assessment, the Committee judges that it can be patient in beginning to normalize the stance of monetary policy.

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

Sincerely,

Kenneth D. Fuller

Chairman, President and Chief Executive Officer

January 30, 2015

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 U.S. 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.

[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 s primary investment objective is high current income with capital appreciation as a secondary investment objective. The Fund has a fundamental policy of concentrating its investments in the U.S. real estate industry and not in any other industry. The Fund primarily invests in income-producing common shares, preferred shares, convertible preferred shares and debt securities issued by real estate companies, including real estate investment trusts (REITs)[i]. Real estate companies are companies that generally derive at least 50% of their revenue from the ownership, construction, financing, management or sale of commercial, industrial and residential real estate, or have at least 50% of their assets invested in such real estate.

Our investment process focuses on finding securities with sustainable, high or growing distributions that are covered by a company s operating cash flows. We also look for securities that are trading at a discount to what we believe is the intrinsic value of the company. We feel this provides the Fund with additional capital appreciation potential, as well as superior defensive characteristics. Sector allocation is largely an outgrowth of our fundamental securities analysis.

Under normal market conditions, the Fund invests at least 90% of its total assets in income-producing common shares, preferred shares, convertible preferred shares (preferred shares that, upon the passage of time or the happening of certain events, automatically convert into common shares) and debt securities issued by real estate companies, including REITs. At least 80% of the Fund s total assets will be invested, under normal market conditions, in income-producing securities issued by REITs.

It is the Fund s intention to invest approximately 60% to 80% of its total assets in common shares issued by real estate companies and 20% to 40% of its total assets in preferred shares, including convertible preferred shares, issued by real estate companies. The actual percentage of common, preferred and convertible preferred shares and debt securities in the Fund s portfolio may vary over time based on our assessment of market conditions. Our use of leverage is also based on our current view of the risk/return profile of the market. While we do not expect to change the amount of leverage we use frequently, it will be managed in accordance with market conditions and will not be held static if we believe it makes sense to make an adjustment.

ClearBridge Investments, LLC (ClearBridge) is the subadviser to the Fund. ClearBridge provides day-to-day portfolio management services to the Fund, while the Fund s investment manager, Legg Mason Partners Fund Advisor, LLC (LMPFA), provides management and administrative services to the Fund and supervises the Fund-related activities of ClearBridge. Mark McAllister serves as senior portfolio manager and John Baldi as co-portfolio manager to the Fund.

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

A. After underperforming in 2013 for the first year since 2008, REITs outperformed the broader U.S. equity market in 2014 as the Fund s benchmark, the MSCI U.S. REIT Index[ii] , closed the year with a total return of 30.38%, roughly 1,700 bps above that of the

Fund overview (cont d)

S&P 500 Index[iii]. Every category in the REIT market posted positive returns for the year, as the manufactured housing group surged nearly 45% and the Self-Storage, Health Care, Hotel, Mall, Apartment and Shopping Center sub-sectors gained between 30% and 40% each. Single-Tenant REITs lagged peers, though still up a respectable 13.6%.

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

A. As we entered 2014, we expected that interest rates would rise over the course of the year, continuing the general trend established in late May of 2013. While we did not view this expected interest rate rise as necessarily negative for the common shares of equity REITs, we certainly saw it as a negative for REIT preferred stocks as these have a fixed coupon and therefore behave much like bonds, i.e. their share prices fall as interest rates rise. Therefore, we reduced the Fund s holdings of preferred shares and increased its ownership of common stocks during the year.

In addition, as the year progressed we gained increasing confidence in the strength of the U.S. economic recovery and so we decided to increase the economic sensitivity of the Fund s common stock holdings. This led us to increase our holdings of Apartment, Lodging, Life Science and Data Center REITs, primarily using the proceeds from our sales of preferred shares.

Performance review

For the twelve months ended December 31, 2014, LMP Real Estate Income Fund Inc. returned 30.69% based on its NAV[iv] and 32.87% based on its New York Stock Exchange (NYSE) market price per share. The Fund s unmanaged benchmark, the MSCI U.S. REIT Index, returned 30.38% for the same period. The Lipper Real Estate Closed-End Funds Category Average[v] returned 22.14% 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, 2014. **Past performance is no guarantee of future results.**

Performance Snapshot as of December 31, 2014

Price Per Share	12-Month Total Return**
$14.35 (NAV)	30.69%
$12.55 (Market Price)	32.87%

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. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.**

Total return assumes the reinvestment of all distributions at NAV.

Total returns assume the reinvestment of all distributions in additional shares in accordance with the Fund s Dividend Reinvestment Plan.

* For the tax character of distributions paid during the fiscal year ended December 31, 2014, please refer to page 22 of this report.

Q. What were the leading contributors to performance?

A. On an absolute basis the Fund had positive returns in each REIT industry sub-sector, with the greatest contributions to returns coming from the Retail REITs, Office REITs, Health Care REITS and Hotel & Resort REITs sub-sectors. Relative to the benchmark, an underweight within the Industrial REITs sub-sector helped relative performance as the group underperformed the benchmark. Additionally, security selection in the Industrial REITs and Diversified REITs sub-sectors helped relative returns for the period.

In terms of individual Fund holdings, leading contributors to performance for the period included Macerich, Kilroy Realty, Regency Centers, Health Care REIT and Digital Realty Trust.

Q. What were the leading detractors from performance?

A. Relative to the Fund s benchmark, overall security selection and sector allocation had a negative impact on performance for the period. Notably, an underweight in Residential REITs, which outperformed the benchmark, hurt relative performance, along with negative selection effects stemming from the Hotel & Resort and Retail REIT sub-sectors.

In terms of individual Fund holdings, the only detractors from performance for the period included Campus Crest Communities, Dream Office Real Estate Investment Trust, Starwood Waypoint Residential Trust (whose shares we received when it was spun out of Starwood Property Trust) and Washington Prime Group (whose shares we received when it was spun out of Simon Property Group).

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

A. There were a number of specific changes made to the Fund over the course of the reporting period. Among the largest additions to the Fund s portfolio were DuPont Fabros Technology, UDR, Alexandria Real Estate Equities, LaSalle Hotel Properties and Paramount Group. We also eliminated several Fund holdings over the course of the period, notably preferred shares of Kite Realty Group Trust, Sunstone Hotel Investors, CubeSmart and Apartment Investment & Management, along with Campus Crest common stock.

Looking for additional information?

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

Fund overview (cont d)

Thank you for your investment in LMP Real Estate Income Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund s investment goals.

Sincerely,

Mark McAllister

Portfolio Manager

ClearBridge Investments, LLC

John Baldi

Portfolio Manager

ClearBridge Investments, LLC

January 20, 2015

RISKS: *Funds that invest in securities related to the real estate industry are subject to the risks of real estate markets, including fluctuating property values, changes in interest rates and other mortgage-related risks. In addition, investment in funds that concentrate their investments in one sector or industry may involve greater risk than more broadly diversified funds. 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 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, 2014 and are subject to change and may not be representative of the portfolio managers current or future investments. The Fund s top ten holdings (as a percentage of net assets) as of December 31, 2014 were: Macerich Co. (5.0%), Kilroy Realty Corp. (4.4%), Starwood Property Trust Inc. (4.3%), EPR Properties (4.2%), Liberty Property Trust (4.0%), Simon Property Group Inc. (3.5%), Regency Centers Corp. (3.4%), Inland Real Estate Corp. (3.2%), Hospitality Properties Trust (3.1%), HCP Inc. (3.1%) . Please refer to pages 7 through 9 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. The Fund s top five sector holdings (as a percentage of net assets) as of December 31, 2014 were: Shopping Centers (20.7%), Diversified (20.6%), Office (16.0%), Regional Malls (15.7%) and Health Care (12.6%). 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.

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.

[i] Real estate investment trusts (REITs) invest in real estate or loans secured by real estate and issue shares in such investments, which can be illiquid.

[ii] The MSCI U.S. REIT Index is a free float-adjusted market capitalization weighted index that is comprised of equity Real Estate Investment Trusts (REITs) that are included in the MSCI U.S. Investable Market 2500 Index, with the exception of specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. The Index represents approximately 85% of the U.S. REIT universe.

[iii] The S&P 500 Index is an unmanaged index of 500 stocks and is generally representative of the performance of larger companies in the U.S.

[iv] Net asset value (NAV) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (if any) 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 the Fund s market price as determined by supply of and demand for the Fund s shares.

[v] 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, 2014, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 15 funds in the Fund s Lipper category.

Fund at a glance (unaudited)

Investment breakdown (%) as a percent of total investments

The bar graph above represents the composition of the Fund s investments as of December 31, 2014 and December 31, 2013. The Fund is actively managed. As a result, the composition of the Fund s investments is subject to change at any time.

Schedule of investments

December 31, 2014

LMP Real Estate Income Fund Inc.

Security	Shares	Value
Real Estate Investment Trust Common Stocks 94.2%		
Apartments 8.1%		
Apartment Investment and Management Co., Class A Shares	102,900	$ 3,822,735 (a)
AvalonBay Communities Inc.	24,200	3,954,038 (a)
Equity Residential	39,900	2,866,416
UDR Inc.	87,600	2,699,832
Total Apartments		*13,343,021*
Diversified 15.4%		
Digital Realty Trust Inc.	74,200	4,919,460 (a)
Dream Office Real Estate Investment Trust	125,000	2,705,930
DuPont Fabros Technology Inc.	88,600	2,945,064
EPR Properties	120,000	6,915,600 (a)
Lexington Corporate Properties Trust	105,100	1,153,998
Liberty Property Trust	176,000	6,622,880 (a)
Total Diversified		*25,262,932*
Health Care 12.6%		
HCP Inc.	116,390	5,124,652 (a)
Health Care REIT Inc.	63,800	4,827,746 (a)
Healthcare Trust of America Inc., Class A Shares	85,050	2,291,247
OMEGA Healthcare Investors Inc.	108,000	4,219,560 (a)
Senior Housing Properties Trust	190,000	4,200,900 (a)
Total Health Care		*20,664,105*
Industrial 2.0%		
DCT Industrial Trust Inc.	90,590	*3,230,439*
Lodging/Resorts 5.5%		
Hersha Hospitality Trust	231,800	1,629,554
Hospitality Properties Trust	166,000	5,146,000 (a)
LaSalle Hotel Properties	55,100	2,229,897
Total Lodging/Resorts		*9,005,451*
Mortgage 7.4%		
American Capital Agency Corp.	115,310	2,517,217 (a)
Annaly Capital Management Inc.	224,700	2,429,007 (a)
Starwood Property Trust Inc.	307,100	7,137,004 (a)
Total Mortgage		*12,083,228*
Office 13.5%		
Alexandria Real Estate Equities Inc.	28,300	2,511,342
BioMed Realty Trust Inc.	209,700	4,516,938 (a)
First Potomac Realty Trust	163,619	2,022,331
Highwoods Properties Inc.	110,200	4,879,656 (a)

See Notes to Financial Statements.

Schedule of investments (cont d)

December 31, 2014

LMP Real Estate Income Fund Inc.

Security	Rate	Shares	Value
Office continued			
Kilroy Realty Corp.		103,740	$ 7,165,322 [(a)]
Paramount Group Inc.		60,000	1,115,400*
Total Office			*22,210,989*
Regional Malls 11.5%			
CBL & Associates Properties Inc.		50,800	986,536
Macerich Co.		98,000	8,174,180
Simon Property Group Inc.		31,600	5,754,676 [(a)]
Westfield Corp.		534,000	3,904,193 [(b)]
Total Regional Malls			*18,819,585*
Retail - Free Standing 3.1%			
Spirit Realty Capital Inc.		384,769	4,574,903
STORE Capital Corp.		25,200	544,572
Total Retail-Free Standing			*5,119,475*
Shopping Centers 15.1%			
Excel Trust Inc.		249,000	3,334,110 [(a)]
Inland Real Estate Corp.		480,000	5,256,000 [(a)]
Kite Realty Group Trust		66,000	1,896,840
Ramco-Gershenson Properties Trust		247,620	4,640,399 [(a)]
Regency Centers Corp.		88,500	5,644,530 [(a)]
Retail Properties of America Inc., Class A Shares		186,900	3,119,361 [(a)]
Urstadt Biddle Properties, Class A Shares		46,000	1,006,480 [(a)]
Total Shopping Centers			*24,897,720*
Total Real Estate Investment Trust Total Common Stocks (Cost $104,950,548)			**154,636,945**
Real Estate Investment Trust Preferred Stocks 26.6%			
Diversified 5.2%			
DuPont Fabros Technology Inc., Cumulative, Series B	7.625%	103,000	2,628,560
EPR Properties, Series E	9.000%	60,000	1,895,400
LBA Realty Fund LP, Cumulative Redeemable	8.750%	90,000	3,943,125 *
Total Diversified			*8,467,085*
Lodging/Resorts 6.8%			
Ashford Hospitality Trust, Series E	9.000%	64,000	1,694,720 [(a)]
Chesapeake Lodging Trust, Series A	7.750%	70,000	1,845,900
Hersha Hospitality Trust, Series B	8.000%	120,000	3,092,400
LaSalle Hotel Properties, Series I	6.375%	30,000	757,470
Pebblebrook Hotel Trust, Series A	7.875%	118,000	3,060,330
Pebblebrook Hotel Trust, Series C	6.500%	27,000	687,960
Total Lodging/Resorts			*11,138,780*

See Notes to Financial Statements.

LMP Real Estate Income Fund Inc.

Security	Rate	Shares	Value
Office 2.5%			
Alexandria Real Estate Equities Inc., Series D	7.000%	50,000	$ 1,390,000
Corporate Office Properties Trust, Series L	7.375%	105,000	2,738,400
Total Office			*4,128,400*
Regional Malls 4.2%			
CBL & Associates Properties Inc., Series E	6.625%	70,000	1,758,400
General Growth Properties Inc., Series A	6.375%	96,000	2,405,760
Glimcher Realty Trust, Series H	7.500%	105,000	2,769,900
Total Regional Malls			*6,934,060*
Retail - Free Standing 2.3%			
National Retail Properties Inc., Series D	6.625%	64,001	1,628,186
National Retail Properties Inc., Series E	5.700%	85,000	2,115,854
Total Retail - Free Standing			*3,744,040*
Shopping Centers 5.6%			
Cedar Realty Trust Inc., Series B	7.250%	107,400	2,822,472
Excel Trust Inc., Series B	8.125%	67,000	1,778,180
Retail Properties of America Inc., Cumulative	7.000%	90,000	2,358,000
Urstadt Biddle Properties Inc., Cumulative, Series F	7.125%	87,500	2,275,000
Total Shopping Centers			*9,233,652*
Total Real Estate Investment Trust Total Preferred Stocks (Cost $40,773,180)			**43,646,017**
Total Investments 120.8% (Cost $145,723,728#)			**198,282,962**
Liabilities in Excess of Other Assets (20.8)%			(34,091,906)
Total Net Assets 100.0%			**$ 164,191,056**

* Non-income producing security.

(a) All or a portion of this security is pledged as collateral pursuant to the loan agreement (See Note 5).

(b) Security is valued in good faith in accordance with procedures approved by the Board of Directors (See Note 1).

Aggregate cost for federal income tax purposes is $148,512,008.

Abbreviation used in this schedule:

REIT Real Estate Investment Trust

See Notes to Financial Statements.

Statement of assets and liabilities

December 31, 2014

Assets:	
Investments, at value (Cost $145,723,728)	$ 198,282,962
Cash	1,692,951
Dividends and distributions receivable	1,464,267
Prepaid expenses	5,771
Total Assets	***201,445,951***
Liabilities:	
Loan payable (Note 5)	37,000,000
Investment management fee payable	144,544
Directors fees payable	2,639
Interest payable (Note 5)	2,220
Accrued expenses	105,492
Total Liabilities	***37,254,895***
Total Net Assets	**$ 164,191,056**
Net Assets:	
Par value ($0.001 par value; 11,441,022 shares issued and outstanding; 100,000,000 shares authorized)	$ 11,441
Paid-in capital in excess of par value	126,810,989
Overdistributed net investment income	(1,188,745)
Accumulated net realized loss on investments and foreign currency transactions	(14,001,889)
Net unrealized appreciation on investments and foreign currencies	52,559,260
Total Net Assets	**$ 164,191,056**
Shares Outstanding	11,441,022
Net Asset Value	$14.35

See Notes to Financial Statements.

Statement of operations

For the Year Ended December 31, 2014

Investment Income:	
Dividends and distributions	$ 11,408,711
Return of capital	(2,530,115)
Less: Foreign taxes withheld	(53,538)
Total Investment Income	***8,825,058***
Expenses:	
Investment management fee (Note 2)	1,681,679
Interest expense (Note 5)	331,487
Transfer agent fees	75,123
Audit and tax fees	58,850
Commitment fees (Note 5)	40,555
Shareholder reports	25,879
Stock exchange listing fees	24,824
Directors fees	24,177
Legal fees	20,000
Fund accounting fees	14,952
Insurance	3,788
Custody fees	319
Miscellaneous expenses	12,224
Total Expenses	***2,313,857***
Less: Fee waivers and/or expense reimbursements (Note 2)	(93,426)
Net Expenses	***2,220,431***
Net Investment Income	**6,604,627**
Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Transactions (Notes 1 and 3):	
Net Realized Gain (Loss) From:	
Investment transactions	1,649,357
REIT distributions	784,128
Foreign currency transactions	(2,834)
Net Realized Gain	***2,430,651***
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	30,712,891
Foreign currencies	(113)
Change in Net Unrealized Appreciation (Depreciation)	***30,712,778***
Net Gain on Investments and Foreign Currency Transactions	**33,143,429**
Increase in Net Assets From Operations	**$ 39,748,056**

See Notes to Financial Statements.

Statements of changes in net assets

For the Years Ended December 31,	2014	2013
Operations:		
Net investment income	$ 6,604,627	$ 5,507,985
Net realized gain	2,430,651	5,335,116
Change in net unrealized appreciation (depreciation)	30,712,778	(9,096,431)
Increase in Net Assets from Operations	***39,748,056***	***1,746,670***
Distributions To Shareholders From (Note 1):		
Net investment income	(8,237,536)	(8,235,946)
Decrease in Net Assets from Distributions to Shareholders	***(8,237,536)***	***(8,235,946)***
Fund Share Transactions:		
Reinvestment of distributions (0 and 6,018 shares issued, respectively)		82,392
Increase in Net Assets from Fund Share Transactions		***82,392***
Increase (Decrease) in Net Assets	***31,510,520***	***(6,406,884)***
Net Assets:		
Beginning of year	132,680,536	139,087,420
End of year*	**$ 164,191,056**	**$ 132,680,536**
*Includes overdistributed net investment income of:	$(1,188,745)	$(686,973)

See Notes to Financial Statements.

Statement of cash flows

For the Year Ended December 31, 2014

Increase (Decrease) in Cash:	
Cash Provided (Used) by Operating Activities:	
Net increase in net assets resulting from operations	$ 39,748,056
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided (used) by operating activities:	
Purchases of portfolio securities	(22,099,657)
Sales of portfolio securities	20,365,031
Return of capital	2,530,115
Decrease in dividends and distributions receivable	30,582
Decrease in prepaid expenses	3,836
Decrease in payable for securities purchased	(406,677)
Increase in investment management fee payable	22,312
Increase in Directors fees payable	2,639
Increase in interest payable	10,627
Decrease in accrued expenses	(38,825)
Net realized gain on investments	(1,649,357)
Change in unrealized appreciation of investments	(30,712,891)
Net Cash Provided by Operating Activities*	***7,805,791***
Cash Flows from Financing Activities:	
Distributions paid on common stock	(8,237,536)
Net Cash Used in Financing Activities	***(8,237,536)***
Net Decrease in Cash	**(431,745)**
Cash at Beginning of Year	2,124,696
Cash at End of Year	$ 1,692,951

* Included in operating expenses is cash of $372,078 paid for interest and commitment fees on borrowings.

See Notes to Financial Statements.

Financial highlights

For a share of capital stock outstanding throughout each year ended December 31:	2014	2013	2012	2011	2010
Net asset value, beginning of year[1]	$ 11.60	$ 12.16	$ 10.70	$ 11.07	$ 8.98
Income (loss) from operations:					
Net investment income	0.58	0.48	0.45	0.45	0.36
Net realized and unrealized gain (loss)	2.89	(0.32)	1.73	(0.10)	2.45
Total income from operations	***3.47***	***0.16***	***2.18***	***0.35***	***2.81***
Less distributions paid to common stock shareholders from:					
Net investment income	(0.72)	(0.72)	(0.72)	(0.72)	(0.29)
Return of capital					(0.43)
Total distributions	***(0.72)***	***(0.72)***	***(0.72)***	***(0.72)***	***(0.72)***
Net asset value, end of year	$ 14.35	$ 11.60	$ 12.16	$ 10.70	$ 11.07
Market price, end of year	$ 12.55	$ 10.06	$ 10.97	$ 9.25	$ 10.10
Total return, based on NAV[2,3]	***30.69%***	***0.97%***	***20.84%***	***4.02%***	***33.49%***
Total return, based on Market Price[4]	***32.87%***	***(2.41)%***	***26.85%***	***(1.44)%***	***35.86%***
Net assets, end of year (millions)	$ 164	$ 133	$ 139	$ 122	$ 127
Ratios to average net assets:					
Gross expenses	1.54%	1.59%	1.74%	1.85%	2.08%
Net expenses[5]	1.48[6,7]	1.53[6,7]	1.68[6,7]	1.82[6,7]	2.08
Net investment income	4.41	3.79	3.86	4.13	3.57
Portfolio turnover rate	**11%**	**11%**	**43%**	**23%**	**12%**
Supplemental data:					
Loans Outstanding, End of Year (000s)	$ 37,000	$ 37,000	$ 37,000	$ 37,000	$ 45,000
Asset Coverage for Loan Outstanding	544%	459%	476%	431%	381%
Weighted Average Loan (000s)	$ 37,000	$ 37,000	$ 37,000	$ 43,268	$ 38,690
Weighted Average Interest Rate on Loans	0.90%	0.93%	1.10%	0.99%	1.53%

1 Per share amounts have been calculated using the average shares method.

2 Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results.

3 The total return calculation assumes that distributions are reinvested at NAV. Prior to January 1, 2012, the total return calculation assumed the reinvestment of all distributions in accordance with the Fund s dividend reinvestment plan. Past performance is no guarantee of future results.

4 The total return calculation assumes that distributions are reinvested in accordance with the Fund s dividend reinvestment plan. Past performance is no guarantee of future results.

5 The impact of compensating balance arrangements, if any, was less than 0.01%.

6 Reflects fee waivers and/or expense reimbursements.

7

LMPFA agreed to a waiver in the amount of 0.05% of the Fund s average daily net assets plus assets attributable to any borrowings used for leverage. The waiver commenced on August 15, 2011 and extended through June 30, 2015.

See Notes to Financial Statements.

Notes to financial statements

1. Organization and significant accounting policies

LMP Real Estate Income Fund Inc. (the Fund) was incorporated in Maryland and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund s primary investment objective is high current income and the Fund s secondary objective is capital appreciation.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. Subsequent events have been evaluated through the date the financial statements were issued.

(a) Investment valuation. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment s fair value. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund s Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North American Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund s pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments

Notes to financial statements (cont d)

owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer s financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

Level 1 quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund s own assumptions in determining the fair value of investments)

The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Fund s assets carried at fair value:

ASSETS

Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Long-term investments :				
Real estate investment trust common stocks:				
Regional malls	$ 14,915,392	$ 3,904,193		$ 18,819,585
Other real estate investment trust common stocks	135,817,360			135,817,360
Real estate investment trust preferred stocks:				
Diversified	4,523,960	3,943,125		8,467,085
Retail - free standing	1,628,186	2,115,854		3,744,040
Other real estate investment trust preferred stocks	31,434,892			31,434,892
Total investments	**$ 188,319,790**	**$ 9,963,172**		**$ 198,282,962**

See Schedule of Investments for additional detailed categorizations.

For the year ended December 31, 2014, as a result of the fair value pricing procedures for international equities utilized by the Fund, certain securities have transferred in and out of Level 1 and Level 2 measurements during the year. The Fund s policy is to recognize transfers between levels as of the end of the reporting period. At December 31, 2014, securities valued at $3,904,193 were reclassified as Level 2 within the fair value hierarchy because fair value procedures were applied when the change in value of a domestic equity security index suggested that the closing prices on foreign exchanges may no longer have represented the value of those securities at the time of closing of the NYSE.

(b) Repurchase agreements. The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the Fund s holding period. When entering into repurchase agreements, it is the Fund s policy that its custodian or a third party custodian, acting on the Fund s behalf, take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction maturity exceeds one business day, the value of the collateral is marked-to-market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights or if

Notes to financial statements (cont d)

bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

(c) Foreign currency translation. Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from fluctuations in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, including gains and losses on forward foreign currency contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund s books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, other than investments in securities, on the date of valuation, resulting from changes in exchange rates.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

(d) Concentration risk. The Fund invests in securities related to the real estate industry and is subject to the risks of real estate markets, including fluctuating property values, changes in interest rates and other mortgage-related risks.

(e) Security transactions and investment income. Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Foreign dividend income is recorded on the ex-dividend date or as soon as practicable after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults or a credit event occurs that impacts the issuer, the Fund may halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default or credit event.

(f) Distributions to shareholders. Distributions from net investment income of the Fund, if any, are declared quarterly and paid on a monthly basis. Distributions of net realized gains, if any, are declared at least annually. The Fund s policy is to pass through to its shareholders substantially all Real Estate Investment Trust (REIT) distributions and other income it receives, less operating expenses. The character of REIT distributions received from portfolio securities held by the Fund is generally comprised of investment income, long-term capital gains, and return of capital. The Fund reclassifies amounts within the Statement of Operations primarily based on information provided by REITs after the Fund s fiscal year end. In those instances where such information is not available, the Fund estimates the amounts based on amounts reported by the REITs in the prior year. After all remaining REITs report the actual character of distributions paid during the year, the Fund adjusts estimates previously recorded to actual.

Pursuant to its Managed Distribution Policy, the Fund intends to make regular monthly distributions to shareholders at a fixed rate per common share, which rate may be adjusted from time to time by the Fund s Board of Directors. Under the Fund s Managed Distribution Policy, if, for any monthly distribution, the value of the Fund s net investment income and net realized capital gain is less than the amount of the distribution, the difference will be distributed from the Fund s net assets (and may constitute a return of capital). The Board of Directors may modify, terminate or suspend the Managed Distribution Policy at any time, including when certain events would make part of the return of capital taxable to shareholders. Any such modification, termination or suspension could have an adverse effect on the market price of the Fund s shares. Distributions to shareholders of the Fund are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

(g) Cash flow information. The Fund invests in securities and distributes dividends from net investment income and net realized gains, which are paid in cash and may be reinvested at the discretion of shareholders. These activities are reported in the Statement of Changes in Net Assets and additional information on cash receipts and cash payments are presented in the Statement of Cash Flows.

(h) Compensating balance arrangements. The Fund has an arrangement with its custodian bank whereby a portion of the custodian s fees is paid indirectly by credits earned on the Fund s cash on deposit with the bank.

(i) Federal and other taxes. It is the Fund s policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986 (the Code), as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute its taxable income and net realized gains, if any, to shareholders in accordance with timing requirements imposed by the Code. Therefore, no federal or state income tax provision is required in the Fund s financial statements.

Management has analyzed the Fund s tax positions taken on income tax returns for all open tax years and has concluded that as of December 31, 2014, no provision for income tax is required in the Fund s financial statements. The Fund s federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have

Notes to financial statements (cont d)

not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

(j) Reclassification. GAAP requires that certain components of net assets be reclassified to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset values per share. During the current year, the following reclassifications have been made:

	Overdistributed Net Investment Income	Accumulated Net Realized Loss	Paid-in Capital
(a)	$ 626,794		$ (626,794)
(b)	504,343	$ (504,343)	

[a] Reclassifications are due to a taxable overdistribution from the prior year.

[b] Reclassifications are due to foreign currency transactions treated as ordinary income for tax purposes and book/tax differences in the treatment of passive foreign investment companies.

2. Investment management agreement and other transactions with affiliates

Legg Mason Partners Fund Advisor, LLC (LMPFA) is the Fund s investment manager and ClearBridge Investments, LLC (ClearBridge) is the Fund s subadviser. LMPFA and ClearBridge are wholly-owned subsidiaries of Legg Mason, Inc. (Legg Mason).

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.90% of the Fund s average daily net assets plus assets attributable to any borrowings used for leverage (Managed Assets).

LMPFA delegates to the subadviser the day-to-day portfolio management of the Fund. For its services, LMPFA pays ClearBridge 70% of the net management fee it receives from the Fund.

LMPFA also agreed to a waiver in the amount of 0.05% of the Fund s average daily net assets plus assets attributable to any borrowings used for leverage. The waiver commenced on August 15, 2011 and extends through June 30, 2015.

During periods in which the Fund utilizes financial leverage, the fees which are payable to the investment manager as a percentage of the Fund s assets will be higher than if the Fund did not utilize leverage because the fees are calculated as a percentage of the Fund s assets, including those investments purchased with leverage.

During the year ended December 31, 2014, fees waived and/or expenses reimbursed amounted to $93,426.

All officers and one Director of the Fund are employees of Legg Mason or its affiliates and do not receive compensation from the Fund.

3. Investments

During the year ended December 31, 2014, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

Purchases	$ 22,099,657
Sales	20,365,031

At December 31, 2014, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	$ 54,629,785
Gross unrealized depreciation	(4,858,831)
Net unrealized appreciation	**$ 49,770,954**

4. Derivative instruments and hedging activities

During the year ended December 31, 2014, the Fund did not invest in any derivative instruments.

5. Loan

The Fund has a revolving credit agreement with BNP Paribas, which allows the Fund to borrow up to an aggregate amount of $75,000,000. The agreement renews daily for a 180-day term unless notice to the contrary is given to the Fund. The Fund pays a commitment fee at an annual rate of 0.50% on the unutilized portion of the loan. The interest on the loan outstanding is calculated at a variable rate based on the three month LIBOR plus any applicable margin. To the extent of the borrowing outstanding, the Fund is required to maintain collateral in a special custody account at the Fund s custodian on behalf of BNP Paribas. The Fund s credit agreement contains customary covenants that, among other things, may limit the Fund s ability to pay distributions in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations, and require asset coverage ratios in addition to those required by the 1940 Act. In addition, the credit agreement may be subject to early termination under conditions and may contain other provisions that could limit the Fund s ability to utilize borrowing under the agreement. Interest expense related to the loan for the year ended December 31, 2014 was $331,487. For the year ended December 31, 2014, the Fund incurred a commitment fee in the amount of $40,555. For the year ended December 31, 2014, the Fund had an average daily loan balance outstanding of $37,000,000 and the weighted average interest rate was 0.90%. At December 31, 2014, the Fund had $37,000,000 of borrowings outstanding per this credit agreement.

Notes to financial statements (cont d)

6. Distributions subsequent to December 31, 2014

The following distributions have been declared by the Fund s Board of Directors and are payable subsequent to the period end of this report:

Record Date	Payable Date	Amount
1/23/2015	1/30/2015	$ 0.0600
2/20/2015	2/27/2015	$ 0.0600
3/20/2015	3/27/2015	$ 0.0600
4/17/2015	4/24/2015	$ 0.0600
5/22/2015	5/29/2015	$ 0.0600
6/19/2015	6/26/2015	$ 0.0600

7. Income tax information and distributions to shareholders

The tax character of distributions paid during the fiscal years ended December 31, was as follows:

	2014	2013
Distributions Paid From:		
Ordinary income	$ 8,237,536	$ 8,235,946

As of December 31, 2014, the components of accumulated earnings on a tax basis were as follows:

Undistributed ordinary income net	$ 419,586
Capital loss carryforward**	(13,686,058)
Other book/tax temporary differences[(a)]	864,118
Unrealized appreciation (depreciation)[(b)]	49,770,980
Total accumulated earnings (losses) net	**$ 37,368,626**

** During the taxable year ended December 31, 2014, the Fund utilized $ 1,926,308 of its capital loss carryforward available from prior years. As of December 31, 2014, the Fund had the following net capital loss carryforwards remaining:

Year of Expiration	Amount
12/31/2017	$ (13,559,657)
12/31/2018	(126,401)
	$ (13,686,058)

These amounts will be available to offset any future taxable capital gains.

(a) Other book/tax temporary differences are attributable to book/tax differences in the treatment of distributions from real estate investment trusts, the deferral of certain late year losses for tax purposes and book/tax differences in the timing of the deductibility of various expenses.

(b) The difference between book-basis and tax-basis unrealized appreciation (depreciation) is attributable to the tax deferral of losses on wash sales and other book/tax basis adjustments on investments in passive foreign investment companies.

Report of independent registered public accounting firm

The Board of Directors and Shareholders

LMP Real Estate Income Fund Inc.:

We have audited the accompanying statement of assets and liabilities of LMP Real Estate Income Fund Inc. (the Fund), including the schedule of investments, as of December 31, 2014, and the related statement of operations and cash flows for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2014, by correspondence with the custodian and brokers or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of LMP Real Estate Income Fund Inc. as of December 31, 2014, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

New York, New York

February 19, 2015

Board approval of management agreement and sub-advisory agreement
(unaudited)

Background

The Investment Company Act of 1940, as amended (the 1940 Act), requires that the Board of Directors (the Board) of LMP Real Estate Income Fund Inc. (the Fund), including a majority of its members that are not considered to be interested persons under the 1940 Act (the Independent Directors) voting separately, approve on an annual basis the continuation of the investment management contract (the Management Agreement) with the Fund s manager, Legg Mason Partners Fund Advisor, LLC (the Manager), and the sub-advisory agreement (the Sub-Advisory Agreement) with the Manager s affiliate, ClearBridge Investments, LLC (formerly, ClearBridge Advisors, LLC) (ClearBridge or the Sub-Adviser). At a meeting (the Contract Renewal Meeting) held in-person on November 12 and 13, 2014, the Board, including the Independent Directors, considered and approved the continuation of the Management Agreement and the Sub-Advisory Agreement for an additional one-year term. To assist in its consideration of the renewals of the Management Agreement and the Sub-Advisory Agreement, the Board received and considered a variety of information (together with the information provided at the Contract Renewal Meeting, the Contract Renewal Information) about the Manager and the Sub-Adviser, as well as the management and sub-advisory arrangements for the Fund and the other closed-end funds in the same complex under the Board s supervision (collectively, the Legg Mason Closed-end Funds), certain portions of which are discussed below. A presentation made by the Manager and the Sub-Adviser to the Board at the Contract Renewal Meeting in connection with its evaluations of the Management Agreement and the Sub-Advisory Agreement encompassed the Fund and other Legg Mason Closed-end Funds. In addition to the Contract Renewal Information, the Board received performance and other information throughout the year related to the respective services rendered by the Manager and the Sub-Adviser to the Fund. The Board s evaluation took into account the information received throughout the year and also reflected the knowledge and familiarity gained as members of the Boards of the Fund and other Legg Mason Closed-end Funds with respect to the services provided to the Fund by the Manager and the Sub-Adviser.

The Manager provides the Fund with investment advisory and administrative services pursuant to the Management Agreement and the Sub-Adviser provides the Fund with certain investment sub-advisory services pursuant to the Sub-Advisory Agreement. The discussion below covers both the advisory and administrative functions being rendered by the Manager, each such function being encompassed by the Management Agreement, and the investment sub-advisory functions being rendered by the Sub-Adviser.

Board approval of management agreement and sub-advisory agreement

In its deliberations regarding renewal of the Management Agreement and the Sub-Advisory Agreement, the Board, including the Independent Directors, considered the factors below.

Nature, extent and quality of the services under the management agreement and sub-advisory agreement

The Board received and considered Contract Renewal Information regarding the nature, extent and quality of services provided to the Fund by the Manager and the Sub-Adviser under the Management Agreement and the Sub-Advisory Agreement, respectively, during the past year. The Board also reviewed Contract Renewal Information regarding the Fund s compliance policies and procedures established pursuant to the 1940 Act.

The Board considered the qualifications, backgrounds and responsibilities of the Fund s senior personnel and the portfolio management team primarily responsible for the day-to-day portfolio management of the Fund. The Board also considered, based on its knowledge of the Manager and its affiliates, the Contract Renewal Information and the Board s discussions with the Manager and the Sub- Adviser at the Contract Renewal Meeting, the general reputation and investment performance records of the Manager and its affiliates and the financial resources available to the corporate parent of the Manager, Legg Mason, Inc. (Legg Mason), to support its activities in respect of the Fund and the other Legg Mason Closed-end Funds.

The Board considered the responsibilities of the Manager and the Sub-Adviser under the Management Agreement and the Sub-Advisory Agreement, respectively, including the Manager s coordination and oversight of the services provided to the Fund by the Sub-Adviser and others. The Management Agreement permits the Manager to delegate certain of its responsibilities, including its investment advisory duties thereunder, provided that the Manager, in each case, will supervise the activities of the delegee. Pursuant to this provision of the Management Agreement (the Delegation Provision), the Manager currently does not provide day-to-day portfolio management services to the Fund; rather, portfolio management services since September 1, 2012 have been provided to the Fund by ClearBridge pursuant to the Sub-Advisory Agreement. From August 15, 2011 to September 1, 2012, the Manager was responsible for day-to-day portfolio management activities. Prior to August 15, 2011, day-to-day portfolio management responsibilities, in accordance with the Delegation Provision, were delegated by the Manager pursuant to the Delegation Provision to AEW Capital Management, L.P. (AEW), an unaffiliated subadviser, pursuant to a separate sub-advisory agreement (the AEW Sub-Advisory Agreement) with the Manager. At the request of the Board, the Manager proposed and implemented a Management Fee waiver (the Management Fee Waiver) of 0.05% for three years, until June 30, 2014, as a result of the elimination of AEW s fees under the AEW Sub-Advisory Agreement, which were paid by the Manager. The Management Fee Waiver was extended by the Manager and is scheduled to expire on June 30, 2015.

In reaching its determinations regarding continuation of the Management Agreement and the Sub-Advisory Agreement, the Board took into account that Fund shareholders, in pursuing their investment goals and objectives, likely purchased their shares based upon the reputation and the particular investment style, philosophy and strategy of the Manager and the Sub-Adviser, as well as the resources available to the Manager and the Sub-Adviser.

The Board concluded that, overall, the nature, extent and quality of the management and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreement have been satisfactory under the circumstances.

Board approval of management agreement and sub-advisory agreement (unaudited) (cont d)

Fund performance

The Board received and considered performance information and analyses (the Lipper Performance Information) for the Fund, as well as for a group of funds (the Performance Universe) selected by Lipper, Inc. (Lipper), an independent provider of investment company data. The Board was provided with a description of the methodology Lipper used to determine the similarity of the Fund with the funds included in the Performance Universe. The Performance Universe included the Fund and all leveraged real estate closed-end funds, as classified by Lipper, regardless of asset size. The Performance Universe consisted of ten funds, including the Fund, for the 1-year period ended June 30, 2014; nine funds, including the Fund, for each of the 3- and 5-year periods ended June 30, 2014; and seven funds, including the Fund, for the 10-year period ended June 30, 2014. The Board noted that it had received and discussed with the Manager and the Sub-Adviser information throughout the year at periodic intervals comparing the Fund s performance against its benchmark and its peer funds as selected by Lipper.

The Lipper Performance Information, comparing the Fund s performance to that of the Performance Universe based on net asset value per share showed, among other things, that the Fund s performance was ranked ninth among the funds in the Performance Universe for the 1-year period ended June 30, 2014 (first being best in these performance rankings), fifth among the funds in the Performance Universe for the 3-year period ended June 30, 2014, and fourth among the funds in the Performance Universe for each of the 5- and 10-year periods ended June 30, 2014. The Fund s performance for the 1-year period was worse than the Performance Universe median, but in each other period the Fund s performance was at or better than the Performance Universe median for that period. In addition to the Fund s performance relative to the Performance Universe, the Board considered the Fund s performance in absolute terms and relative to its benchmark. On a net asset value basis, the Fund outperformed its benchmark during the 3-year period ended June 30, 2014 but underperformed its benchmark during each of the 1-, 5- and 10-year periods ended such date. The Board noted that the current portfolio management team, first as employees of the Manager during the period August 15, 2011 to September 1, 2012 and thereafter as employees of the Sub-Adviser, assumed responsibility for the Fund s portfolio management on August 15, 2011. The Board noted further that the Fund s investment results for each of the 3- and 5-year periods ended June 30, 2014 were attributable in part to AEW, which exercised responsibility for day-to-day management of the Fund s investment portfolio until August 15, 2011. In reviewing the Fund s performance relative to the Performance Universe, the Manager expressed its belief that the Fund s current portfolio management team has delivered competitive returns in a REIT bull market while lowering the Fund s risk profile, especially exposure to a rising interest rate market, by utilizing less leverage than most of the funds in the Performance Universe and reducing the Fund s preferred stock holdings.

Based on the reviews and discussions of Fund performance and considering other relevant factors, including those noted above, the Board concluded that, under the circumstances, continuation of the Management Agreement and the Sub-Advisory Agreement for an additional one-year period would be consistent with the interests of the Fund and its shareholders.

Management fees and expense ratios

The Board reviewed and considered the management fee (the Management Fee) payable by the Fund to the Manager under the Management Agreement and the sub-advisory fee (the Sub-Advisory Fee) payable to the Sub-Adviser under the Sub-Advisory Agreement in light of the nature, extent and overall quality of the management, investment advisory and other services provided by the Manager and the Sub-Adviser. The Board noted that the Sub-Advisory Fee payable to the Sub-Adviser under the Sub-Advisory Agreement is paid by the Manager, not the Fund, and, accordingly, that the retention of the Sub-Adviser does not increase the fees or expenses otherwise incurred by the Fund s shareholders.

Additionally, the Board received and considered information and analyses prepared by Lipper (the Lipper Expense Information) comparing the Management Fee and the Fund s overall expenses with those of funds in an expense group (the Expense Group) selected and provided by Lipper. The comparison was based upon the constituent funds latest fiscal years. The Expense Group consisted of the Fund and six other leveraged real estate closed-end funds, as classified by Lipper. The seven funds in the Expense Group had average net common share assets ranging from the Fund s $145.3 million to $1.117 billion.

The Lipper Expense Information, comparing the Management Fee as well as the Fund s actual total expenses to the Fund s Expense Group, showed, among other things, that the Fund s contractual Management Fee was ranked sixth among the funds in the Expense Group (first being lowest and, therefore, best in these expense component rankings) and was worse (i.e., higher) than the Expense Group median for that expense component. The Fund s actual Management Fee (i.e., giving effect to any voluntary fee waivers implemented by the Manager with respect to the Fund and by the managers of the other Expense Group funds) was ranked third among the funds in the Expense Group compared on the basis of common share assets only and second among the funds in the Expense Group compared on the basis of common share and leveraged assets. In each such comparison, the Fund s actual Management Fee was better (i.e., lower) than the Expense Group median for that expense component. The Lipper Expense Information further showed that the Fund s actual total expenses ranked third among the funds in the Expense Group compared on the basis of common share assets only and ranked second among the funds in the Expense Group on the basis of common share and leveraged assets. In each such comparison, the Fund s actual total expenses were better than the Expense Group median for that expense component. The Board noted that the small number of funds in the Expense Group and the Fund s small size in relation to the other Expense Group funds made meaningful expense comparisons difficult.

The Board also reviewed Contract Renewal Information regarding fees charged by the Manager to other U.S. clients investing primarily in an asset class similar to that of the Fund, including, where applicable, institutional and separate accounts. The Board was

Board approval of management agreement and sub-advisory agreement (unaudited) (cont d)

advised that the fees paid by such institutional, separate account and other clients (collectively, institutional clients) generally are lower, and may be significantly lower, than the Management Fee. The Contract Renewal Information discussed the significant differences in scope of services provided to the Fund and to institutional clients. Among other things, institutional clients have fewer compliance, administration and other needs than the Fund and the Fund is subject not only to heightened regulatory requirements relative to institutional clients but also to requirements for listing on the New York Stock Exchange. The Contract Renewal Information noted further that the Fund is provided with administrative services, office facilities, Fund officers (including the Fund s chief executive, chief financial and chief compliance officers), and that the Manager coordinates and oversees the provision of services to the Fund by other fund service providers. The Contract Renewal Information included information regarding management fees paid by open-end mutual funds in the same complex (the Legg Mason Open-end Funds) and such information indicated that the management fees paid by the Legg Mason Closed-end Funds generally were higher than those paid by the Legg Mason Open-end Funds. The Manager, in response to an inquiry from the Board as to the reasons for the fee differential, provided information as to differences between the services provided to the Fund and the other Legg Mason Closed-end Funds and the services provided to the Legg Mason Open-end Funds. The Board considered the fee comparisons in light of the different services provided in managing these other types of clients and funds.

Taking all of the above into consideration, the Board determined that the Management Fee and the Sub-Advisory Fee were reasonable in light of the nature, extent and overall quality of the management, investment advisory and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreement.

Manager profitability

The Board, as part of the Contract Renewal Information, received an analysis of the profitability to the Manager and its affiliates in providing services to the Fund for the Manager s fiscal years ended March 31, 2014 and March 31, 2013. The Board also received profitability information with respect to the Legg Mason fund complex as a whole. In addition, the Board received Contract Renewal Information with respect to the Manager s revenue and cost allocation methodologies used in preparing such profitability data. The Board received a report from an outside consultant engaged by the Manager that had reviewed the Manager s revenue and cost allocation methodologies. The profitability analysis presented to the Board as part of the Contract Renewal Information indicated that profitability to the Manager had decreased by 3 percent during the period covered by the analysis but remained at a level that was not considered to be excessive by the Board in light of judicial guidance and the nature, extent and overall quality of the investment advisory and other services provided to the Fund by the Manager and the Sub-Adviser. The Board noted that the Manager s profitability during the period covered by the analysis reflected the impact of the Management Fee Waiver.

Economies of scale

The Board received and discussed Contract Renewal Information concerning whether the Manager realizes economies of scale if the Fund s assets grow. The Board noted that because the Fund is a closed-end fund with no current plans to seek additional assets beyond maintaining its dividend reinvestment plan, any significant growth in its assets generally will occur through appreciation in the value of the Fund s investment portfolio, rather than sales of additional shares in the Fund. The Board determined that the Management Fee structure, which incorporates no breakpoints reducing the Management Fee at specified increased asset levels, was appropriate under present circumstances.

Other benefits to the manager and the sub-adviser

The Board considered other benefits received by the Manager, the Sub-Adviser and their affiliates as a result of their relationship with the Fund and did not regard such benefits as excessive.

* * * * * *

In light of all of the foregoing and other relevant factors, the Board determined that, under the circumstances, continuation of the Management Agreement and the Sub-Advisory Agreement would be consistent with the interests of the Fund and its shareholders and unanimously voted to continue each Agreement for a period of one additional year. No single factor reviewed by the Board was identified by the Board as the principal factor in determining whether to approve continuation of the Management Agreement and the Sub-Advisory Agreement, and each Board member attributed different weights to the various factors. The Independent Directors were advised by separate independent legal counsel throughout the process. Prior to the Contract Renewal Meeting, the Board received a memorandum prepared by the Manager discussing its responsibilities in connection with the proposed continuation of the Management Agreement and the Sub-Advisory Agreement as part of the Contract Renewal Information and the Independent Directors separately received a memorandum discussing such responsibilities from their independent counsel. Prior to voting, the Independent Directors also discussed the proposed continuation of the Management Agreement and the Sub-Advisory Agreement in private sessions with their independent legal counsel at which no representatives of the Manager or the Sub-Adviser were present.

Additional information (unaudited)

Information about Directors and Officers

The business and affairs of LMP Real Estate Income Fund Inc. (the Fund) are conducted by management under the supervision and subject to the direction of its Board of Directors. The business address of each Director is c/o Kenneth D. Fuller, Legg Mason, 100 International Drive, 11th Floor, Baltimore, Maryland 21202. Information pertaining to the Directors and officers of the Fund is set forth below.

Independent Directors:	
Robert D. Agdern[1]	
Year of birth	1950
Position(s) held with Fund[2]	Director and Member of Nominating and Audit Committees, Class III
Term of office[2] and length of time served	Since 2015
Principal occupation(s) during past five years	Member of the Advisory Committee of the Dispute Resolution Research Center at the Kellogg Graduate School of Business, Northwestern University since 2002; Deputy General Counsel responsible for western hemisphere matters for BP PLC from 1999 to 2001; Associate General Counsel at Amoco Corporation responsible for corporate, chemical, and refining and marketing matters and special assignments from 1993 to 1998 (Amoco merged with British Petroleum in 1998 forming BP PLC).
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	None
Carol L. Colman	
Year of birth	1946
Position(s) held with Fund[2]	Director and Member of the Nominating and Audit Committees, Class I
Term of office[2] and length of time served	Since 2007
Principal occupation(s) during past five years	President, Colman Consulting Company (consulting)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	None

Independent Directors cont d

Daniel P. Cronin

Year of birth	1946
Position(s) held with Fund[2]	Director and Member of the Nominating and Audit Committees, Class II
Term of office[2] and length of time served	Since 2007
Principal occupation(s) during past five years	Retired; formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	None

Paolo M. Cucchi

Year of birth	1941
Position(s) held with Fund[2]	Director and Member of the Nominating and Audit Committees, Class II
Term of office[2] and length of time served	Since 2002
Principal occupation(s) during past five years	Emeritus Professor of French and Italian (since 2014) and formerly, Professor of French and Italian (2009 to 2014) at Drew University; formerly, Vice President and Dean of College of Liberal Arts at Drew University (1984 to 2009)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	None

Leslie H. Gelb

Year of birth	1937
Position(s) held with Fund[2]	Director and Member of the Nominating and Audit Committees, Class I
Term of office[2] and length of time served	Since 2007
Principal occupation(s) during past five years	President Emeritus and Senior Board Fellow (since 2003), The Council on Foreign Relations; formerly, President, (prior to 2003), the Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited (since 1994)

Additional information (unaudited) (cont d)

Information about Directors and Officers

Independent Directors cont d	
William R. Hutchinson	
Year of birth	1942
Position(s) held with Fund[2]	Director and Member of the Nominating and Audit Committees, Class III
Term of office[2] and length of time served	Since 2002
Principal occupation(s) during past five years	President, W.R. Hutchinson & Associates Inc. (Consulting) (since 2001)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	Director (Non-Executive Chairman of the Board (since December 1, 2009)), Associated Banc Corp. (banking) (since 1994)
Eileen A. Kamerick	
Year of birth	1958
Position(s) held with Fund[2]	Director and Member of Nominating and Audit Committees, Class III
Term of office[2] and length of time served	Since 2013
Principal occupation(s) during past five years	Adjunct Professor, Washington University in St. Louis and University of Iowa law schools and Consultant, corporate governance matters (since 2014); formerly CFO, Press Ganey Associates (health care informatics company) (2012-2014); Managing Director and CFO, Houlihan Lokey (international investment bank and advisory firm) (2010 to 2012); Senior Vice President, CFO & CLO, Tecta America Corp (commercial roofing company) (2008 to 2010); Executive Vice President and CFO, Bearing Point Inc. (management and technology consulting firm) (2008); Executive Vice President, CFO and CAO Heidrick & Struggles (international executive search and leadership consulting firm) (2004 to 2008)
Number of portfolios in fund complex everseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	Director of Associated Banc-Corp (financial services company) (since 2007); Westell Technologies, Inc. (technology company) (since 2003)
Riordan Roett	
Year of birth	1938
Position(s) held with Fund[2]	Director and Member of the Nominating and Audit Committees, Class II
Term of office[2] and length of time served	Since 2007
Principal occupation(s) during past five years	The Sarita and Don Johnston Professor of Political Science and Director of Western Hemisphere Studies, Paul H. Nitze School of Advanced International Studies, The John Hopkins University (since 1973)
Number of portfolios in fund complex overseen by Director (including the Fund)	31
Other board memberships held by Director during past five years	None

Interested Director and Officer:

Kenneth D. Fuller[3]

Year of birth	1958
Position(s) held with Fund[2]	Director, Chairman, President and Chief Executive Officer, Class I
Term of office[2] and length of time served	Since 2013
Principal occupation(s) during past five years	Managing Director of Legg Mason & Co., LLC (Legg Mason & Co.) (since 2013); Officer and/or Trustee/Director of 157 funds associated with Legg Mason Partners Fund Advisor, LLC (LMPFA) or its affiliates (since 2013); President and Chief Executive Officer of LM Asset Services, LLC (LMAS) and Legg Mason Fund Asset Management, Inc. (LMFAM) (formerly registered investment advisers) (since 2013); formerly, Senior Vice President of LMPFA (2012 to 2013); formerly, Director of Legg Mason & Co. (2012 to 2013); formerly, Vice President of Legg Mason & Co. (2009 to 2012); formerly, Vice President Equity Division of T. Rowe Price Associates (1993 to 2009), as well as Investment Analyst and Portfolio Manager for certain asset allocation accounts (2004 to 2009)
Number of portfolios in fund complex overseen by Director (including the Fund)	147
Other board memberships held by Director during past five years	None

Additional Officers:

Ted P. Becker
Legg Mason

620 Eighth Avenue, 49th Floor, New York, NY 10018

Year of birth	1951
Position(s) held with Fund[2]	Chief Compliance Officer
Term of office[2] and length of time served	Since 2006
Principal occupation(s) during past five years	Director of Global Compliance at Legg Mason (since 2006); Chief Compliance Officer of LMPFA (since 2006); Managing Director of Compliance of Legg Mason & Co. (since 2005); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

Vanessa A. Williams
Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth	1979
Position(s) with Fund[2]	Identity Theft Prevention Officer
Term of office[2] and length of time served	Since 2011
Principal occupation(s) during past five years	Vice President of Legg Mason & Co. (since 2012); Identity Theft Prevention Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); formerly, Chief Anti-Money Laundering Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (2011 to 2013); formerly, Senior Compliance Officer of Legg Mason & Co. (2008 to 2011); formerly, Compliance Analyst of Legg Mason & Co. (2006 to 2008) and Legg Mason & Co. predecessors (prior to 2006)

Additional information (unaudited) (cont d)

Information about Directors and Officers

Additional Officers cont d

Robert I. Frenkel
Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth	1954
Position(s) held with Fund[2]	Secretary and Chief Legal Officer
Term of office[2] and length of time served	Since 2003
Principal occupation(s) during past five years	Vice President and Deputy General Counsel of Legg Mason (since 2006); Managing Director and General Counsel of Global Mutual Funds for Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

Thomas C. Mandia
Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth	1962
Position(s) held with Fund[2]	Assistant Secretary
Term of office[2] and length of time served	Since 2006
Principal occupation(s) during past five years	Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); Secretary of LMPFA (since 2006); Assistant Secretary of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); Secretary of SBFM (since 2002) and LMFAM (since 2013)

Richard F. Sennett
Legg Mason

100 International Drive, 7th Floor, Baltimore, MD 21202

Year of birth	1970
Position(s) held with Fund[2]	Principal Financial Officer
Term of office[2] and length of time served	Since 2011
Principal occupation(s) during past five years	Principal Financial Officer and Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011 and 2013); Managing Director of Legg Mason & Co. and Senior Manager of the Treasury Policy group for Legg Mason & Co. s Global Fiduciary Platform (since 2011); formerly, Chief Accountant within the SEC s Division of Investment Management (2007 to 2011); formerly, Assistant Chief Accountant within the SEC s Division of Investment Management (2002 to 2007)

Additional Officers cont d

Steven Frank Legg Mason 620 Eighth Avenue, 49th Floor, New York, NY 10018	
Year of birth	1967
Position(s) held with Fund[2]	Treasurer
Term of office[2] and length of time served	Since 2010
Principal occupation(s) during past five years	Vice President of Legg Mason & Co. and Legg Mason & Co. predecessors (since 2002); Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2010); formerly, Controller of certain mutual funds associated with Legg Mason & Co. or its affiliates (prior to 2010)
Jeanne M. Kelly Legg Mason 620 Eighth Avenue, 49th Floor, New York, NY 10018	
Year of birth	1951
Position(s) with Fund[2]	Senior Vice President
Term of office[2] and length of time served	Since 2007
Principal occupation(s) during past five years	Senior Vice President of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2007); Senior Vice President of LMPFA (since 2006) and LMFAM (since 2013); Managing Director of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005)

Directors who are not interested persons of the Fund within the meaning of Section 2(a)(19) of the 1940 Act.

[1] Effective January 1, 2015, Mr. Agdern became a Director.

[2] The Fund s Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of the Class I, II and III Directors expire at the Annual Meetings of Stockholders in the year 2016, year 2017 and year 2015, respectively, or thereafter in each case when their respective successors are duly elected and qualified. The Fund s executive officers are chosen each year at the first meeting of the Fund s Board of Directors following the Annual Meeting of Stockholders, to hold office until the meeting of the Board following the next Annual Meeting of Stockholders and until their successors are duly elected and qualified.

[3] Mr. Fuller is an interested person of the Fund as defined in the 1940 Act because Mr. Fuller is an officer of LMPFA and certain of its affiliates.

Annual chief executive officer and principal financial officer certifications
(unaudited)

The Fund s Chief Executive Officer (CEO) has submitted to the NYSE the required annual certification and the Fund also has included the certifications of the Fund s CEO and Principal Financial Officer required by Section 302 of the Sarbanes-Oxley Act in the Fund s Form N-CSR filed with the SEC for the period of this report.

Other shareholder communications regarding accounting matters (unaudited)

The Fund s Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, Accounting Matters). Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Chief Compliance Officer (CCO). Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to the Fund s Audit Committee Chair. Complaints may be submitted on an anonymous basis.

The CCO may be contacted at:

Legg Mason & Co., LLC

Compliance Department

620 Eighth Avenue, 49th Floor

New York, New York 10018

Complaints may also be submitted by telephone at 1-800-742-5274. Complaints submitted through this number will be received by the CCO.

Dividend reinvestment plan (unaudited)

Under the Fund s Dividend Reinvestment Plan (Plan), a shareholder whose shares of Common Stock are registered in his own name will have all distributions from the Fund reinvested automatically by American Stock Transfer & Trust Company (AST), as agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in street name) will be reinvested by the broker or nominee in additional shares under the Plan, unless the service is not provided by the broker or nominee or the shareholder elects to receive distributions in cash. Investors who own Common Stock registered in street name should consult their broker-dealers for details regarding reinvestment. All distributions to Fund shareholders who do not participate in the Plan will be paid by check mailed directly to the record holder by or under the direction of AST as dividend-paying agent.

If the Fund declares a dividend or capital gains distribution payable either in Common Shares or in cash, shareholders who are not Plan participants will receive cash, and Plan participants will receive the equivalent amount in Common Shares. When the market price of the Common Shares is equal to or exceeds 98% of the net asset value per share of the Common Shares on the Determination Date (as defined below), Plan participants will be issued Common Shares valued at a price equal to the greater of (a) 98% of the net asset value per share at the close of trading on the Determination Date or (b) 95% of the market price per share of the common stock on the Determination Date. The Determination Date is the dividend or capital gains distribution record date or, if that date is not a New York Stock Exchange (NYSE) trading day, the immediately preceding trading day.

If 98% of the net asset value per share of the Common Shares exceeds the market price of the Common Shares on the Determination Date, the Plan Agent will receive the dividend or distribution in cash and will buy Common Shares in the open market, on the Exchange or elsewhere, for your account as soon as practicable commencing on the trading day following the Determination Date and terminating no later than the earlier of (a) 30 days after the dividend or distribution payment date, or (b) the record date for the next succeeding dividend or distribution to be made to the Common Shareholders, except when necessary to comply with applicable provisions of the federal securities laws. If during this period: (i) the market price rises so that it equals or exceeds 98% of the net asset value per share of the Common Shares at the close of trading on the Exchange on the Determination date before the Plan Agent has completed the open market purchases or (ii) if the Plan Agent is unable to invest the full amount eligible to be reinvested in open market purchases, the Plan agent will cease purchasing Common Shares in the open market and the Fund shall issue the remaining Common Shares at a price per share equal to the greater of (a) 98% of the net asset value per share at the close of trading on the Exchange on the Determination date or (b) 95% of the then current market price per share. You may withdraw from the Plan by notifying the Plan Agent in writing at 6201 15th Avenue, Brooklyn, New York 11219, by logging onto your account and following the directions at www.Investpower.com or by calling the Plan Agent at 1-877-366-6441. Such withdrawal will be effective immediately if notice is received by the Plan Agent not less than ten business days prior to any dividend or distribution record date; otherwise such withdrawal will be effective as soon as practicable after the Plan Agent s investment of the most recently declared dividend or distribution on the Common Shares.

AST will maintain all shareholder accounts in the Plan and will furnish written confirmations of all transactions in each account, including information needed by a shareholder for personal and tax records. The automatic reinvestment of dividends and capital gains distributions will not relieve Plan participants of any income tax that may be payable on the dividends or capital gains distributions. Common Shares in the account of each Plan participant will be held by AST on behalf of the Plan participant, and each shareholder s proxy will include those shares purchased pursuant to the Plan.

Plan participants are subject to no charge for reinvesting dividends and capital gains distributions. AST s fees for handling the reinvestment of dividends and capital gains distributions will be paid by the Fund. No brokerage charges apply with respect to Common Shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in Common Shares or in cash. Each Plan participant will, however, bear a proportionate share of brokerage commissions incurred with respect to open market purchases made in connection with the reinvestment of dividends or capital gains distributions.

Experience under the Plan may indicate that changes to it are desirable. The Fund reserves the right to amend or terminate the Plan as applied to any dividend or capital gains distribution paid subsequent to written notice of the change sent to participants at least 30 days before the record date for the dividend or capital gains distribution. The Plan also may be amended or terminated by AST, with the Fund s prior written consent, on at least 30 days written notice to Plan participants. Upon any termination, you will be sent a certificate or certificates for the full Common Shares held for you under the Plan and cash for any fractional Common Shares. You may elect to notify the Plan Agent in advance of such termination to have the Plan Agent sell part or all of your shares on your behalf. The Plan Agent is authorized to deduct brokerage commissions actually incurred for this transaction from the proceeds. All correspondence concerning the Plan should be directed by mail to American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, New York 11219, by logging onto your account and following the directions at www.Investpower.com or by telephone at 1-888-888-0151.

Important Tax Information (unaudited)

The following information is provided with respect to the distributions paid during the taxable year ended December 31, 2014:

Record Date:	Monthly
Payable Date:	January 2014- December 2014
Ordinary Income:	
Qualified Dividend Income for Individuals	2.95%
Dividends Qualifying for the Dividends Received Deduction for Corporations	2.95%

Please retain this information for your records.

LMP

Real Estate Income Fund Inc.

Directors

Robert D. Agdern*

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

Kenneth D. Fuller

Chairman

Leslie H. Gelb

William R. Hutchinson

Eileen A. Kamerick

Riordan Roett

Officers

Kenneth D. Fuller

President and Chief Executive Officer

Richard F. Sennett

Principal Financial Officer

Ted P. Becker

Chief Compliance Officer

Vanessa A. Williams

Identity Theft Prevention Officer

Robert I. Frenkel

Secretary and Chief Legal Officer

Thomas C. Mandia

Assistant Secretary

Steven Frank

Treasurer

Jeanne M. Kelly

Senior Vice President

LMP Real Estate Income Fund Inc.

620 Eighth Avenue

49th Floor

New York, NY 10018

Investment manager

Legg Mason Partners Fund Advisor, LLC

Subadviser

ClearBridge Investments, LLC

Custodian

State Street Bank and Trust Company

1 Lincoln Street

Boston, MA 02111

Transfer agent

American Stock Transfer & Trust Company 6201 15th Avenue

Brooklyn, NY 11219

Independent registered public accounting firm

KPMG LLP

345 Park Avenue

New York, NY 10154

Legal counsel

Simpson Thacher & Bartlett LLP

425 Lexington Avenue

New York, NY 10017

New York Stock Exchange Symbol

RIT

* Effective January 1, 2015, Mr. Agdern became a Director.

Legg Mason Funds Privacy and Security Notice

Your Privacy and the Security of Your Personal Information is Very Important to the Legg Mason Funds

This Privacy and Security Notice (the Privacy Notice) addresses the Legg Mason Funds privacy and data protection practices with respect to nonpublic personal information the Funds receive. The Legg Mason Funds include any funds sold by the Funds distributor, Legg Mason Investor Services, LLC, as well as Legg Mason-sponsored closed-end funds and certain closed-end funds managed or sub-advised by Legg Mason or its affiliates. The provisions of this Privacy Notice apply to your information both while you are a shareholder and after you are no longer invested with the Funds.

The Type of Nonpublic Personal Information the Funds Collect About You

The Funds collect and maintain nonpublic personal information about you in connection with your shareholder account. Such information may include, but is not limited to:

- Personal information included on applications or other forms;
- Account balances, transactions, and mutual fund holdings and positions;
- Online account access user IDs, passwords, security challenge question responses; and
- Information received from consumer reporting agencies regarding credit history and creditworthiness (such as the amount of an individual s total debt, payment history, etc.).

How the Funds Use Nonpublic Personal Information About You

The Funds do not sell or share your nonpublic personal information with third parties or with affiliates for their marketing purposes, or with other financial institutions or affiliates for joint marketing purposes, unless you have authorized the Funds to do so. The Funds do not disclose any nonpublic personal information about you except as may be required to perform transactions or services you have authorized or as permitted or required by law. The Funds may disclose information about you to:

- Employees, agents, and affiliates on a need to know basis to enable the Funds to conduct ordinary business or comply with obligations to government regulators;
- Service providers, including the Funds affiliates, who assist the Funds as part of the ordinary course of business (such as printing, mailing services, or processing or servicing your account with us) or otherwise perform services on the Funds behalf, including companies that may perform marketing services solely for the Funds;
- The Funds representatives such as legal counsel, accountants and auditors; and
- Fiduciaries or representatives acting on your behalf, such as an IRA custodian or trustee of a grantor trust.

Legg Mason Funds Privacy and Security Notice (cont d)

Except as otherwise permitted by applicable law, companies acting on the Funds behalf are contractually obligated to keep nonpublic personal information the Funds provide to them confidential and to use the information the Funds share only to provide the services the Funds ask them to perform.

The Funds may disclose nonpublic personal information about you when necessary to enforce their rights or protect against fraud, or as permitted or required by applicable law, such as in connection with a law enforcement or regulatory request, subpoena, or similar legal process. In the event of a corporate action or in the event a Fund service provider changes, the Funds may be required to disclose your nonpublic personal information to third parties. While it is the Funds practice to obtain protections for disclosed information in these types of transactions, the Funds cannot guarantee their privacy policy will remain unchanged.

Keeping You Informed of the Funds Privacy and Security Practices

The Funds will notify you annually of their privacy policy as required by federal law. While the Funds reserve the right to modify this policy at any time they will notify you promptly if this privacy policy changes.

The Funds Security Practices

The Funds maintain appropriate physical, electronic and procedural safeguards designed to guard your nonpublic personal information. The Funds internal data security policies restrict access to your non-public personal information to authorized employees, who may use your nonpublic personal information for Fund business purposes only.

Although the Funds strive to protect your nonpublic personal information, they cannot ensure or warrant the security of any information you provide or transmit to them, and you do so at your own risk. In the event of a breach of the confidentiality or security of your nonpublic personal information, the Funds will attempt to notify you as necessary so you can take appropriate protective steps. If you have consented to the Funds using electronic communications or electronic delivery of statements, they may notify you under such circumstances using the most current email address you have on record with them.

In order for the Funds to provide effective service to you, keeping your account information accurate is very important. If you believe that your account information is incomplete, not accurate or not current, or if you have questions about the Funds privacy practices, write the Funds using the contact information on your account statements, email the Funds by clicking on the Contact Us section of the Funds website at www.leggmason.com, or contact the Fund at 1-888-777-0102.

Revised April 2011

NOT PART OF THE ANNUAL REPORT

LMP Real Estate Income Fund Inc.

620 Eighth Avenue

49th Floor

New York, NY 10018

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase at market prices, shares of its common stock in the open market.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund s Forms N-Q are available on the SEC s website at www.sec.gov. The Fund s Forms N-Q may be reviewed and copied at the SEC s Public Reference Room in Washington, D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. To obtain information on Form N-Q from the Fund, shareholders can call 1-888-777-0102.

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio transactions are available (1) without charge, upon request, by calling 1-888-777-0102, (2) on the Fund s website at www.lmcef.com and (3) on the SEC s website at www.sec.gov.

This report is transmitted to the shareholders of LMP Real Estate Income Fund Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

American Stock

Transfer & Trust Company

6201 15th Avenue

Brooklyn, NY 11219

FD02709 2/15 SR15-2429

ITEM 2. CODE OF ETHICS.

The registrant has adopted a code of ethics that applies to the registrant s principal executive officer, principal financial officer, principal accounting officer or controller.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The Board of Directors of the registrant has determine that Eileen A. Kamerick, a member of the Board s Audit Committee, possesses the technical attributes identified in Instruction 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert and that she is independent for purposes of this item.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

a) Audit Fees. The aggregate fees billed in the last two fiscal years ending December 31, 2013 and December 31, 2014 (the Reporting Periods) for professional services rendered by the Registrant s principal accountant (the Auditor) for the audit of the Registrant s annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were $53,800 in December 31, 2013 and $54,300 in December 31, 2014.

b) Audit-Related Fees. The aggregate fees billed in the Reporting period for assurance and related services by the Auditor that are reasonably related to the performance of the Registrant s financial statements were $0 in December 31, 2013 and $0 in December 31, 2014.

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were $4,500 in December 31, 2013 and $4,550 in December 31, 2014. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

There were no fees billed for tax services by the Auditors to service affiliates during the Reporting Periods that required pre-approval by the Audit Committee.

d) All Other Fees. There were no other fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) of this Item 4 for the LMP Real Estate Income Fund Inc.

All Other Fees. There were no other non-audit services rendered by the Auditor to Legg Mason Partners Fund Advisors, LLC (LMPFA) and any entity controlling, controlled by or under common control with LMPFA that provided ongoing services to LMP Real Estate Income Fund Inc. requiring pre-approval by the Audit Committee in the Reporting Period.

(e) Audit Committee s pre approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

(1) The Charter for the Audit Committee (the Committee) of the Board of each registered investment company (the Fund) advised by LMPFA or one of their affiliates (each, an Adviser) requires that the Committee shall approve (a) all audit and permissible non-audit services to be provided to the Fund and (b) all permissible non-audit services to be provided by the Fund s independent auditors to the Adviser and any Covered Service Providers if the engagement relates directly to the operations and financial reporting of the Fund. The Committee may implement policies and procedures by which such services are approved other than by the full Committee.

1

The Committee shall not approve non-audit services that the Committee believes may impair the independence of the auditors. As of the date of the approval of this Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent auditors, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Adviser and any service providers controlling, controlled by or under common control with the Adviser that provide ongoing services to the Fund (Covered Service Providers) constitutes not more than 5% of the total amount of revenues paid to the independent auditors during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) the Adviser and (c) any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

(2) For the LMP Real Estate Income Fund Inc., the percentage of fees that were approved by the audit committee, with respect to: Audit-Related Fees were 100% and 100% for 2013 and 2014; Tax Fees were 100% and 100% for 2013 and 2014; and Other Fees were 100% and 100% for 2013 and 2014.

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to LMP Real Estate Income Fund Inc., LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to LMP Real Estate Income Fund Inc. during the reporting period were $0 in 2014.

(h) Yes. LMP Real Estate Income Fund Inc. s Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates, which were not pre-approved (not requiring pre-approval), is compatible with maintaining the Accountant s independence. All services provided by the Auditor to the LMP Real Estate Income Fund Inc. or to Service Affiliates, which were required to be pre-approved, were pre-approved as required.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

a) Registrant has a separately-designated standing Audit Committee established in accordance with *Section 3(a)58(A) of the Exchange Act*. The Audit Committee consists of the following Board members:

Robert D. Agdern (Effective January 1, 2015, Mr. Agdern became a member of the Audit Committee and the Board of Directors.)

William R. Hutchinson

Paolo M. Cucchi

Daniel P. Cronin

Carol L. Colman

Leslie H. Gelb

Eileen A. Kamerick

Dr. Riordan Roett

Jeswald W. Salacuse (Effective June 30, 2014, Mr. Salacuse retired from the Audit Committee and the Board of Directors.)

b) Not Applicable.

ITEM 6. SCHEDULE OF INVESTMENTS.
Included herein under Item 1.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Proxy Voting Guidelines and Procedures

Legg Mason Partners Fund Advisor, LLC (LMPFA) delegates the responsibility for voting proxies for the fund to the subadviser through its contracts with the subadviser. The subadviser will use its own proxy voting policies and procedures to vote proxies. Accordingly, LMPFA does not expect to have proxy-voting responsibility for the fund. Should LMPFA become responsible for voting proxies for any reason, such as the inability of the subadviser to provide investment advisory services, LMPFA shall utilize the proxy voting guidelines established by the most recent subadviser to vote proxies until a new subadviser is retained.

The subadviser s Proxy Voting Policies and Procedures govern in determining how proxies relating to the fund s portfolio securities are voted and are provided below. Information regarding how each fund voted proxies (if any) relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge (1) by calling 888-777-0102, (2) on the fund s website at http://www.lmcef.com and (3) on the SEC s website at http://www.sec.gov.

PROXY VOTING GUIDELINES & PROCEDURES SUMMARY

Concerning ClearBridge Investments LLC

(f/ka ClearBridge Advisors LLC)

(ClearBridge)

I. TYPES OF ACCOUNTS FOR WHICH CLEARBRIDGE VOTES PROXIES

ClearBridge votes proxies for each client that has specifically authorized us to vote them in the investment management contract or otherwise and votes proxies for each ERISA account unless the plan document or investment advisory agreement specifically reserves the responsibility to vote proxies to the plan trustees or other named fiduciary. These policies and procedures are intended to fulfill applicable requirements imposed on ClearBridge by the Investment Advisers Act of 1940, as amended, the Investment Company Act of 1940, as amended, and the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations adopted under these laws.

II. GENERAL GUIDELINES

In voting proxies, we are guided by general fiduciary principles. Our goal is to act prudently, solely in the best interest of the beneficial owners of the accounts we manage and, in the case of ERISA accounts, for the exclusive purpose of providing economic benefits to such persons. We attempt to provide for the consideration of all factors that could affect the value of the investment and will vote proxies in the manner that we believe will be consistent with efforts to maximize shareholder values.

III. HOW CLEARBRIDGE VOTES

Section V of these policies and procedures sets forth certain stated positions. In the case of a proxy issue for which there is a stated position, we generally vote in accordance with the stated position. In the case of a proxy issue for which there is a list of factors set forth in Section V that we consider in voting on such issue, we consider those factors and vote on a case-by-case basis in accordance with the general principles set forth above. In the case of a proxy issue for which there is no stated position or list of factors that we consider in voting on such issue, we vote on a case-by-case basis in accordance with the general principles set forth above. We may utilize an external service provider to provide us with information and/or a recommendation with regard to proxy votes but we are not required to follow any such recommendations. The use of an external service provider does not relieve us of our responsibility for the proxy vote.

For routine matters, we usually vote according to our policy or the external service provider s recommendation, although we are not obligated to do so and an individual portfolio manager may vote contrary to our policy or the recommendation of the external service provider. If a matter is non-routine, *e.g.*, management s recommendation is different than that of the external service provider and ClearBridge is a significant holder or it is a significant holding for ClearBridge, the issues will be highlighted to the appropriate investment teams and their views solicited by members of the Proxy Committee. Different investment teams may vote differently on the same issue, depending upon their assessment of clients best interests.

ClearBridge s proxy voting process is overseen and coordinated by its Proxy Committee.

IV. CONFLICTS OF INTEREST

In furtherance of ClearBridge s goal to vote proxies in the best interests of clients, ClearBridge follows procedures designed to identify and address material conflicts that may arise between ClearBridge s interests and those of its clients before voting proxies on behalf of such clients.

A. Procedures for Identifying Conflicts of Interest

ClearBridge relies on the following to seek to identify conflicts of interest with respect to proxy voting:

1. ClearBridge s employees are periodically reminded of their obligation (i) to be aware of the potential for conflicts of interest on the part of ClearBridge with respect to voting proxies on behalf of client accounts both as a result of their personal relationships or personal or business relationships relating to another Legg Mason business unit, and (ii) to bring conflicts of interest of which they become aware to the attention of ClearBridge s General Counsel/Chief Compliance Officer.

2. ClearBridge s finance area maintains and provides to ClearBridge Compliance and proxy voting personnel an up- to-date list of all client relationships that have historically accounted for or are projected to account for greater than 1% of ClearBridge s net revenues.

3. As a general matter, ClearBridge takes the position that relationships between a non-ClearBridge Legg Mason unit and an issuer (*e.g.*, investment management relationship between an issuer and a non-ClearBridge Legg Mason affiliate) do not present a conflict of interest for ClearBridge in voting proxies with respect to such issuer because ClearBridge operates as an independent business unit from other Legg Mason business units and because of the existence of informational barriers between ClearBridge and certain other Legg Mason business units. As noted above, ClearBridge employees are under an obligation to bring such conflicts of interest, including conflicts of interest which may arise because of an attempt by another Legg Mason business unit or non-ClearBridge Legg Mason officer or employee to influence proxy voting by ClearBridge to the attention of ClearBridge Compliance.

4. A list of issuers with respect to which ClearBridge has a potential conflict of interest in voting proxies on behalf of client accounts will be maintained by ClearBridge proxy voting personnel. ClearBridge will not vote proxies relating to such issuers until it has been determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented, as described in Section IV below.

B. Procedures for Assessing Materiality of Conflicts of Interest and for Addressing Material Conflicts of Interest

1. ClearBridge maintains a Proxy Committee which, among other things, reviews and addresses conflicts of interest brought to its attention. The Proxy Committee is comprised of such ClearBridge personnel (and others, at ClearBridge s request), as are designated from time to time. The current members of the Proxy Committee are set forth in the Proxy Committee s Terms of Reference.