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FRANKLIN FLOATING RATE TRUST
Form N-CSR
October 01, 2004

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 811-08271

FRANKLIN FLOATING RATE TRUST

(Exact name of registrant as specified in charter)

ONE FRANKLIN PARKWAY, SAN MATEO, CA 94403-1906
(Address of principal executive offices) (Zip code)

MURRAY L. SIMPSON, ONE FRANKLIN PARKWAY, SAN MATEO, CA 94403-1906

(Name and address of agent for service)

Registrant's telephone number, including area code: (650) 312-2000

Date of fiscal year end: 7/31

Date of reporting period: 7/31/04

ITEM 1. REPORTS TO STOCKHOLDERS.

JULY 31, 2004

[GRAPHIC OMITTED]

ANNUAL REPORT AND SHAREHOLDER LETTER | INCOME

FRANKLIN
FLOATING RATE TRUST

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[LOGO OMITTED]
FRANKLIN[R] TEMPLETON[R]
INVESTMENTS

FRANKLIN o TEMPLETON o MUTUAL SERIES

Franklin Templeton Investments

GAIN FROM OUR PERSPECTIVE

Franklin Templeton's distinct multi-manager structure combines the specialized expertise of three world-class investment management groups--Franklin, Templeton and Mutual Series.

SPECIALIZED EXPERTISE

Each of our portfolio management groups operates autonomously, relying on its own research and staying true to the unique investment disciplines that underlie its success.

FRANKLIN. Founded in 1947, Franklin is a recognized leader in fixed income investing and also brings expertise in growth- and value-style U.S. equity investing.

TEMPLETON. Founded in 1940, Templeton pioneered international investing and, in 1954, launched what has become the industry's oldest global fund. Today, with research offices in over 25 countries, they offer investors the broadest global reach in the industry.

MUTUAL SERIES. Founded in 1949, Mutual Series is dedicated to a unique style of value investing, searching aggressively for opportunity among undervalued stocks, arbitrage situations and distressed companies.

TRUE DIVERSIFICATION

Because our management groups work independently and adhere to distinctly different investment approaches, Franklin, Templeton and Mutual Series funds typically have a low overlap of securities. That's why our funds can be used to build truly diversified portfolios covering every major asset class.

RELIABILITY YOU CAN TRUST

At Franklin Templeton Investments, we seek to consistently provide investors with exceptional risk-adjusted returns over the long term, as well as the reliable account services that have helped us become one of the most trusted names in financial services.

MUTUAL FUNDS | RETIREMENT PLANS | 529 COLLEGE SAVINGS PLANS | SEPARATE ACCOUNTS

[GRAPHIC OMITTED]

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Not part of the annual report

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Annual Report

Franklin Floating Rate Trust

YOUR FUND'S GOAL AND MAIN INVESTMENTS: Franklin Floating Rate Trust seeks to provide as high a level of current income and preservation of capital as is consistent with investment primarily in senior secured corporate loans and corporate debt securities with floating interest rates.

PERFORMANCE DATA QUOTED REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN. PLEASE VISIT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236 FOR MOST RECENT MONTH-END PERFORMANCE.

We are pleased to bring you Franklin Floating Rate Trust's annual report for the fiscal year ended July 31, 2004.

PERFORMANCE OVERVIEW

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Franklin Floating Rate Trust posted a +9.95% cumulative total return for the 12 months ended July 31, 2004, as shown in the Performance Summary on page 8. The share price, as measured by net asset value (NAV), rose from \$8.42 per share on July 31, 2003, to \$8.98 at year-end. The Fund made dividend distributions totaling \$0.277869 per share.¹

ECONOMIC AND MARKET OVERVIEW

During the 12 months ended July 31, 2004, the U.S. economy remained strong. One-year gross domestic product (GDP) rose an estimated 4.8% through June. Major contributors to growth included consumer spending, inventory investment, equipment and software spending, and federal government spending. Despite solid export growth and a resilient housing market, annualized second quarter 2004 GDP grew an estimated 2.8%, which was less than expected, due largely to the weakest consumer spending growth in three years. Approximately 70% of GDP stemmed from consumer activity, which slowed as personal liquidity from tax cuts and low interest-rate incentives faded. Business investment and corporate profits rose and contributed to overall economic growth.

PORTFOLIO BREAKDOWN

Based on Total Net Assets as of 7/31/04

[GRAPHIC OMITTED]

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC AS FOLLOWS:

| | |
|---|-------|
| Senior Floating Rate Interests | 87.0% |
| Corporate Bonds | 1.6% |
| Equities | 0.7% |
| Short-Term Investments & Other Net Assets | 10.7% |

1. Assumes shares were purchased and held for the entire accrual period. Since dividends accrue daily, your actual distributions will vary depending on the date you purchased your shares and any account activity. All Fund distributions will vary depending upon current market conditions, and past distributions are not indicative of future trends.

THE DOLLAR VALUE, NUMBER OF SHARES OR PRINCIPAL AMOUNT, AND NAMES OF ALL PORTFOLIO HOLDINGS ARE LISTED IN THE FUND'S STATEMENT OF INVESTMENTS (SOI). THE SOI BEGINS ON PAGE 12.

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WHAT ARE SYNDICATED BANK LOANS?

Syndicated bank loans are typically floating rate loans to corporate borrowers made by a group, or syndicate, of banks and other lenders. A group of lenders provides capital to companies for varied purposes, such as merger and acquisition activity, leveraged buyouts or refinancings. Borrowing rates are generally pegged to an index, such as LIBOR, the London InterBank Offered Rate.

Labor market conditions improved during the reporting period. More than one-half of the jobs lost during the recession and weak economic expansion have been

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recovered. The economy created 1.5 million jobs since summer 2003. In addition, the unemployment rate fell from 6.2% in July 2003 to 5.5% at period-end.² Services created the most jobs led by leisure and hospitality, education and health, and business and professional services.

In light of positive economic developments, consumer inflation remained modest but picked up speed in 2004. Excluding the volatile food and energy categories, consumer prices increased 1.8% for the 12 months ended July 31, 2004. Consequently, for the first time in more than four years, the Federal Reserve Board (Fed) raised the federal funds target rate on June 30, 2004, by a quarter-point to 1.25%. Because Fed policymakers expect inflation to remain relatively low, they believe they can raise interest rates at a measured pace. Nonetheless, the Fed said it will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.

Domestic equity markets sustained a rally through year-end 2003, then flattened before falling into negative territory through July 2004. Despite continued signs of enhanced corporate fundamentals, investors appeared cautious due to geopolitical uncertainty, soaring oil prices and rising interest rates. The Standard & Poor's 500 Composite Index (S&P 500) rose 13.16% for the 12 months under review, while the technology-heavy NASDAQ Composite Index gained 9.33%.³

The syndicated bank loan market was strong during the year under review as credit fundamentals continued to look favorable. Investor demand -- spurred by a strengthening economy, rising interest rates and a low expected default rate -- made floating rate loans an attractive alternative to fixed-rate securities.

Although robust, new loan issuance was not enough to meet rising demand, resulting in generally higher loan prices. The sustained imbalance between supply and demand allowed borrowers to refinance their loans at lower interest rates, reducing borrowing rate spreads over LIBOR.

2. Source: Bureau of Labor Statistics.

3. Source: Standard & Poor's Micropal. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. Each stock's weight in the index is proportionate to its market value. The S&P 500 is one of the most widely used benchmarks of U.S. equity performance. The NASDAQ Composite Index measures all domestic and international common stocks listed on The NASDAQ Stock Market. The index is market value weighted and includes over 3,000 companies.

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In this favorable borrowing environment, many companies sought to take advantage of accessing capital. During the year under review, companies incurred additional debt to finance future growth, acquisition opportunities and capital expenditures. Some companies also distributed debt proceeds as dividends to shareholders.

The three-month LIBOR rose from 1.11% on July 31, 2003, to 1.70% on July 31, 2004.⁴ However, almost all of the increase occurred during the last months of the Fund's fiscal year as investors anticipated Fed interest rate hikes.

INVESTMENT STRATEGY

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We rely on independent and proprietary credit analysis to select corporate loan and corporate debt securities that meet our rigorous investment criteria. We seek to invest in companies with the ability to generate substantial free cash flow, that are in industries with strong barriers to entry, and that possess significant asset coverage and collateral for our debt. We also prefer companies with dominant market shares, strong management teams and stable growth prospects, according to our analysis.

MANAGER'S DISCUSSION

As loan spreads over LIBOR tightened during the 12-month period, our portfolio's loan spreads also tightened and affected the Fund's yield. Fortunately, mainly due to strong demand, many of our loans also appreciated in price, partially offsetting the yield decline.

Finding good value in a strong loan market remained challenging. We continued to invest in a conservative manner, and were willing to hold a higher cash position than we considered ideal if we felt the loans offered to us did not provide adequate risk compensation. The primary syndication market remained the source of many of our purchases. For example, the Fund recently purchased the senior secured loan of VWR International, which funded Clayton, Dubilier & Rice's acquisition of the company from Merck. VWR is a leading global distributor of research laboratory supplies to major companies as well as universities and research institutes. We found the loan attractive due to the company's leading market position and historically recurring, stable cash flows.

TOP 10 SECTORS/INDUSTRIES

7/31/04

| | % OF TOTAL NET ASSETS |
|--|--------------------------|
| Cable and Satellite Television | 7.7% |
| Movies and Entertainment | 5.8% |
| Auto Parts: Original Equipment Manufacturer | 4.5% |
| Electric Utilities | 4.2% |
| Wireless Communications | 3.6% |
| Containers and Packaging | 3.1% |
| Casinos and Gaming | 2.3% |
| Broadcasting | 2.3% |
| Publishing: Books and Magazines | 2.2% |
| Medical and Nursing Services | 2.2% |

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4. Source: British Bankers' Association.

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TOP 10 HOLDINGS
7/31/04

| COMPANY SECTOR/INDUSTRY | % OF TOTAL NET ASSETS |
|---|--------------------------|
| Aldelphia CABLE & SATELLITE TELEVISION | 2.1% |
| Centerpoint Energy Inc. ELECTRIC UTILITIES | 1.3% |
| Tenneco Automotive Inc. AUTO PARTS: ORIGINAL EQUIPMENT MANUFACTURER | 1.2% |
| Regal Cinemas Inc. MOVIES & ENTERTAINMENT | 1.1% |
| Allied Waste North America Inc. ENVIRONMENTAL SERVICES | 1.1% |
| Tapco International BUILDING PRODUCTS | 1.1% |
| NTL Investment Holdings CABLE & SATELLITE TELEVISION | 1.0% |
| Solo Cup Co. OTHER CONSUMER SPECIALTIES | 1.0% |
| Peabody Energy Corp. COAL | 1.0% |
| Crown Castle Operating Co. WIRELESS COMMUNICATIONS | 1.0% |

Two of our larger commitments this year in the new issue market were in the movies and entertainment industry, which we considered attractive due to its strong asset coverage. These investments were Regal Cinemas, the largest theater circuit operator in the U.S., and Metro-Goldwyn-Mayer (MGM), a movie production company. MGM's considerable film library of approximately 4,000 titles provided substantial collateral value, which secured our loan. These holdings appreciated after our new issue purchase, contributing to the Fund's performance.

We also remained favorable toward Peabody Energy Corporation, the world's largest private-sector coal company, and increased our exposure. The company performed well recently as the recovering worldwide economy led to increased demand for electricity generation and steel production. With majority interests in 29 coal operations in the U.S. and Australia, Peabody holds the largest market share in three of the four primary coal producing regions in the U.S.

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Lastly, the Fund benefited from its continued ownership of Arch Wireless common equity, which we received as part of a reorganization after the company's December 2001 bankruptcy. In March 2004, Arch, a paging company, announced it would merge with its competitor Metrocall, driving Arch's stock price up sharply and contributing to the Fund's share price.

The Fund's performance was negatively impacted by our underweighted exposure to the utility sector compared with the Credit Suisse First Boston (CSFB) Leveraged Loan Index.⁵ The utilities sector was a riskier segment of the loan market, which performed well over the past 12 months.⁶ Although avoiding lower-quality credits hurt relative performance, we remained focused on our conservative investment strategy.

5. Source: The CSFB Leveraged Loan Index is designed to mirror the investible universe of the U.S. dollar denominated leveraged loan market. Loans must be rated 5B or lower. That is, the highest Moody's/S&P ratings are Baal/BB+ or Bal/BBB+. If unrated, the initial spread level must be LIBOR plus 125 basis points or higher. The tenor must be at least one year and only funded term loans are included.

6. The utilities sector comprises electric utilities in the SOI.

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Thank you for your continued participation in Franklin Floating Rate Trust. We look forward to serving your future investment needs.

/S/Richard S. Hsu
Richard S. Hsu, CFA

/S/Madeline Lam
Madeline Lam

/S/Matthew W. Gregory
Matthew W. Gregory, CFA

Portfolio Managers
Franklin Floating Rate Trust

DIVIDEND DISTRIBUTIONS*
8/1/03-7/31/04

| MONTH | DIVIDEND PER SHARE |
|-----------|--------------------|
| August | 2.4334 cents |
| September | 2.5281 cents |
| October | 2.5820 cents |

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| | |
|----------|---------------|
| November | 2.2734 cents |
| ----- | |
| December | 2.4383 cents |
| ----- | |
| January | 2.1144 cents |
| ----- | |
| February | 2.0501 cents |
| ----- | |
| March | 2.2520 cents |
| ----- | |
| April | 2.1762 cents |
| ----- | |
| May | 2.0288 cents |
| ----- | |
| June | 2.5620 cents |
| ----- | |
| July | 2.3482 cents |
| ----- | |
| TOTAL | 27.7869 CENTS |
| ----- | |

*Assumes shares were purchased and held for the entire accrual period. Since dividends accrue daily, your actual distributions will vary depending on the date you purchased your shares and any account activity. All Fund distributions will vary depending upon current market conditions, and past distributions are not indicative of future trends.

THIS DISCUSSION REFLECTS OUR ANALYSIS, OPINIONS AND PORTFOLIO HOLDINGS AS OF JULY 31, 2004, THE END OF THE REPORTING PERIOD. THE WAY WE IMPLEMENT OUR MAIN INVESTMENT STRATEGIES AND THE RESULTING PORTFOLIO HOLDINGS MAY CHANGE DEPENDING ON FACTORS SUCH AS MARKET AND ECONOMIC CONDITIONS. THESE OPINIONS MAY NOT BE RELIED UPON AS INVESTMENT ADVICE OR AN OFFER FOR A PARTICULAR SECURITY. THE INFORMATION IS NOT A COMPLETE ANALYSIS OF EVERY ASPECT OF ANY MARKET, COUNTRY, INDUSTRY, SECURITY OR THE FUND. STATEMENTS OF FACT ARE FROM SOURCES CONSIDERED RELIABLE, BUT THE ADVISER MAKES NO REPRESENTATION OR WARRANTY AS TO THEIR COMPLETENESS OR ACCURACY. ALTHOUGH HISTORICAL PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS, THESE INSIGHTS MAY HELP YOU UNDERSTAND OUR INVESTMENT MANAGEMENT PHILOSOPHY.

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Performance Summary as of 7/31/04

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses. Capital gain distributions are net profits realized from the sale of portfolio securities. The performance table does not reflect any taxes due on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects the Fund's dividend income, capital gain distributions, if any, and any unrealized gains or losses.

PRICE AND DISTRIBUTION INFORMATION

CHANGE

7/31/04

7/31/03

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| | | | |
|--------------------------------|------------|--------|--------|
| Net Asset Value (NAV) | + \$0.56 | \$8.98 | \$8.42 |
| DISTRIBUTIONS (8/1/03-7/31/04) | | | |
| Dividend Income | \$0.277869 | | |

PERFORMANCE 1

SHARES REPURCHASED WITHIN 12 MONTHS OF INVESTMENT ARE SUBJECT TO 1% EARLY WITHDRAWAL CHARGE. CUMULATIVE TOTAL RETURN EXCLUDES THE EARLY WITHDRAWAL CHARGE. AVERAGE ANNUAL TOTAL RETURNS INCLUDE THE EARLY WITHDRAWAL CHARGE.

| | 1-YEAR | 5-YEAR | INCEPTION (10/10/02) |
|------------------------------------|----------|----------|----------------------|
| Cumulative Total Return 2 | +9.95% | +23.99% | +39.24% |
| Average Annual Total Return 3 | +8.95% | +4.40% | +4.98% |
| Value of \$10,000 Investment 4 | \$10,895 | \$12,399 | \$13,924 |
| Avg. Ann. Total Return (6/30/04) 5 | +9.61% | +4.50% | +5.01% |
| Distribution Rate 6 | 3.18% | | |
| 30-Day Yield 7 | 2.67% | | |

PERFORMANCE DATA QUOTED REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, AND YOU MAY HAVE A GAIN OR LOSS WHEN YOU SELL YOUR SHARES. CURRENT PERFORMANCE MAY DIFFER FROM FIGURES SHOWN.

FOR MOST RECENT MONTH-END PERFORMANCE, SEE "FUNDS AND PERFORMANCE" AT FRANKLINTEMPLETON.COM OR CALL 1-800/342-5236.

ENDNOTES

FRANKLIN FLOATING RATE TRUST IS A NON-DIVERSIFIED FUND, WHICH MEANS IT CAN BE MORE SUSCEPTIBLE TO ADVERSE ECONOMIC, POLITICAL AND REGULATORY CHANGES. THE LOANS IN WHICH THE FUND INVESTS TEND TO BE RATED BELOW INVESTMENT GRADE. INVESTING IN HIGHER-YIELDING, LOWER-RATED LOANS INVOLVES GREATER RISK OF DEFAULT, WHICH COULD RESULT IN LOSS OF PRINCIPAL--A RISK THAT MAY BE HEIGHTENED IN A SLOWING ECONOMY. BECAUSE THE TIME REQUIRED TO TRADE OR LIQUIDATE LOANS COULD BE LONGER THAN FOR MOST SECURITIES, THE SECONDARY MARKET FOR THESE TYPES OF LOANS IS CONSIDERED ILLIQUID. THE FUND IS STRUCTURED AS A CONTINUOUSLY OFFERED, CLOSED-END FUND AND DOES NOT OFFER DAILY REDEMPTIONS. THE FUND HAS A FUNDAMENTAL POLICY TO PROVIDE INVESTORS ACCESS TO THEIR MONEY BY MAKING QUARTERLY TENDER OFFERS FOR 5%-25% OF THE FUND'S OUTSTANDING SHARES. HOWEVER, IN

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UNUSUAL CIRCUMSTANCES, THE FUND MAY SUSPEND OR POSTPONE A TENDER OFFER SUBJECT TO APPROVAL BY THE FUND'S BOARD OF TRUSTEES. THE FUND'S PROSPECTUS ALSO INCLUDES A DESCRIPTION OF THE MAIN INVESTMENT RISKS.

1. Past expense reductions by the Fund's manager increased the Fund's total returns. If the manager had not taken this action, the Fund's total returns would have been lower.
2. Cumulative total return represents the change in value of an investment over the periods indicated and does not include the early withdrawal charge.
3. Average annual total return represents the average annual change in value of an investment over the periods indicated and includes the early withdrawal charge.
4. These figures represent the value of a hypothetical \$10,000 investment in the Fund over the periods indicated and include the early withdrawal charge.
5. In accordance with SEC rules, we provide standardized average annual total return information through the latest calendar quarter.
6. The distribution rate is based on the annualization of daily distributions totaling 2.3482 cents per share during the last 30 days of July and the \$8.98 NAV on 7/31/04.
7. Yield is based on the earnings of the Fund's portfolio for the 30 days ended 7/31/04.

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Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs:

- o Transaction costs, including sales charges (loads) on Fund purchases and redemption fees; and
- o Ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses.

The following table shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

ACTUAL FUND EXPENSES

The first line (Actual) for each share class listed in the table below provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of Fund expenses.

You can estimate the expenses you paid during the period, by following these steps. OF COURSE, YOUR ACCOUNT VALUE AND EXPENSES WILL DIFFER FROM THOSE IN THIS ILLUSTRATION:

1. Divide your account value by \$1,000.
IF AN ACCOUNT HAD AN \$8,600 VALUE, THEN $\$8,600 / \$1,000 = 8.6$.
2. Multiply the result by the number under the heading "Expenses Paid During Period."
IF EXPENSES PAID DURING PERIOD WERE \$7.50, THEN $8.6 \times \$7.50 = \64.50 .

In this illustration, the estimated expenses paid this period are \$64.50.

HYPOTHETICAL EXAMPLE FOR COMPARISON WITH OTHER FUNDS

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Information in the second line (Hypothetical) for each class in the table can help you compare ongoing costs of investing in the Fund with those of other mutual funds. This information may not be used to estimate the actual ending account balance or expenses you paid during the period. The hypothetical "Ending Account Value" is based on the actual expense ratio for each class and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Expenses Paid During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds.

PLEASE NOTE THAT EXPENSES SHOWN IN THE TABLE ARE MEANT TO HIGHLIGHT ONGOING COSTS AND DO NOT REFLECT ANY TRANSACTION COSTS, SUCH AS SALES CHARGES OR REDEMPTION FEES. Therefore, the second line for each class is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transaction costs were included, your total costs would have been higher. Please refer to the Fund prospectus for additional information on operating expenses.

| | BEGINNING ACCOUNT VALUE 1/31/04 | ENDING ACCOUNT VALUE 7/31/04 | EXPENSES PAID DUR PERIOD* 1/31/04-7/ |
|--|------------------------------------|---------------------------------|---|
| Actual | \$1,000 | \$1,032.30 | \$6.82 |
| Hypothetical (5% return before expenses) | \$1,000 | \$1,018.15 | \$6.77 |

*Expenses are equal to the Fund's annualized expense ratio of 1.35%, multiplied by the average account value over the period, multiplied by 182/366 to reflect the one-half year period.

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The Fund's Repurchase Offers

The Fund will make quarterly repurchase offers for a portion of its shares. With any repurchase offer, shareholders may elect to tender (have the Fund repurchase) all, a portion or none of their shares. With each repurchase offer, shareholders will be notified in writing about the offer, how to request that the Fund repurchase their shares and the deadline for submitting repurchase requests.

Each quarter the Board of Trustees will set the amount of the repurchase offer, as a percentage of outstanding shares. This amount is known as the repurchase offer amount and will generally be between 5% and 25% of the Fund's outstanding shares. If repurchase requests exceed the repurchase offer amount, the Fund will prorate requests. The Fund may, however, first accept any requests to repurchase ALL of a shareholder's shares if the shareholder owns less than 100 shares. The Board will also determine the date by which the Fund must receive shareholders' repurchase requests, which is known as the repurchase request deadline. The Board will base these decisions on investment management considerations, market conditions, liquidity of the Fund's assets, shareholder servicing and administrative considerations and other factors it deems appropriate. Each repurchase request deadline will occur within the period that begins 21 days before, and ends 21 days after, the end of the quarterly interval. The

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repurchase price of the shares will be the net asset value as of the close of the NYSE on the date the Board sets as the repurchase pricing date. The maximum number of days between the repurchase request deadline and the repurchase pricing date is 14 days.

SUMMARY OF REPURCHASE OFFERS - 8/1/03 THROUGH 7/31/04

| REPURCHASE REQUEST DEADLINE | REPURCHASE OFFER AMOUNT | % OF SHARES TENDERED* | NUMBER OF SHARES TENDERED* |
|--------------------------------|----------------------------|--------------------------|-------------------------------|
| 10/01/03 | 25% | 6.316% | 8,950,842.290 |
| 01/05/04 | 25% | 4.913% | 6,832,488.269 |
| 04/01/04 | 25% | 5.932% | 8,138,376.863 |
| 07/01/04 | 25% | 4.700% | 6,758,262.896 |

*In connection with the repurchase offers, due to the limited number of shares tendered, the Fund did not have to consider whether to repurchase an additional amount of shares, not in excess of 2% of the shares outstanding, and did not need to repurchase any shares on a pro rata basis as described in the Prospectus and Repurchase Offer/Request Form.

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Franklin Floating Rate Trust

FINANCIAL HIGHLIGHTS

| | YEAR ENDED | | |
|--|------------|--------|--------|
| | 2004 | 2003 | 2002 |
| PER SHARE OPERATING PERFORMANCE (for a share outstanding throughout the year) | | | |
| Net asset value, beginning of year | \$8.42 | \$8.30 | \$9.10 |
| Income from investment operations: | | | |
| Net investment income | .266 | .330 | .500 |
| Net realized and unrealized gains (losses) | .572 | .179 | (.900) |
| Total from investment operations | .838 | .509 | (.399) |
| Less distributions from net investment income | (.278) | (.389) | (.500) |
| Net asset value, end of year | \$8.98 | \$8.42 | \$8.60 |

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| | | | |
|---------------------------------------|-------------|-------------|-----------|
| Total return a | 9.95% | 6.36% | (3.95) |
| RATIOS/SUPPLEMENTAL DATA | | | |
| Net assets, end of year (000's) | \$1,257,676 | \$1,160,979 | \$1,779,9 |
| Ratios to average net assets: | | | |
| Expenses | 1.36% | 1.35% | 1.3 |
| Net investment income | 3.02% | 4.26% | 6.5 |
| Portfolio turnover rate | 86.50% | 55.96% | 62.2 |

Annual Report | See notes to financial statements. | 11

Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004

| | COUNTRY | PRINCIPAL |
|---|---------------|-----------|
| ----- | | |
| BONDS 1.6% | | |
| BROADCASTING 1.0% | | |
| Comcorp Holdings Inc., PIK, 12.50%, 6/04/10 | United States | \$ 2,6 |
| Paxson Communications Corp., senior secured floating rate note, 144A, 4.35%, 1/15/10 | United States | 10,4 |
| FINANCIAL CONGLOMERATES .2% | | |
| Finova Group Inc., 7.50%, 11/15/09 | United States | 5,5 |
| STEEL .4% | | |
| Ispat Inland ULC, senior secured note, 144A, 7.86%, 4/01/10 | United States | 5,0 |
| TOTAL BONDS (COST \$21,814,851) | | |
| a SENIOR FLOATING RATE INTERESTS 87.0% | | |
| ADVERTISING/MARKETING SERVICES .3% | | |
| Adams Outdoor Advertising Inc., Second Lien Term Loan, 5.13%, 4/05/12 | United States | 1,0 |
| Term Loan, 3.88%, 10/05/11 | United States | 3,0 |

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| | | |
|--|---------------|------|
| b DIMAC Holdings, Term Loan B, 10.00%, 9/30/04 | United States | 5 |
| | | |
| AEROSPACE & DEFENSE 2.0% | | |
| Anteon International Corp., Term Loan B, 3.586%, 12/19/10 | United States | 2,9 |
| CACI International Inc., Term Loan B, 3.18%, 4/23/11 | United States | 9 |
| DRS Technologies Inc., Term Loan B, 3.09 - 3.73%, 11/04/10 | United States | 1,6 |
| ILC Industries Inc., | | |
| First Lien Term Loan, 4.586%, 8/04/10 | United States | 9 |
| Second Lien Term Loan, 7.336%, 2/05/11 | United States | 5 |
| Titan Corp., Term Loan B, 4.62 - 4.70%, 2/23/06 | United States | 11,2 |
| Transdigm Inc., Term Loan B, 3.61%, 7/22/10 | United States | 9 |
| United Defense Industries Inc., Term Loan B, 3.48 - 3.59%, 8/13/09 . | United States | 7 |
| Vought Aircraft Industries, | | |
| Term Loan B, 4.98%, 6/30/07 | United States | 2 |
| Term Loan C, 5.23%, 6/30/08 | United States | 2,0 |
| Term Loan X, 4.73%, 12/31/06 | United States | 2,0 |
| | | |
| APPAREL/FOOTWEAR .2% | | |
| St. John Knits Inc., Term Loan B, 5.438%, 7/31/07 | United States | 2,1 |
| | | |
| AUTO PARTS: ORIGINAL EQUIPMENT MANUFACTURER 4.9% | | |
| Dayco Products LLC, Term Loan B, 4.57 - 4.87%, 6/18/11 | United States | 5,3 |
| Exide Technologies USD (US Borrower), Term Loan, 4.813%, 5/04/10 ... | United States | 1,0 |
| Exide Technologies USD (EURO Borrower), Term Loan, 4.813%, | | |
| 5/04/10 | United States | 1,0 |
| Federal Mogul Corp., DIP Term Loan, 4.313 - 4.50%, 2/06/05 | United States | 9 |
| GenCorp Inc., Term Loan B, 5.25 - 5.375%, 3/28/07 | United States | 8,3 |
| c Grand Vehicle Works, Term Loan B, 4.43 - 4.92%, 7/23/10 | United States | 1,2 |
| Hayes Lemmerz, Term Loan, 4.91 - 5.73%, 6/03/09 | United States | 8,5 |
| Hilite International Inc., Term Loan B, 5.85 - 6.086%, 3/31/09 | United States | 8 |

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Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

| | COUNTRY | PRINCIPAL |
|---|---------------|-----------|
| ----- | | |
| a SENIOR FLOATING RATE INTERESTS (CONT.) | | |
| AUTO PARTS: ORIGINAL EQUIPMENT MANUFACTURER (CONT.) | | |
| Key Plastics and Key Safety, | | |
| Term Loan B, 4.37 - 4.61%, 7/31/10 | United States | \$ 2,5 |
| Term Loan C, 7.12 - 7.36%, 7/31/11 | United States | 2,0 |

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| | | |
|--|---------------|------|
| Metaldyne Corp., Term Loan D, 5.875%, 12/31/09 | United States | 1,3 |
| Plastech Engineered Products Inc., First Lien Term Loan, 4.34%, 3/11/10 | United States | 1,4 |
| Progressive Moulded Products, Term Loan C, 6.75%, 6/30/08 | Canada | |
| Tenneco Automotive Inc., L/C Term Loan, 4.61%, 12/12/10 | United States | 4,6 |
| Term Loan B, 4.503%, 12/12/10 | United States | 10,2 |
| Tower Automotive Inc., Term Loan B, 5.82%, 5/24/09 | United States | 1,5 |
| TRW Automotive Acquisition Corp., Term Loan A1, 3.625%, 2/28/09 | United States | 3,0 |
| Term Loan D1, 4.125%, 2/28/11 | United States | 4,7 |
| | | |
| AUTOMOTIVE AFTERMARKET .4% | | |
| Guilford Mills Inc., First Lien Term Loan, 6.25%, 5/20/10 | United States | 1,3 |
| Keystone Automotive Operations Inc., Term Loan, 4.00 - 4.669%, 10/30/09 | United States | 2,3 |
| United Components Inc., Term Loan C, 3.99%, 6/30/10 | United States | 8 |
| | | |
| BEVERAGES: ALCOHOLIC .2% | | |
| Constellation Brands Inc., Term Loan B, 3.188 - 3.50%, 11/30/08 | United States | 1,0 |
| Southern Wine & Spirits of America Inc., Term Loan B, 3.84%, 6/21/08 | United States | 9 |
| | | |
| BEVERAGES: NON-ALCOHOLIC .3% | | |
| Dr. Pepper Bottling Co. of Texas, Term Loan, 3.65 - 3.95%, 12/18/10 | United States | 3,3 |
| | | |
| BROADCASTING 1.3% | | |
| Cumulus Media Inc., Term Loan E, 3.13%, 3/28/10 | United States | 1,4 |
| Emmis Operating Co., Term Loan B, 3.10%, 11/10/11 | United States | 8,2 |
| Gray Television Inc., Term Loan C, 2.97 - 3.36%, 12/31/10 | United States | 1,7 |
| c NEP Supershooters LP, First Lien Term Loan, 5.70%, 2/03/11 | United States | 1,5 |
| Sinclair Broadcasting, Term Loan A, 3.23%, 6/30/09 | United States | 1,5 |
| Term Loan C, 3.23%, 12/31/09 | United States | 1,5 |
| | | |
| BUILDING PRODUCTS 1.8% | | |
| Builders FirstSource Inc., Term Loan, 4.53 - 4.59%, 3/17/10 | United States | 1,6 |
| Building Materials Holding Corp., Term Loan B, 4.375%, 8/13/10 | United States | 9 |
| Masonite International Corp., Term Loan C, 4.063%, 8/31/08 | United States | 2,8 |
| Term Loan C2, 3.625%, 8/31/08 | United States | 9 |

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Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

| | COUNTRY | PRINCIPAL |
|--|----------------|-----------|
| ----- | | |
| a SENIOR FLOATING RATE INTERESTS (CONT.) | | |
| BUILDING PRODUCTS (CONT.) | | |
| NCI Building Systems Inc., Term Loan B, 3.41 - 3.45%, 6/07/10 | United States | \$ 1,7 |
| Norcraft Cos. LP, Term Loan, 4.66%, 10/21/09 | United States | 9 |
| Tapco International, | | |
| Term Loan B, 4.33 - 4.34%, 7/23/07 | United States | 7,2 |
| Term Loan C, 4.58 - 4.59%, 7/23/08 | United States | 6,0 |
| | | |
| CABLE/SATELLITE TELEVISION 7.7% | | |
| Bresnan Broadband Holdings LLC, | | |
| Term Loan A, 4.90 - 5.73%, 3/31/10 | United States | 1,2 |
| Term Loan B, 4.83 - 5.11%, 9/30/10 | United States | 1,0 |
| i Century Cable (Adelphia), | | |
| Discretionary Term Loan, 6.25%, 12/31/09 | United States | 3,0 |
| Term Loan, 6.25%, 6/30/09 | United States | 1,0 |
| Charter Communications Operating LLC, Term Loan B, 4.92%, | | |
| 4/23/11 | United States | 9,5 |
| DirecTV Holdings LLC, Term Loan, 3.45 - 3.76%, 3/06/10 | United States | 9,0 |
| Grapeclose Ltd. (Inmarsat), | | |
| Term Loan B, 4.561%, 10/10/10 | United Kingdom | 5,7 |
| Term Loan C, 5.061%, 10/10/11 | United Kingdom | 5,7 |
| Insight Midwest Holdings, | | |
| Additional Term Loan, 3.938%, 12/31/09 | United States | 3,9 |
| Term Loan B, 3.938%, 12/31/09 | United States | 2,9 |
| MCC Iowa (Broadband), Term Loan B1, 3.87 - 4.17%, 9/12/10 | United States | 3,0 |
| Mediacom Illinois, Term Loan B, 3.98%, 12/31/08 | United States | 4,8 |
| c NTL Investment Holdings, Term Loan B, 4.627%, 5/31/12 | United Kingdom | 12,5 |
| i Olympus Cable Holdings (Adelphia), Term Loan B, 6.25%, 9/30/10 | United States | 2,0 |
| i UCA-HHC (Adelphia), Term Loan, 5.50%, 3/31/08 | United States | 20,9 |
| UPC Distribution Holdings B.V., Term Loan C2, 7.325 - 7.381%, | | |
| 3/31/09 | Netherlands | 11,4 |
| | | |
| CASINOS/GAMING 2.3% | | |
| Alliance Gaming Corp., Term Loan B, 3.788%, 8/22/09 | United States | 2,0 |
| Ameristar Casinos Inc., Term Loan B1, 3.563%, 12/20/06 | United States | 3,0 |
| Boyd Gaming Corp., Term Loan B, 3.35 - 3.69%, 5/14/11 | United States | 2,0 |
| Global Cash Access LLC, Term Loan, 4.23%, 3/10/10 | United States | 9 |
| Greektown Casinos LLC, Term Loan D, 4.679 - 4.84%, 12/31/05 | United States | 5,9 |
| Green Valley Ranch Gaming LLC, Term Loan B, 4.336%, 12/05/10 | United States | 9 |
| Isle of Capri, Term Loan B, 3.44 - 3.828%, 4/25/08 | United States | 8 |
| Isle of Capri Black Hawk LLC, Term Loan C, 4.18 - 4.59%, 12/31/07 .. | United States | 9 |
| Marina District Finance Co. Inc., Term Loan B, 5.16 - 5.59%, | | |
| 12/31/07 | United States | 2,8 |
| Penn National Gaming Inc., Term Loan D, 3.86 - 4.09%, 3/03/09 | United States | 2,2 |

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Scientific Games Corp., Term Loan C, 3.98 - 4.08%, 12/31/09 United States

6,2

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Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

| | COUNTRY | PRINCIPAL |
|---|---------------|-----------|
| ----- | | |
| a SENIOR FLOATING RATE INTERESTS (CONT.) | | |
| CATALOG/SPECIALTY DISTRIBUTION .1% | | |
| Affinity Group Inc., | | |
| Term Loan B1, 5.209 - 5.66%, 6/23/09 | United States | \$ 2 |
| Term Loan B2, 5.209 - 5.578%, 6/23/09 | United States | 5 |
| Oriental Trading Co. Inc., Term Loan B, 4.375%, 7/29/10 | United States | 9 |
| | | |
| CHEMICALS: MAJOR DIVERSIFIED 1.4% | | |
| d Celanese AG, Term Loan, 3.688 - 4.23%, 4/06/11 | Luxembourg | 2,7 |
| Huntsman International LLC, Term Loan B, 4.688%, 12/31/10 | United States | 8,0 |
| c Invista B.V., | | |
| Term Loan B1, 4.563%, 4/29/11 | United States | 4,8 |
| Term Loan B2, 4.563%, 4/29/11 | Canada | 2,1 |
| | | |
| CHEMICALS: SPECIALTY 2.1% | | |
| Brenntag, Term Loan B2, 3.881%, 2/27/12 | United States | 1,5 |
| FMC Corp., Term Loan B, 3.23%, 10/21/07 | United States | 6,8 |
| Ineos Group Ltd., Term Loan C, 4.661%, 6/30/09 | United States | 2,1 |
| Nalco Co., Term Loan B, 3.95 - 4.43%, 11/04/10 | United States | 9,4 |
| c Rockwood Specialties Group Inc., Term Loan B, 4.183%, 7/23/10 | United States | 4,7 |
| Sovereign Specialty Chemicals Inc., Term Loan B, 6.341%, 12/31/07 .. | United States | 9 |
| Westlake Chemical Corp., Term Loan B, 4.951 - 7.00%, 7/31/10 | United States | 9 |
| | | |
| COAL 1.2% | | |
| CONSOL Energy Inc., Term Loan B, 3.84%, 6/08/10 | United States | 1,0 |
| c Foundation Coal, Term Loan B, 3.68%, 7/30/11 | United States | 2,6 |
| Peabody Energy Corp., Term Loan B, 3.23 - 3.27%, 3/21/10 | United States | 11,8 |

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COMMERCIAL PRINTING/FORMS .1%

American Reprographics, Term Loan B, 4.179%, 6/17/09 United States 9

CONSTRUCTION MATERIALS .2%

St. Marys Cement Inc., Term Loan B, 4.086%, 11/24/09 Canada 2,9

CONSUMER SUNDRIES .7%

Central Garden & Pet Co., Term Loan, 3.73%, 5/14/09 United States 1,9

NBTY Inc., Term Loan C, 3.313%, 7/22/09 United States 6

Rayovac Corp., Term Loan C, 3.75 - 4.10%, 10/01/09 United States 2,1

c United Industries Corp.,

Second Lien Term Loan, 5.98%, 10/31/11 United States 1,1

Term Loan B, 3.84 - 4.09%, 4/30/11 United States 2,9

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Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

| | COUNTRY | PRINCIPAL |
|--|---------------|-----------|
| a SENIOR FLOATING RATE INTERESTS (CONT.) | | |
| CONTAINERS/PACKAGING 3.1% | | |
| ACI Operations Property Ltd., Term Loan A, 4.21%, 4/01/07 | Australia | \$ 1,0 |
| Berry Plastics, Term Loan C, 3.68%, 7/22/10 | United States | 1,5 |
| Crown Cork & Seal Co. Inc., Term Loan B, 4.586%, 9/15/08 | United States | 8 |
| Graham Packaging Co., Term Loan B, 4.188 - 4.375%, 2/20/10 | United States | 7,9 |
| Graphic Packaging International Corp., Term Loan B, 4.35%, 8/08/10 . | United States | 3,9 |
| Greif Brothers Corp., Term Loan B, 3.43%, 8/15/09 | United States | 7 |
| Kerr Group Inc., Term Loan B, 5.09 - 6.75%, 8/11/10 | United States | 1,9 |
| Owens-Brockway Glass Container Inc., | | |
| Term Loan B, 4.48%, 4/01/08 | United States | 6,0 |
| Term Loan C, 4.45%, 4/01/08 | United States | 5,5 |
| Stone Container Corp., | | |
| Term Loan B, 4.00%, 7/25/09 | United States | 6,5 |
| Term Loan C, 4.00%, 7/25/09 | United States | 7 |
| Tekni-Plex Inc., Term Loan B, 5.578 - 5.68%, 6/21/08 | United States | 1,8 |
| DATA PROCESSING SERVICES .3% | | |
| InfoUSA Inc., | | |
| Term Loan A, 3.87%, 3/25/09 | United States | 9 |
| Term Loan B, 4.01%, 6/04/10 | United States | 3,0 |

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| | | |
|--|---------------|------|
| DRUG STORE CHAINS 1.4% | | |
| c Duane Reade Inc., Term Loan, 4.73%, 7/30/10 | United States | 1,0 |
| General Nutrition Centers Inc., Term Loan, 4.40 - 4.42%, 12/04/09 .. | United States | 9 |
| c Jean Coutu Group PJC Inc., Term Loan B, 3.75%, 7/28/11 | United States | 5,5 |
| Rite Aid Corp., Term Loan B1, 4.35 - 4.46%, 4/30/08 | United States | 9,9 |
| | | |
| ELECTRIC UTILITIES 4.2% | | |
| AES Corp., Term Loan B, 5.32%, 4/30/08 | United States | 1,8 |
| Calpine Corp., Second Lien Term Loan, 6.89%, 7/15/07 | United States | 10,8 |
| Calpine Generating Co., First Priority Term Loan, 5.23%, 3/22/09 ... | United States | 2,5 |
| Centerpoint Energy Inc., Term Loan B, 4.723%, 10/07/06 | United States | 15,8 |
| Cogentrix Energy Inc., Term Loan, 3.836%, 2/19/09 | United States | 3,9 |
| c Coletto Creek WLE LP, | | |
| Term Loan B, 3.848%, 7/31/11 | United States | 1,7 |
| Term Loan C, 5.19%, 7/31/12 | United States | 1,0 |
| Dynegy Holdings Inc., Term Loan B, 5.36%, 5/27/10 | United States | 5,0 |
| Midwest Generation LLC, Term Loan, 4.57 - 4.85%, 4/27/11 | United States | 1,9 |
| NRG Energy Inc., Term Loan B, 1.486 - 5.559%, 6/23/10 | United States | 5 |
| Pike Electric Inc., Term Loan B, 3.625%, 7/02/12 | United States | 3,2 |
| Quanta Services Inc., Term Loan B, 1.40 - 4.54%, 12/15/08 | United States | 3,0 |
| Teton Power Funding LLC, Term Loan B, 4.80%, 2/20/11 | United States | 9 |
| TNP Enterprises Inc., Term Loan, 6.505%, 12/31/06 | United States | 9 |

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Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

| | COUNTRY | PRINCIPAL |
|--|---------------|-----------|
| ----- | | |
| a SENIOR FLOATING RATE INTERESTS (CONT.) | | |
| ELECTRICAL PRODUCTS .1% | | |
| Energys Capital Inc., Term Loan B, 3.62 - 3.84%, 3/09/11 | United States | \$ 1,4 |
| | | |
| ELECTRONIC COMPONENTS .2% | | |
| Seagate Technology HDD Holdings, Term Loan B, 3.688%, 5/13/07 | Cayman | 2,1 |
| Seagate Technology (US) Holdings, Term Loan B, 3.688%, 5/13/07 | United States | 8 |

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| | | |
|--|---------------|------|
| ELECTRONICS/APPLIANCES .6% | | |
| c Alliance Laundry Systems LLC, Term Loan, 4.60%, 7/31/09 | United States | 2,9 |
| Directed Electronics Inc., Term Loan, 5.65 - 6.13%, 6/15/10 | United States | 2,0 |
| Juno Lighting Inc., First Lien Term Loan, 4.34 - 5.75%, 10/21/10 ... | United States | 2,4 |
| | | |
| ENGINEERING & CONSTRUCTION 1.1% | | |
| Brand Services Inc., Term Loan B, 4.611 - 4.73%, 10/16/09 | United States | 7 |
| URS Corp., Term Loan B, 3.73%, 8/22/08 | United States | 2,8 |
| Washington Group, Synthetic Term Loan, 1.24%, 10/01/07 | United States | 9,7 |
| | | |
| ENVIRONMENTAL SERVICES 1.7% | | |
| Allied Waste North America Inc., | | |
| L/C Term Loan, 4.119%, 1/15/10 | United States | 2,1 |
| Term Loan B, 3.93 - 4.27%, 1/15/10 | United States | 10,2 |
| Term Loan C, 4.27 - 4.30%, 1/15/10 | United States | 1,0 |
| Duratek Inc., Term Loan B, 5.15%, 12/16/09 | United States | 1,7 |
| Envirosolutions Inc., | | |
| dDelay Draw, 5.43%, 3/01/09 | United States | |
| Term Loan B, 5.43%, 3/01/09 | United States | 2,1 |
| IESI Corp., Term Loan, 4.438 - 4.625%, 10/10/10 | United States | 9 |
| Waste Connections Inc., Term Loan, 2.91 - 3.16%, 10/22/10 | United States | 3,0 |
| | | |
| FINANCE/RENTAL/LEASING .5% | | |
| United Rentals Inc., | | |
| L/C Term Loan, 3.611%, 2/11/11 | United States | 1,0 |
| Term Loan B, 3.44 - 3.71%, 2/11/11 | United States | 5,3 |
| | | |
| FINANCIAL CONGLOMERATES .6% | | |
| e Ares IV, Term Loan D, 144A, 7.11%, 12/22/12 | Cayman | 1,4 |
| e Centurion II, Tranche D, 144A, 7.18%, 11/12/12 | Cayman | 2,5 |
| e Clydesdale CLO, Tranche D, 144A, 7.65%, 3/22/13 | Cayman | 2,0 |
| e First Dominion Funding II, sub. floating rate deb., Series A-D, 144A, 6.811%, 4/25/14 | Cayman | 3,0 |

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Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

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| | COUNTRY | PRINCIPAL |
|--|---------------|-----------|
| a SENIOR FLOATING RATE INTERESTS (CONT.) | | |
| FOOD DISTRIBUTORS .1% | | |
| Fleming Cos. Inc., Term Loan, 4.625%, 6/18/08 | United States | \$ 7 |
| FOOD RETAIL .1% | | |
| Pathmark Stores Inc., Term Loan B2, 5.938%, 6/30/07 | United States | 8 |
| FOOD: MAJOR DIVERSIFIED 2.1% | | |
| B&G Foods Inc., Term Loan, 6.50%, 9/03/09 | United States | 9 |
| Birds Eye Foods Inc., Term Loan B, 4.23%, 8/08/08 | United States | 7,4 |
| Del Monte Corp., Term Loan B, 3.836 - 3.93%, 12/20/10 | United States | 6 |
| Dole Food Inc., Term Loan D, 3.625 - 5.50%, 3/28/08 | United States | 1,4 |
| Luiginos Inc., Term Loan, 4.313 - 4.50%, 4/02/11 | United States | 4,4 |
| Merisant Corp., Term Loan B, 4.43%, 1/09/10 | United States | 8 |
| Pinnacle Foods Holding Corp., Term Loan B, 4.03 - 4.26%, 11/25/10 .. | United States | 9,9 |
| FOOD: MEAT/FISH/DAIRY .9% | | |
| American Seafoods, Term Loan B, 4.73%, 4/15/09 | United States | 1,2 |
| Dean Foods (Suiza Foods) Corp., | | |
| Term Loan B, 3.59%, 7/15/08 | United States | 1,7 |
| Term Loan C, 3.34%, 7/15/08 | United States | 2,2 |
| Keystone Foods Intermediate LLC, Term Loan, 3.75%, 6/15/11 | United States | 1,0 |
| Land O'Lakes Inc., Term Loan B, 4.73%, 10/11/08 | United States | 6 |
| Michael Foods Inc., Term Loan B, 3.76 - 4.09%, 11/21/10 | United States | 1,9 |
| Pierre Foods Inc., Term Loan B, 3.98%, 6/29/10 | United States | 1,0 |
| Swift & Co., Term Loan B, 4.69 - 4.82%, 9/19/08 | United States | 9 |
| FOOD: SPECIALTY/CANDY 1.5% | | |
| Atkins Nutritionals Inc., First Lien Term Loan, 4.84%, 11/21/09 | United States | 1,9 |
| Doane Pet Care Co., | | |
| Term Loan B, 6.20%, 12/31/05 | United States | 1 |
| Term Loan C, 6.16%, 12/31/06 | United States | |
| Leiner Health Products Group Inc., Term Loan B, 4.59 - 4.89%, | | |
| 6/09/11 | United States | 2,0 |
| Meow Mix Co., | | |
| First Lien Term Loan, 5.84 - 6.12%, 8/21/09 | United States | 3,7 |
| Second Lien Term Loan, 8.84%, 8/21/09 | United States | 1,0 |
| Nellson Neutraceuticals Inc., | | |
| First Lien Term Loan, 4.59%, 10/04/09 | United States | 2,4 |
| Second Lien Term Loan, 7.09%, 4/04/10 | United States | 1,0 |
| Nutrasweet, | | |
| Second Lien Term Loan, 8.063%, 5/24/09 | United States | 2,6 |
| Term Loan B, 5.563%, 5/24/07 | United States | 3 |
| Otis Spunkmeyer Inc., Term Loan B, 7.00%, 6/24/11 | United States | 2,0 |
| Reddy Ice Group Inc., Term Loan, 3.98%, 8/15/09 | United States | 9 |

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Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

| | COUNTRY | PRINCIPAL |
|--|---------------|-----------|
| ----- | | |
| a SENIOR FLOATING RATE INTERESTS (CONT.) | | |
| FOREST PRODUCTS .2% | | |
| Roseburg Forest Products, Term Loan B, 3.48%, 2/20/10 | United States | \$ 2,4 |
| HOME FURNISHINGS 1.1% | | |
| Aero Products International, Term Loan, 5.66 - 7.75%, 12/16/08 | United States | 1,6 |
| National Bedding Co., Term Loan B, 3.55 - 3.93%, 8/21/08 | United States | 4,7 |
| Sealy Mattress Co., Term Loan B, 4.111%, 4/02/12 | United States | 2,2 |
| Simmons Holdings Inc., Term Loan B, 4.125 - 4.688%, 12/02/11 | United States | 3,4 |
| Springs Industries Inc., Term Loan B, 5.625%, 9/05/08 | United States | 1,9 |
| HOME IMPROVEMENT CHAINS .2% | | |
| Harbor Freight Tools USA Inc., Term Loan B, 4.16%, 7/15/10 | United States | 2,0 |
| HOMEBUILDING .5% | | |
| Landsource Communities Development LLC, Term Loan B, 4.00%, 3/31/10 | United States | 6,0 |
| HOSPITAL/NURSING MANAGEMENT 1.5% | | |
| Beverly Enterprises Inc., Term Loan B, 3.82 - 4.43%, 10/22/08 | United States | 1,9 |
| Community Health Systems Inc., Term Loan, 3.80%, 1/16/11 | United States | 9 |
| Iasis Healthcare LLC, Term Loan B, 3.70%, 6/22/11 | United States | 9,2 |
| MedCath Corp., Term Loan B, 4.581%, 7/02/11 | United States | 2,5 |
| Triad Hospitals Inc., Term Loan B, 3.73%, 9/30/08 | United States | 7 |
| Vanguard Health Systems Inc., Term Loan B, 3.59%, 5/18/11 | United States | 3,0 |
| HOTEL/RESORTS/CRUISELINES .3% | | |
| Wyndham International Inc., Term Loan B, 6.125%, 6/30/06 | United States | 4,0 |
| HOUSEHOLD/PERSONAL CARE .3% | | |
| Prestige Brands Inc., Term Loan B, 4.075 - 6.00%, 6/24/11 | United States | 3,4 |

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| | | | |
|-------------------------------|--|---------------|-----|
| INDUSTRIAL CONGLOMERATES 1.1% | | | |
| c | Invensys (BTR Dunlop), | | |
| | Bonding Facility, 5.08%, 3/05/09 | United States | 2,0 |
| | Term Loan B, 4.611%, 9/05/09 | United States | 1,2 |
| | Roper Industries Inc., Term Loan, 3.11 - 3.66%, 12/19/08 | United States | 2,9 |
| | SPX Corp., Term Loan B, 3.625 - 5.50%, 9/30/09 | United States | 3,2 |
| | Trimas Corp., Term Loan B, 4.875%, 12/06/09 | United States | 4,2 |
| | | | |
| INDUSTRIAL MACHINERY 1.5% | | | |
| | Colfax Corp., | | |
| | Term Loan B, 4.50%, 5/30/09 | United States | 3,0 |
| | Term Loan C, 7.875%, 5/30/10 | United States | 1,0 |
| | Dresser Inc., Unsecured Term Loan, 4.68%, 3/01/10 | United States | 1,5 |
| | Flowserve Corp., Term Loan C, 4.00 - 4.375%, 6/30/09 | United States | 1,2 |
| c | Gleason Corp., Term Loan, 4.20%, 7/20/11 | United States | 4,0 |

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Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

| | | COUNTRY | PRINCIPAL |
|--------------------------------------|--|---------------|-----------|
| ----- | | | |
| a | SENIOR FLOATING RATE INTERESTS (CONT.) | | |
| | INDUSTRIAL MACHINERY (CONT.) | | |
| | Itron Inc., Term Loan B, 3.625%, 11/24/10 | United States | \$ 2,0 |
| | Rexnord Corp., Term Loan, 4.61 - 4.63%, 11/25/09 | United States | 1,7 |
| | Sensus Metering Systems Inc., Term Loan, 4.17 - 4.891%, 12/16/10 ... | United States | 3,9 |
| | | | |
| INDUSTRIAL SPECIALTIES .6% | | | |
| | Ionics Inc., Term Loan B, 6.00%, 2/01/11 | United States | 5,2 |
| | Polypore Inc., Term Loan B, 3.97%, 11/13/11 | United States | 2,2 |
| | | | |
| INFORMATION TECHNOLOGY SERVICES 1.5% | | | |
| | The Relizon Co., Term Loan B, 4.26%, 2/20/11 | United States | 4,3 |
| | Transfirst Holdings, Term Loan B, 5.18%, 3/31/10 | United States | 5,0 |
| | Verifone Inc., Term Loan B, 4.18%, 6/30/11 | United States | 1,0 |
| | Worldspan, Term Loan, 4.938 - 5.125%, 6/30/07 | United States | 1,1 |
| | Xerox Corp., Term Loan, 3.34%, 9/30/08 | United States | 7,5 |

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| | | |
|--|---------------|------|
| INSURANCE BROKERS/SERVICES .1% | | |
| U.S.I. Holdings Corp., Term Loan, 4.18%, 8/04/08 | United States | 9 |
| INVESTMENT BANKS/BROKERS .6% | | |
| c Refco Group Ltd. LLC, Term Loan B, 4.23%, 7/28/11 | United States | 8,0 |
| LIFE/HEALTH INSURANCE .8% | | |
| Conseco Inc., Term Loan, 5.426%, 6/22/10 | United States | 10,0 |
| MAJOR TELECOMMUNICATIONS .8% | | |
| Alec Holdings Inc., Term Loan B, 4.875%, 8/20/10 | United States | 4,9 |
| Consolidated Communications Inc., Term Loan B, 4.008 - 4.336%, 10/14/11 | United States | 2,5 |
| b E.Spire Communications, Term Loan C, 8.25%, 8/01/06 | United States | 16,8 |
| Qwest Corp., Term Loan, 6.50%, 6/30/07 | United States | 3,0 |
| b WCI Capital Corp., Term Loan B, 9.75%, 3/31/07 | United States | 30,5 |
| b Winstar Communications Inc., DIP, 7.25%, 2/20/09 | United States | 4,0 |
| MANAGED HEALTH CARE .3% | | |
| Multiplan Inc., Term Loan, 4.34%, 3/04/09 | United States | 2,4 |
| Pacificare Health Systems Inc., Term Loan, 3.709%, 6/03/08 | United States | 9 |
| MARINE SHIPPING .3% | | |
| Horizon Lines LLC, Term Loan, 4.60%, 7/07/11 | United States | 2,3 |
| United States Shipping LLC, Term Loan, 3.836 - 4.12%, 4/08/10 | United States | 1,1 |

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Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

| | COUNTRY | PRINCIPAL |
|---|---------|-----------|
| ----- | | |
| a SENIOR FLOATING RATE INTERESTS (CONT.) | | |
| MEDIA CONGLOMERATES .4% | | |
| Canwest Media Inc., Term Loan E, 3.66%, 5/15/09 | Canada | \$ 4,9 |

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| | | |
|--|---------------|-----|
| MEDICAL DISTRIBUTORS .5% | | |
| VWR International Inc., Term Loan B, 3.77%, 4/07/11 | United States | 6,4 |
| MEDICAL SPECIALTIES .6% | | |
| Conmed Corp., Term Loan C, 3.68 - 4.15%, 12/15/09 | United States | 8 |
| DJ Orthopedics Inc., Term Loan B, 3.875 - 4.25%, 6/03/09 | United States | 9 |
| c Fisher Scientific International Inc., Term Loan B, 3.34%, 6/30/11 .. | United States | 2,0 |
| Medex Inc., Term Loan B, 4.38%, 5/21/09 | United States | 9 |
| PerkinElmer Inc., Term Loan B, 3.44%, 12/26/08 | United States | 2,3 |
| MEDICAL/NURSING SERVICES 2.2% | | |
| Alliance Imaging Inc., Term Loan C, 3.563 - 4.063%, 11/30/08 | United States | 1,3 |
| Cross Country Healthcare Inc., Term Loan, 4.55 - 4.73%, 6/05/09 | United States | 5 |
| DaVita Inc., Term Loan B, 3.16 - 3.98%, 6/30/10 | United States | 9,5 |
| Insight Health Services, Term Loan, 5.336%, 10/17/08 | United States | 9,0 |
| MedQuest Inc., Term Loan B, 5.34%, 7/31/09 | United States | 9 |
| Sheridan Healthcare, Term Loan B, 3.929 - 4.23%, 3/31/10 | United States | 9 |
| Team Health Inc., Term Loan B, 4.84%, 3/23/11 | United States | 4,7 |
| MISCELLANEOUS COMMERCIAL SERVICES 1.9% | | |
| Buhrmann US Inc., Term Loan C1, 3.96%, 12/02/10 | United States | 5,2 |
| Corrections Corp. of America, Term Loan D, 3.49 - 3.91%, 3/31/08 ... | United States | 3,6 |
| c DS Waters Enterprises LP, Term Loan, 4.336 - 4.62%, 11/07/09 | United States | 3,9 |
| Global Imaging Systems Inc., Term Loan B, 3.24 - 3.59%, 5/15/10 | United States | 9 |
| JohnsonDiversey Inc., Term Loan B, 3.38 - 3.619%, 5/03/08 | United States | 4,2 |
| Language Line LLC, Term Loan B, 5.66%, 6/11/11 | United States | 3,5 |
| U.S. Investigations Services Inc., Term Loan C, 5.04%, 1/10/09 | United States | 2,4 |
| MISCELLANEOUS MANUFACTURING .8% | | |
| Day International Group Inc., Term Loan D, 4.98 - 5.09%, 1/01/10 ... | United States | 1,3 |
| Mueller Group, Term Loan, 4.55 - 4.93%, 4/14/11 | United States | 6,0 |
| Norcross Safety Products, Term Loan, 4.90%, 3/20/09 | United States | 7 |
| Vutek Inc., Term Loan B, 6.75%, 6/23/10 | United States | 2,0 |
| MOVIES/ENTERTAINMENT 5.8% | | |
| 24 Hour Fitness Inc., Term Loan, 5.125 - 5.375%, 7/01/09 | United States | 2,9 |
| Carmike Cinemas Inc., Term Loan, 4.41%, 2/02/09 | United States | 1,5 |
| CH Operating LLC, Term Loan B, 5.813 - 6.188%, 6/21/07 | United States | 2,9 |
| Cinemark USA Inc., Term Loan, 3.63%, 4/02/11 | United States | 9 |

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STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

| | COUNTRY | PRINCIPAL |
|--|---------------|-----------|
| a SENIOR FLOATING RATE INTERESTS (CONT.) | | |
| MOVIES/ENTERTAINMENT (CONT.) | | |
| Cinram International, | | |
| Term Loan B, 5.09%, 9/30/09 | Canada | \$ 5,1 |
| Term Loan C, 7.09%, 3/31/10 | Canada | 1,9 |
| Detroit Red Wings Inc., Term Loan, 3.836%, 8/30/06 | United States | 9 |
| Hollywood Entertainment Corp., Term Loan, 4.97 - 6.50%, 3/31/08 | United States | 1,8 |
| c Loews Cineplex Entertainment Corp., Term Loan B, 3.764-3.94%, | | |
| 7/30/11 | United States | 2,0 |
| Metro-Goldwyn-Mayer Inc., Term Loan B, 3.98%, 4/30/11 | United States | 8,5 |
| Mets II LLC, Term Loan, 4.69%, 8/23/05 | United States | 3,0 |
| New Jersey Basketball LLC, Term Loan, 6.75%, 10/15/04 | United States | 7,5 |
| Rainbow Media Holdings Inc., Term Loan C, 3.70%, | | |
| 12/31/09 | United States | 7,9 |
| Regal Cinemas Inc., Term Loan B, 3.49 - 3.696%, 11/10/10 | United States | 13,5 |
| Six Flags Theme Parks, Term Loan B, 3.87%, 6/30/09 | United States | 1,8 |
| Warner Music, Term Loan B, 4.025 - 4.319%, 2/28/11 | United States | 6,9 |
| Yankee Holdings, Term Loan, 3.86 - 4.10%, 6/25/07 | United States | 7 |
| Yankee Nets, Term Loan, 3.933 - 4.15%, 6/25/07 | United States | 1,7 |
| OIL & GAS PIPELINES .1% | | |
| Magellan Midstream Holdings LP, Term Loan B, 4.65%, 6/17/08 | United States | 1,1 |
| OIL & GAS PRODUCTION .4% | | |
| Williams Production RMT Co., Term Loan C, 3.72%, 5/30/08 | United States | 4,9 |
| OIL REFINING/MARKETING .7% | | |
| Getty Petroleum Marketing, Term Loan B, 4.84%, 5/18/10 | United States | 2,0 |
| La Grange Acquisition LP, Term Loan, 4.14 - 4.41%, 1/08/08 | United States | 3,0 |
| Lyondell-Citgo Refining LP, Term Loan, 3.79 - 4.37%, 5/21/07 | United States | 1,0 |
| Tesoro Petroleum Corp., | | |
| L/C Term Loan, 7.10%, 4/30/07 | United States | 1,5 |
| Term Loan, 6.88 - 6.91%, 4/15/08 | United States | 9 |
| OTHER CONSUMER SERVICES .4% | | |
| Alderwoods Group Inc., Term Loan B, 4.10 - 4.20%, 9/12/08 | United States | 1,5 |
| Coinstar Inc., Term Loan, 3.84%, 7/01/11 | United States | 2,0 |
| Weight Watchers International Inc., Term Loan B, 3.17%, 3/31/10 | United States | 9 |
| OTHER CONSUMER SPECIALTIES 1.5% | | |
| American Safety Razor Co., First Lien Term Loan, 4.55 - 4.84%, | | |

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| | | |
|--|---------------|------|
| 4/22/11 | United States | 1,4 |
| Home Interiors & Gifts Inc., Term Loan, 5.41%, 4/02/11 | United States | 3,9 |
| Jostens Inc., Term Loan, 3.869%, 7/29/10 | United States | 8 |
| Sola International Inc., Term Loan, 4.09%, 12/05/09 | United States | 9 |
| c Solo Cup Co., Term Loan B, 3.84 - 4.086%, 2/23/11 | United States | 11,9 |

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Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

| | COUNTRY | PRINCIPAL |
|---|---------------|-----------|
| ----- | | |
| a SENIOR FLOATING RATE INTERESTS (CONT.) | | |
| OTHER TRANSPORTATION 1.2% | | |
| Great Lakes Dredge & Dock Corp., Term Loan B, 4.14 - 4.87%, 12/19/10 | United States | \$ 9 |
| Laidlaw International Inc., Term Loan B, 5.50%, 6/17/09 | United States | 9,5 |
| Transcore Holdings Inc., Term Loan B, 4.823 - 6.00%, 12/03/07 | United States | 1,8 |
| Term Loan C, 4.93 - 6.00%, 12/03/07 | United States | 1,9 |
| PERSONNEL SERVICES .1% | | |
| c Allied Security Holdings LLC, Term Loan B, 7.50%, 8/02/10 | United States | 1,2 |
| PUBLISHING: BOOKS/MAGAZINES 2.2% | | |
| Advanstar Communications, Term Loan B, 5.78%, 10/11/07 | United States | 1 |
| American Media Inc., Term Loan C, 3.86 - 4.375%, 4/01/07 | United States | 9 |
| CBD Media LLC, Term Loan C, 3.61%, 12/31/09 | United States | 8 |
| DEX Media West LLC, Term Loan B, 3.61 - 3.84%, 3/09/10 | United States | 8,9 |
| F&W Publications Inc., Term Loan B, 4.93%, 12/31/09 | United States | 1,8 |
| Primedia Inc., Term Loan B, 4.25%, 6/30/09 | United States | 4,9 |
| Readers Digest Association Inc., Term Loan B, 3.57%, 5/20/08 | United States | 3 |
| R.H. Donnelley Corp., Term Loan B2, 3.63 - 3.86%, 6/30/10 | United States | 4,9 |
| Transwestern Publishing Co., Term Loan B, 3.375 - 3.938%, 2/25/11 .. | United States | 9 |
| Weekly Reader, Second Lien Term Loan, 6.761%, 3/23/09 | United States | 3,5 |
| PUBLISHING: NEWSPAPERS .3% | | |
| Freedom Communications, Term Loan B, 3.28 - 3.34%, 5/17/09 | United States | 2,5 |
| Medianews Group Inc., Term Loan B, 3.48%, 12/30/10 | United States | 9 |

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| | | |
|---|---------------|-----|
| PULP & PAPER .6% | | |
| Appleton Papers Inc., Term Loan B, 3.66 - 3.79%, 6/01/10 | United States | 9 |
| c Intertape Polymer Group Inc., Term Loan B, 5.75%, 8/01/11 | United States | 1,8 |
| Koch Cellulose LLC, | | |
| L/C Term Loan, 3.108%, 5/03/11 | United States | 6 |
| Term Loan B, 3.83%, 5/03/11 | United States | 2,6 |
| MDCP Acquisitions I, | | |
| Term Loan B, 4.33%, 9/12/10 | Ireland | 1,0 |
| Term Loan C, 4.39%, 9/12/11 | Ireland | 1,0 |
| RAILROADS .1% | | |
| RailAmerica Transportation Corp., Term Loan B, 3.813 - 3.938%, 5/21/09 | United States | 1,8 |
| REAL ESTATE INVESTMENT TRUSTS .7% | | |
| c Crescent Real Estate Funding XII, Term Loan, 3.61 - 3.742%, 1/12/06 | United States | 4,2 |
| Newkirk Master LP, Term Loan, 5.98 - 6.37%, 11/24/06 | United States | 3,9 |

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Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

| | COUNTRY | PRINCIPAL |
|---|---------------|-----------|
| ----- | | |
| a SENIOR FLOATING RATE INTERESTS (CONT.) | | |
| RECREATIONAL PRODUCTS 1.5% | | |
| Amscan Holdings Inc., Term Loan B, 4.13 - 4.591%, 4/30/12 | United States | \$ 1,0 |
| BRP Holdings LP, Term Loan, 4.18%, 12/18/10 | United States | 8,9 |
| PlayPower Inc., Term Loan, 5.75%, 2/07/10 | United States | 9 |
| Pure Fishing Inc., Term Loan B, 4.57 - 4.85%, 9/12/11 | United States | 1,4 |
| True Temper Sports Inc., Term Loan, 3.65 - 3.86%, 3/15/11 | United States | 5,9 |
| RESTAURANTS .5% | | |
| CKE Restaurants Inc., Term Loan, 4.375%, 4/30/09 | United States | 8 |
| Dominos Inc., Term Loan, 3.875%, 6/25/10 | United States | 2,5 |
| Jack In The Box Inc., Term Loan B, 3.59 - 4.23%, 12/19/10 | United States | 2,9 |

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| | | |
|-------------------------------------|--|--------------------|
| SEMICONDUCTORS .2% | | |
| | Fairchild Semiconductor Corp., Term Loan, 4.125 - 4.438%, 6/19/08 .. | United States 2,9 |
| SERVICES TO THE HEALTH INDUSTRY .5% | | |
| c | Accredo Health Inc., Term Loan B, 3.61%, 8/02/11 | United States 4,0 |
| | Quintiles Transnational Corp., Term Loan B, 5.70 - 5.84%, 9/25/09 .. | United States 1,6 |
| | Sterigenics International Inc., Term Loan B, 4.86%, 6/08/11 | United States 1,0 |
| SPECIALTY STORES .3% | | |
| | Pantry Inc., Term Loan, 4.09%, 3/12/11 | United States 2,6 |
| | PETCO Animal Supplies Inc., Term Loan D, 3.98%, 10/02/08 | United States 1,5 |
| SPECIALTY TELECOMMUNICATIONS 1.3% | | |
| | D&E Communications Inc., Term Loan B, 4.03 - 4.20%, 12/31/11 | United States 2,3 |
| | GCI Holdings Inc., Term Loan, 3.689%, 10/30/04 | United States 2,3 |
| b | Pacific Crossing Ltd., Term Loan B, 5.50%, 7/28/06 | United States 21,1 |
| c | Valor Telecommunications, Term Loan B, 3.87 - 3.98%, 9/30/09 | United States 9,8 |
| STEEL .4% | | |
| | Copperweld Corp., Term Loan, 5.95%, 10/31/04 | United States 5,2 |
| TOBACCO .2% | | |
| | Commonwealth Brands Inc., Term Loan, 5.563%, 8/22/07 | United States 2,0 |
| TOOLS/HARDWARE .1% | | |
| | Paint Sundry Brands LLC, Term Loan B, 4.87%, 6/27/10 | United States 4 |
| | Werner Holding Co., Term Loan, 4.65 - 4.88%, 6/11/09 | United States 9 |

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Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

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| | COUNTRY | PRINCIPAL |
|--|---------------|-----------|
| ----- | | |
| a SENIOR FLOATING RATE INTERESTS (CONT.) | | |
| TRUCKING .7% | | |
| Comcar Industries, Term Loan B, 6.42 - 8.25%, 12/31/09 | United States | \$ 2,4 |
| Flexi-Van Leasing Inc., Term Loan B, 3.10 - 3.13%, 9/20/07 | United States | 7 |
| Kenan Advantage, Term Loan, 5.05%, 6/30/10 | United States | 1,0 |
| Yellow Corp., | | |
| L/C Term Loan, 1.293%, 5/24/07 | United States | 3,9 |
| Term Loan, 3.23%, 5/24/07 | United States | 7 |
| | | |
| WHOLESALE DISTRIBUTORS .4% | | |
| Interline Brands, Term Loan B, 4.98 - 5.086%, 11/30/09 | United States | 2,8 |
| National Waterworks Inc., Term Loan B, 4.34%, 11/22/09 | United States | 9 |
| Nebraska Book Co., Term Loan B, 3.91%, 3/04/11 | United States | 9 |
| | | |
| WIRELESS COMMUNICATIONS 3.0% | | |
| AAT Communications Corp., Term Loan B, 4.14%, 12/31/11 | United States | 3,0 |
| b Cricket Communications Inc., Term Loan, 6.375%, 6/30/07 | United States | 1,0 |
| Crown Castle Operating Co., Term Loan B, 5.09%, 9/30/10 | United States | 11,9 |
| Dobson Cellular Systems Inc., Term Loan, 4.91 - 4.92%, 3/31/10 | United States | 3,6 |
| Nextel Finance Inc., Term Loan E, 3.813%, 12/15/10 | United States | 1,5 |
| Nextel Partners Inc., Term Loan C, 4.00%, 5/31/11 | United States | 6,5 |
| d SBA Communications Corp., Term Loan, 4.65 - 5.37%, 10/31/08 | United States | 7,5 |
| Spectrasite Communications Inc., | | |
| Term Loan A, 3.40 - 3.93%, 6/30/07 | United States | 1,7 |
| Term Loan C, 3.93%, 2/22/07 | United States | 9 |
| | | |
| TOTAL SENIOR FLOATING RATE INTERESTS (COST \$1,149,557,685) | | |
| | | ----- |
| | | SHARES/W |
| | | ----- |
| COMMON STOCKS AND WARRANTS .7% | | |
| AUTO PARTS: ORIGINAL EQUIPMENT MANUFACTURER | | |
| f Exide Technologies, wts., 3/18/06 | United States | |
| | | |
| COMMERCIAL PRINTING/FORMS | | |
| f Vertis Holdings Inc., wts., 6/30/11 | United States | |
| | | |
| SPECIALTY TELECOMMUNICATIONS .1% | | |
| f Global Crossing Ltd. | United States | |
| f IDT Corp. | United States | |
| | | |
| STEEL | | |
| f Copperweld Holding Co., A | United States | |
| f Copperweld Holding Co., B | United States | |

Franklin Floating Rate Trust

STATEMENT OF INVESTMENTS, JULY 31, 2004 (CONTINUED)

| | COUNTRY | SHARES/W |
|--|---------------|----------|
| ----- | | |
| COMMON STOCKS AND WARRANTS (CONT.) | | |
| WIRELESS COMMUNICATIONS .6% | | |
| f,h Arch Wireless Inc. | United States | 2 |
| f Teligent Inc. | United States | |
| | | |
| TOTAL COMMON STOCKS AND WARRANTS (COST \$5,362,050) | | |
| TOTAL LONG TERM INVESTMENTS (COST \$1,176,734,586) | | |
| | | |
| | | ----- |
| | | SHARES |
| | | ----- |
| SHORT TERM INVESTMENTS (COST \$168,916,040) 13.4% | | |
| g Franklin Institutional Fiduciary Trust Money Market Portfolio | United States | 168,9 |
| TOTAL INVESTMENTS (COST \$1,345,650,626) 102.7% | | |
| OTHER ASSETS, LESS LIABILITIES (2.7)% | | |
| NET ASSETS 100.0% | | |

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Franklin Floating Rate Trust

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES
July 31, 2004

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Assets:

Investments in securities:

Cost - Unaffiliated issuers
Cost - Sweep money fund (Note 9)

Value - Unaffiliated issuers
Value - Sweep money fund (Note 9)

Cash

Receivables:

Investment securities sold

Capital shares sold

Interest

Unrealized gain on unfunded commitments (Note 13)

Other assets

Total assets

Liabilities:

Payables:

Investment securities purchased

Affiliates

Distributions to shareholders

Other liabilities

Total liabilities

Net assets, at value

Net assets consist of:

Undistributed net investment income

Net unrealized appreciation (depreciation)

Accumulated net realized gain (loss)

Capital shares

Net assets, at value

Net asset value and maximum offering price per share (\$1,257,675,684 / 140,043,962 shares outstan

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Franklin Floating Rate Trust

FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF OPERATIONS

for the year ended July 31, 2004

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Investment income:

| | |
|-------------------------------|--------|
| Dividends | \$ 1,0 |
| Interest | 51,3 |
| | ----- |
| Total investment income | 52,3 |
| | ----- |

Expenses:

| | |
|------------------------------------|-------|
| Management fees (Note 5) | 9,1 |
| Administrative fees (Note 5) | 1,4 |
| Transfer agent fees (Note 5) | 5,0 |
| Custodian fees | |
| Reports to shareholders | |
| Registration and filing fees | |
| Professional fees | 1 |
| Trustees' fees and expenses | |
| Other | 3 |
| | ----- |
| Total expenses | 16,2 |
| Expense reductions (Note 6) | |
| | ----- |
| Net expenses | 16,2 |
| | ----- |

| | |
|-----------------------------------|-------|
| Total expenses | 16,2 |
| Expense reductions (Note 6) | |
| | ----- |
| Net expenses | 16,2 |
| | ----- |
| Net investment income | 36,1 |
| | ----- |

Realized and unrealized gains (losses):

| | |
|---|---------|
| Net realized gain (loss) from: | |
| Investments: | |
| Unaffiliated issuers | (43,4) |
| Non-controlled affiliated issuers (Note 12) | 15,4 |
| Foreign currency transactions | |
| | ----- |
| Net realized gain (loss) | (27,9) |
| Net unrealized appreciation (depreciation) on investments | 105,3 |
| | ----- |
| Net realized and unrealized gain (loss) | 77,4 |
| | ----- |
| Net increase (decrease) in net assets resulting from operations | \$113,5 |
| | ----- |

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Franklin Floating Rate Trust

FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF CHANGES IN NET ASSETS
for the years ended July 31, 2004 and 2003

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| | |
|---|------------|
| | 200 |
| ----- | |
| Increase (decrease) in net assets: | |
| Operations: | |
| Net investment income | \$ 36,12 |
| Net realized gain (loss) from investments and foreign currency transactions | (27,91 |
| Net unrealized appreciation (depreciation) on investments and translation of assets and liabilities denominated in foreign currencies | 105,39 |
| ----- | |
| Net increase (decrease) in net assets resulting from operations | 113,59 |
| Distributions to shareholders from net investment income | (37,88 |
| Capital share transactions (Note 2) | 20,98 |
| ----- | |
| Net increase (decrease) in net assets | 96,69 |
| Net assets: | |
| Beginning of year | 1,160,97 |
| ----- | |
| End of year | \$1,257,67 |
| ----- | |
| Undistributed net investment income (distributions in excess of net investment income) included in net assets: | |
| End of year | \$ 3,10 |
| ----- | |

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Franklin Floating Rate Trust

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Franklin Floating Rate Trust (the Fund) is registered under the Investment Company Act of 1940 as a non-diversified, closed-end, continuously offered investment company. The Fund seeks current income and preservation of capital. The following summarizes the Fund's significant accounting policies.

A. SECURITY VALUATION

The Fund invests primarily in senior secured corporate loans and senior secured debt that meet credit standards established by Franklin Advisers Inc. Debt securities, other over-the-counter securities and listed securities for which no sale is reported are valued within the range of the latest quoted bid and asked prices by independent pricing services or recognized dealers in such securities. Securities listed or traded on a recognized national exchange are valued at the last reported sales price. Securities listed or traded on NASDAQ are valued at their official closing price. If events occur that materially affect the values of securities after the prices are determined, but prior to 4:00 p.m. Eastern time or the close of trading on the NYSE, whichever is earlier, or if market quotations are deemed not readily available or reliable, the securities (including restricted securities) will be valued at fair value. Investments in

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open-end mutual funds are valued at the closing net asset value. All security valuation procedures are approved by the Board of Trustees.

B. FOREIGN CURRENCY TRANSLATION

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollars equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

C. SECURITIES PURCHASED ON A WHEN-ISSUED OR DELAYED DELIVERY BASIS

The Fund may purchase securities on a when-issued or delayed delivery basis, with payment and delivery scheduled for a future date. These transactions are subject to market fluctuations and are subject to the risk that the value at delivery may be more or less than the trade date purchase price. Although the Fund will generally purchase these securities with the intention of holding the securities, it may sell the securities before the settlement date.

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Franklin Floating Rate Trust

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. SENIOR FLOATING RATE INTERESTS

Senior secured corporate loans pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. These base lending rates are generally the prime rate offered by a designated U.S. bank or the London InterBank Offered Rate (LIBOR). Senior secured corporate loans often require prepayment of principal from excess cash flows or at the discretion of the borrower. As a result, actual maturity may be substantially less than the stated maturity.

Senior secured corporate loans in which the Fund invests are generally readily marketable, but may be subject to some restrictions on resale.

E. INCOME TAXES

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No provision has been made for income taxes because the Fund's policy is to qualify as a regulated investment company under the Internal Revenue Code and distribute substantially all of its taxable income. Fund distributions to shareholders are determined on a tax basis and may differ from net investment income and realized gains for financial reporting purposes.

F. SECURITY TRANSACTIONS, INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Discounts and premiums on securities purchased are amortized over the lives of the respective securities. Facility fees are recognized as income over the expected term of the loan. Dividend income and distributions to shareholders are recorded on the ex-dividend date.

G. ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

H. GUARANTEES AND INDEMNIFICATIONS

Under the Fund's organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the Funds. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve further claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

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Franklin Floating Rate Trust

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SHARES OF BENEFICIAL INTEREST

At July 31, 2004, there were an unlimited number of shares authorized (\$.01 par value). Transactions in the Fund's shares were as follows:

| YEAR ENDED JULY 31, | | | |
|---------------------|--------|--------|--------|
| 2004 | | 2003 | |
| SHARES | AMOUNT | SHARES | AMOUNT |

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| | | | | |
|---|--------------|----------------|--------------|---------------|
| Shares sold | 30,148,214 | \$ 266,060,960 | 5,568,709 | \$ 45,936,82 |
| Shares issued in reinvestment of distributions | 2,769,859 | 24,316,522 | 5,106,050 | 41,769,06 |
| Shares redeemed | (30,679,970) | (269,393,808) | (87,416,170) | (714,811,53 |
| | | | | |
| Net increase (decrease) | 2,238,103 | \$ 20,983,674 | (76,741,411) | \$(627,105,64 |
| | | | | |

3. TENDER OF SHARES

On a quarterly basis, the Fund may make tender offers, the amount of which is determined by the Board of Trustees, for the repurchase of at least 5% but not more than 25% of the shares outstanding. The repurchase price is the net asset value on the tender offer expiration date.

4. REVOLVING CREDIT FACILITY

The Fund participates in a \$200 million senior unsecured revolving credit facility to fund shareholder redemptions or meet unfunded loan commitments. The facility agreement ends on December 20, 2004. Interest is charged at the Federal Funds Rate plus .50%. Facility fees paid are amortized on a straight line basis over the term of the commitment. Annual commitment fees of .09% are charged on the unused portion of the facility and allocated among the participating funds based on net assets.

During the year ended July 31, 2004, the Fund did not utilize the facility.

5. TRANSACTIONS WITH AFFILIATES

Certain officers and trustees of the Fund are also officers and/or directors of the following entities:

| ENTITY | AFFILIATION |
|--|------------------------|
| Franklin Advisers Inc. (Advisers) | Investment manager |
| Franklin Templeton Services LLC (FT Services) | Administrative manager |
| Franklin/Templeton Distributors Inc. (Distributors) | Principal underwriter |
| Franklin/Templeton Investor Services LLC (Investor Services) | Transfer agent |

The Fund pays an investment management fee to Advisers of .80% per year of the average daily net assets of the Fund.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. TRANSACTIONS WITH AFFILIATES (CONTINUED)

The Fund pays an administrative fee to FT Services based on the daily net assets of the Fund as follows:

| ANNUALIZED FEE RATE | NET ASSETS |
|---------------------|---|
| .150% | First \$200 million |
| .135% | Over \$200 million, up to and including \$700 million |
| .100% | Over \$700 million, up to and including \$1.2 billion |
| .075% | In excess of \$1.2 billion |

Distributors has advised the Fund that it has received contingent deferred sales charges for the year of \$68,628.

The Fund pays a transfer agent fee to Investor Services of .40% per year of the average daily net assets of the Fund, totaling \$4,781,190 for the year ended July 31, 2004.

6. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended July 31, 2004, the custodian fees were reduced as noted in the Statement of Operations.

7. INCOME TAXES

At July 31, 2004, the Fund had tax basis capital losses which may be carried over to offset future capital gains. Such losses expire as follows:

Capital loss carryover expiring in:

| | |
|------------|---------------|
| 2009 | \$ 2,115,134 |
| 2011 | 199,627,510 |
| 2012 | 107,803,681 |
| | ----- |
| | \$309,546,325 |
| | ----- |

At July 31, 2004, Fund has deferred capital losses occurring subsequent to October 31, 2003 of \$14,631,185. For tax purposes, such losses will be reflected in the year ending July 31, 2005.

Net investment income differs for financial statement and tax purposes primarily due to differing treatments of defaulted securities, foreign currency transactions, and bond premiums.

Net realized gains (losses) differ for financial statement and tax purposes primarily due to differing treatment of wash sales, defaulted securities, foreign currency transactions, and bond premiums.

Franklin Floating Rate Trust

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. INCOME TAXES (CONTINUED)

The tax character of distributions paid during the years ended July 31, 2004 and 2003, was as follows:

| | ----- 2004 ----- | 2003 ----- |
|--|------------------------|---------------|
| Distributions paid from ordinary income | \$37,883,644 | \$65,886,321 |

At July 31, 2004, the cost of investments, net unrealized appreciation (depreciation) and undistributed ordinary income for income tax purposes were as follows:

| | |
|--|-----------------|
| Cost of investments | \$1,346,496,159 |
| Unrealized appreciation | \$ 20,414,126 |
| Unrealized depreciation | (74,859,545) |
| Net unrealized appreciation (depreciation) | \$ (54,445,419) |
| Distributable earnings - undistributed ordinary income | \$ 4,827,491 |

8. INVESTMENT TRANSACTIONS

Purchases and sales of securities (excluding short-term securities) for the year ended July 31, 2004 aggregated \$942,890,198 and \$997,526,505, respectively.

9. INVESTMENTS IN THE FRANKLIN INSTITUTIONAL FIDUCIARY TRUST MONEY MARKET PORTFOLIO

The Fund may invest in the Franklin Institutional Fiduciary Trust Money Market Portfolio (the Sweep Money Fund), an open-end investment company managed by Advisers. Management fees paid by the Fund are reduced on assets invested in the Sweep Money Fund, in an amount not to exceed the management fees paid by the Sweep Money Fund.

10. CREDIT RISK AND DEFAULTED SECURITIES

The Fund has 83.36% of its portfolio invested in below investment grade and comparable quality unrated high yield securities, which tend to be more sensitive to economic conditions than higher rated securities.

The Fund held defaulted and/or other securities for which the income has been deemed uncollectible. At July 31, 2004, the value of these securities was \$2,236,005 representing 0.18% of the Fund's net assets. The Fund discontinues accruing income on securities for which income has been deemed uncollectible and provides an estimate for losses on interest receivable. For information as to specific securities, see the accompanying Statement of Investments.

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11. RESTRICTED SECURITIES

At July 31, 2004, investments in securities included issues that are restricted or illiquid. Restricted securities are often purchased in private placement transactions, are not registered under the Securities

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Franklin Floating Rate Trust

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. RESTRICTED SECURITIES (CONTINUED)

Act of 1933, may have contractual restrictions on resale, and are valued under methods approved by the Board of Trustees as reflecting fair value. A security may also be considered illiquid if it lacks a readily available market or if its valuation has not changed for a certain period of time. At July 31, 2004, the Fund held investments in restricted and illiquid securities that were valued under approved methods by the Trustees, as follows:

| PRINCIPAL AMOUNT | ISSUER | ACQUISITION DATE | COST | VALU |
|--|--|---------------------|--------------|----------|
| \$ 1,400,000 | Ares IV, Term Loan D, 144A, 7.11%, 12/22/12 | 11/14/00 | \$ 1,400,000 | \$1,136, |
| 2,500,000 | Centurion II, Tranche D, 144A, 7.18%, 11/12/12 .. | 11/07/00 | 2,500,000 | 2,194, |
| 2,000,000 | Clydesdale CLO, Tranche D, 144A, 7.65%, 3/22/13 | 5/23/01 | 1,889,673 | 1,903, |
| 3,000,000 | First Dominion Funding II, sub. floating rate deb., Series A-D, 144A, 6.811%, 4/25/14 | 5/03/99 | 2,991,559 | 2,325, |
| TOTAL RESTRICTED SECURITIES (.60% OF NET ASSETS) | | | | \$7,559, |

12. HOLDING OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES

The Investment Company Act of 1940 defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Fund during the year ended July 31, 2004 were as shown below.

| NAME OF ISSUER | NUMBER OF SHARES HELD | | GROSS ADDITIONS | GROSS REDUCTIONS | NUMBER OF SHARES HELD | | VALUE AT END OF YEAR | DIVIDEND INCOME | RE C GAI |
|----------------|--------------------------|-------------------|--------------------|---------------------|--------------------------|-------------------|----------------------------|--------------------|----------------|
| | AT BEGINNING OF YEAR | AT END OF YEAR | | | AT BEGINNING OF YEAR | AT END OF YEAR | | | |

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Arch Wireless Inc. 1,908,741 43,174 1,698,169 253,746 \$ * \$ -- \$15

*At July 31, 2004, no longer an affiliate.

13. UNFUNDED LOAN COMMITMENTS

The Fund may enter into certain credit agreements, all or a portion of which may be unfunded. The Fund is obligated to fund these loan commitments at the borrowers' discretion.

At July 31, 2004, unfunded commitments were as follows:

| BORROWER | UNFUNDED COMMITMENT |
|---|------------------------|
| Celanese AG, Term Loan | \$1,240,738 |
| Envirosolutions Inc., Delay Draw | 818,182 |
| New Jersey Devils LLC, Term Loan | 1,900,000 |
| SBA Communications Corp., Term Loan | 915,385 |
| | \$4,874,305 |

Unfunded loan commitments are marked to market daily and any unrealized gain or loss is included in the Statement of Assets and Liabilities and Statement of Operations.

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Franklin Floating Rate Trust

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

14. OTHER CONSIDERATIONS

Advisers, as the Fund's Manager, may serve as a member of various bondholders' steering committees, on credit committees, or may represent the Fund in certain corporate restructuring negotiations. Currently the Manager serves in one or more of these capacities for Adelphia Communications Corp. As a result of this involvement, the Advisers may be in possession of certain material non-public information. If the Fund's Manager, while in possession of such information, seeks to sell any of its holdings in these securities it will comply with all applicable federal securities laws.

15. FUND LITIGATION

On July 6, 2003, Adelphia Communications Corp. ("Adelphia") and related parties, along with its Official Committee of Unsecured Creditors, filed an adversary proceeding in the Adelphia bankruptcy case in the U.S. Bankruptcy Court (SDNY) against more than 360 banks, financial services companies, insurance companies, investment banks, mutual funds and other parties that had arranged for the sale

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of, or purchased the bank debt of, Adelphia or its related parties. Named Defendants included Franklin Advisers Inc., Franklin CLOs I-III, Franklin Floating Rate Daily Access Fund, Franklin Floating Rate Master Series, and Franklin Floating Rate Trust.

The Complaint alleges that the purchasers of this bank debt knew, or should have known, that the loan proceeds would not benefit Adelphia, but instead would be used to enrich Adelphia insiders. It seeks avoidance of the loans and recovery of intentionally fraudulent transfers.

Discovery for this case has been stayed and pending motions have not been ruled upon. Thus, it is not possible to predict its outcome at this early stage of the proceedings. However, management of the Funds does not expect that the result will have a material adverse effect on the financial condition of the Funds.

16. REGULATORY MATTERS

MASSACHUSETTS ADMINISTRATIVE PROCEEDING

On February 4, 2004, the Securities Division of the Office of the Secretary of the Commonwealth of Massachusetts filed an administrative complaint against Franklin Resources, Inc. and certain of its subsidiaries (the "Company") claiming violations of the Massachusetts Uniform Securities Act ("Massachusetts Act") with respect to an alleged arrangement to permit market timing (the "Mass. Proceeding"). On February 17, 2004, the Company filed an answer denying all violations of the Massachusetts Act.

U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) SETTLEMENT

On August 2, 2004, the Company announced that an agreement had been reached by the Fund's investment manager with the SEC that resolved the issues resulting from the SEC's investigation of market timing activity. The SEC issued an "order instituting administrative and cease-and-desist

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Franklin Floating Rate Trust

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

16. REGULATORY MATTERS (CONTINUED)

U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) SETTLEMENT (CONTINUED)

proceedings pursuant to sections 203(e) and 203(k) of the Investment Advisers Act of 1940 and sections 9(b) and 9(f) of the Investment Company Act of 1940, making findings and imposing remedial sanctions and a cease and desist order" (the "Order"). The SEC's Order concerns the activities of a limited number of third parties that ended in 2000 and those that are the subject of the Mass. Proceeding described above.

Under the terms of the SEC's Order, pursuant to which the Fund's investment manager neither admits nor denies any wrongdoing, the Fund's investment manager has agreed to pay \$50 million, of which \$20 million is a civil penalty, to be distributed to certain fund shareholders in accordance with a plan to be developed by an Independent Distribution Consultant. At this time, it is unclear whether shareholders of all funds will receive distributions or whether all shareholders of any particular fund will receive distributions. The SEC Order also requires the Fund's investment manager to, among other things, enhance and

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periodically review compliance policies and procedures.

OTHER GOVERNMENTAL INVESTIGATIONS

As part of ongoing investigations by the SEC, the U.S. Attorney for the Northern District of California, the New York Attorney General, the California Attorney General, the U.S. Attorney for the District of Massachusetts, the Florida Department of Financial Services and the Commissioner of Securities, the West Virginia Attorney General, the Vermont Department of Banking, Insurance, Securities, and Health Care Administration and the National Association of Securities Dealers, relating to certain practices in the mutual fund industry, including late trading, market timing and payments to securities dealers who sell fund shares, the Company and its subsidiaries, as well as certain current or former executives and employees of the Company, have received requests for information and/or subpoenas to testify or produce documents. The Company has been providing documents and information in response to these requests and subpoenas. In addition, the Company has responded to requests for similar kinds of information from regulatory authorities in some of the foreign countries where the Company conducts its global asset management business.

The Staff of the SEC has also informed the Company that it is considering recommending a civil action or proceeding against the Fund's investment manager and the Fund's principal underwriter concerning payments to securities dealers who sell fund shares (commonly referred to as "revenue sharing"). The staff of the California Attorney General's Office (CAGO) also has advised the Company that it is authorized to bring a civil action against Franklin Resources, Inc. and the Fund's principal underwriter arising from the same events. Even though the Company currently believes that the charges the SEC staff and CAGO staff are contemplating are unwarranted, it also believes that it is in the best interest of the Company and fund shareholders to resolve these issues voluntarily, to the extent the Company can reasonably do so.

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Franklin Floating Rate Trust

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

16. REGULATORY MATTERS (CONTINUED)

OTHER LEGAL PROCEEDINGS

The Fund, in addition to other entities within Franklin Templeton Investments, including the Company and certain of its subsidiaries, other funds, and current and former officers, employees, and directors have been named in multiple lawsuits in different federal courts in Nevada, California, Illinois, New York and Florida, alleging violations of various federal securities laws and seeking, among other things, monetary damages and costs. Specifically, the lawsuits claim breach of duty with respect to alleged arrangements to permit market timing and/or late trading activity, or breach of duty with respect to the valuation of the portfolio securities of certain funds managed by Company subsidiaries, resulting in alleged market timing activity. The majority of these lawsuits duplicate, in whole or in part, the allegations asserted in the Mass. Proceeding detailed above. The lawsuits are styled as class actions or derivative actions on behalf of either the named Funds or the Company.

In addition, the Company and certain of its subsidiaries, as well as certain current and former officers, employees, and directors have been named in

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multiple lawsuits alleging violations of various securities laws and pendent state law claims relating to the disclosure of directed brokerage payments and/or payment of allegedly excessive commissions and advisory fees. These lawsuits are styled as class actions and derivative actions.

The Company's management strongly believes that the claims made in each of these lawsuits are without merit and intends to vigorously defend against them.

The Company cannot predict with certainty the eventual outcome of the foregoing Mass. Proceeding, other governmental investigations or other legal proceedings. The impact, if any, of these matters on the Fund is uncertain at this time. If the Company determines that it bears responsibility for any unlawful or inappropriate conduct that caused losses to the Fund, it is committed to making the Fund or its shareholders whole, as appropriate.

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Franklin Floating Rate Trust

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS AND BOARD OF TRUSTEES OF FRANKLIN FLOATING RATE TRUST

In our opinion, the accompanying statement of assets and liabilities, including the statement of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Franklin Floating Rate Trust (hereafter referred to as "the Fund") at July 31, 2004, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at July 31, 2004 by correspondence with the custodian, agent banks and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
September 9, 2004

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Board Members and Officers

The name, age and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupations during the past five years and number of portfolios overseen in the Franklin Templeton Investments fund complex are shown below. Each board member will serve until that person's successor is elected and qualified.

INDEPENDENT BOARD MEMBERS

| NAME, AGE AND ADDRESS | POSITION | LENGTH OF TIME SERVED | NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY BOARD MEMBER* | OTHER D |
|--|----------|-----------------------|--|---|
| FRANK H. ABBOTT, III (83) One Franklin Parkway San Mateo, CA 94403-1906 | Trustee | Since 1997 | 111 | None |
| PRINCIPAL OCCUPATION DURING PAST 5 YEARS: President and Director, Abbott Corporation (an investment company). | | | | |
| HARRIS J. ASHTON (72) One Franklin Parkway San Mateo, CA 94403-1906 | Trustee | Since 1997 | 140 | Directo company |
| PRINCIPAL OCCUPATION DURING PAST 5 YEARS: Director of various companies; and FORMERLY, Director, RBC Holdings, Inc. (bank holding company) Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft c | | | | |
| S. JOSEPH FORTUNATO (72) One Franklin Parkway San Mateo, CA 94403-1906 | Trustee | Since 1997 | 141 | None |
| PRINCIPAL OCCUPATION DURING PAST 5 YEARS: Attorney; and FORMERLY, member of the law firm of Pitney, Hardin, Kipp & Szuch. | | | | |
| EDITH E. HOLIDAY (52) One Franklin Parkway San Mateo, CA 94403-1906 | Trustee | Since 1998 | 96 | Directo (explor and gas (proces product Metals, distrib Canadia (railro |
| PRINCIPAL OCCUPATION DURING PAST 5 YEARS: Director or Trustee of various companies and trusts; and FORMERLY, Assistant to the President of of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990) and Assistant Secretary for Public Affairs and Public Liaison-United States Treasury Department | | | | |
| FRANK W.T. LAHAYE (75) One Franklin Parkway San Mateo, CA 94403-1906 | Trustee | Since 1997 | 113 | Directo for Lan |

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

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General Partner, Las Olas L.P. (Asset Management); and FORMERLY, Chairman, Peregrine Venture Man

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| NAME, AGE AND ADDRESS | POSITION | LENGTH OF TIME SERVED | NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY BOARD MEMBER* | OTHER |
|--|----------|-----------------------|--|---|
| GORDON S. MACKLIN (76) One Franklin Parkway San Mateo, CA 94403-1906 | Trustee | Since 1997 | 140 | Direct Insura compan Corpor (biote (Inter Direct Corpor MCI Wo Inc.) (1988- (aeros |

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Deputy Chairman, White Mountains Insurance Group, Ltd. (holding company); and FORMERLY, Chairman (financial services) (1993-1998) and Hambrecht & Quist Group (investment banking) (1987-1992); a Association of Securities Dealers, Inc. (1970-1987).

INTERESTED BOARD MEMBERS AND OFFICERS

| NAME, AGE AND ADDRESS | POSITION | LENGTH OF TIME SERVED | NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY BOARD MEMBER* | OTHER |
|---|---|-----------------------|--|-------|
| **CHARLES B. JOHNSON (71) One Franklin Parkway San Mateo, CA 94403-1906 | Trustee and Chairman of the Board | Since 1997 | 140 | None |

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Chairman of the Board, Member-Office of the Chairman and Director, Franklin Resources, Inc.; Vice Distributors, Inc.; Director, Fiduciary Trust Company International; and officer and/or director of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment compan Investments.

| | | | | |
|---|--|--|-----|------|
| **RUPERT H. JOHNSON, JR. (63) One Franklin Parkway San Mateo, CA 94403-1906 | Trustee, President and Chief Executive Officer- Investment Management | Trustee and President since 1997 and Chief Executive Officer- Investment Management since 2002 | 123 | None |
|---|--|--|-----|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

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Vice Chairman, Member-Office of the Chairman and Director, Franklin Resources, Inc.; Vice President, Templeton Distributors, Inc.; Director, Franklin Advisers, Inc. and Franklin Investment Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 49 of the investment companies in Franklin Templeton Investments.

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| NAME, AGE AND ADDRESS | POSITION | LENGTH OF TIME SERVED | NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY BOARD MEMBER* | OTHER D |
|---|----------------|-----------------------|--|---------|
| MARK BOYADJIAN (40) One Franklin Parkway San Mateo, CA 94403-1906 | Vice President | Since 2003 | Not Applicable | None |

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:
Senior Vice President, Templeton Worldwide, Inc.; and officer of three of the investment companies in Franklin Templeton Investments.

| | | | | |
|--|----------------|------------|----------------|------|
| HARMON E. BURNS (59) One Franklin Parkway San Mateo, CA 94403-1906 | Vice President | Since 1997 | Not Applicable | None |
|--|----------------|------------|----------------|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:
Vice Chairman, Member-Office of the Chairman and Director, Franklin Resources, Inc.; Vice President, Templeton Distributors, Inc.; Executive Vice President, Franklin Advisers, Inc.; Director, Franklin Advisers, Inc.; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 49 of the investment companies in Franklin Templeton Investments.

| | | | | |
|---|--------------------------|-----------------|----------------|------|
| JAMES M. DAVIS (52) One Franklin Parkway San Mateo, CA 94403-1906 | Chief Compliance Officer | Since July 2004 | Not Applicable | None |
|---|--------------------------|-----------------|----------------|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:
Officer of 51 of the investment companies in Franklin Templeton Investments; Director, Global Compliance, Inc., and FORMERLY, Director of Compliance, Franklin Resources, Inc. (1994-2001).

| | | | | |
|--|-----------|-----------------|----------------|------|
| LAURA FERGERSON (42) One Franklin Parkway San Mateo, CA 94403-1906 | Treasurer | Since July 2004 | Not Applicable | None |
|--|-----------|-----------------|----------------|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:
Officer of 34 of the investment companies in Franklin Templeton Investments; and FORMERLY, Director, Valuation Committees, Runkel Funds, Inc. (2003-2004); Assistant Treasurer of most of the investment companies in Franklin Templeton Investments (1997-2003); and Vice President, Franklin Templeton Services, LLC (1997-2003).

| | | | | |
|---|----------------|------------|----------------|------|
| MARTIN L. FLANAGAN (44) One Franklin Parkway San Mateo, CA 94403-1906 | Vice President | Since 1997 | Not Applicable | None |
|---|----------------|------------|----------------|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:
Co-President and Chief Executive Officer, Franklin Resources, Inc.; Senior Vice President and Chief Executive Officer, Mutual Advisers, LLC; Executive Vice President, Chief Financial Officer and Director, Templeton Investment Services, LLC; President and Chief Operating Officer, Templeton Investment Counsel, LLC; President and Director, Franklin Investment Advisory Services, Inc. and Franklin Templeton Investments; and Financial Officer, Franklin Advisory Services, LLC; Chairman, Franklin Templeton Services, LLC;

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trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of some of the investment companies in Franklin Templeton Investments.

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| NAME, AGE AND ADDRESS | POSITION | LENGTH OF TIME SERVED | NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY BOARD MEMBER* | OTHER |
|---|---|-----------------------|--|-------|
| JIMMY D. GAMBILL (56) 500 East Broward Blvd. Suite 2100 Fort Lauderdale, FL 33394-3091 | Senior Vice President and Chief Executive Officer- Finance and Administration | Since 2002 | Not Applicable | None |

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:
President, Franklin Templeton Services, LLC; Senior Vice President, Templeton Worldwide, Inc.; and officer of 51 of the investment companies in Franklin Templeton Investments.

| | | | | |
|--|----------------|------------|----------------|------|
| DAVID P. GOSS (57) One Franklin Parkway San Mateo, CA 94403-1906 | Vice President | Since 2000 | Not Applicable | None |
|--|----------------|------------|----------------|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:
Associate General Counsel, Franklin Resources, Inc.; officer and director of one of the subsidiaries of Franklin Resources, Inc.; officer of 51 of the investment companies in Franklin Templeton Investments; and FORMERLY, President, Property Resources Equity Trust (until 1999) and Franklin Select Realty Trust (until 2000).

| | | | | |
|---|----------------|------------|----------------|------|
| BARBARA J. GREEN (56) One Franklin Parkway San Mateo, CA 94403-1906 | Vice President | Since 2000 | Not Applicable | None |
|---|----------------|------------|----------------|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:
Vice President, Deputy General Counsel and Secretary, Franklin Resources, Inc.; Secretary and Senior Vice President, Templeton Worldwide, Inc.; Secretary, Franklin Advisers, Inc., Franklin Advisory Services, LLC, Franklin Investment Services, Inc., Franklin Mutual Advisers, LLC, Franklin Templeton Alternative Strategies, Inc., Franklin Templeton Investment Services, LLC, Franklin Templeton Distributors, Inc., Templeton Investment Company, Templeton/Franklin Investment Services, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. of the investment companies in Franklin Templeton Investments; and FORMERLY, Deputy Director, Director, Executive Assistant and Senior Advisor to the Chairman, Counselor to the Chairman, Special Counselor to the Chairman, Securities and Exchange Commission (1986-1995); Attorney, Rogers & Wells (until 1986); and Judge, District of Massachusetts (until 1979).

| | | | | |
|---|--------------------------------|------------|----------------|-------------------------------|
| MICHAEL O. MAGDOL (67) 600 Fifth Avenue Rockefeller Center New York, NY 10020-2302 | Vice President -AML Compliance | Since 2002 | Not Applicable | Director, Chemical Foundation |
|---|--------------------------------|------------|----------------|-------------------------------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:
Vice Chairman, Chief Banking Officer and Director, Fiduciary Trust Company International; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 48 of the investment companies in Franklin Templeton Investments.

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| NAME, AGE AND ADDRESS | POSITION | LENGTH OF TIME SERVED | NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY BOARD MEMBER* | OTHER |
|--|---------------------------------|-----------------------|--|-------|
| MURRAY L. SIMPSON (67) One Franklin Parkway San Mateo, CA 94403-1906 | Vice President and Secretary | Since 2000 | Not Applicable | None |
| PRINCIPAL OCCUPATION DURING PAST 5 YEARS: Executive Vice President and General Counsel, Franklin Resources, Inc.; officer and/or director, the subsidiaries of Franklin Resources, Inc. and of 51 of the investment companies in Franklin T FORMERLY, Chief Executive Officer and Managing Director, Templeton Franklin Investment Services Director, Templeton Asset Management Ltd. (until 1999). | | | | |
| GALEN G. VETTER (52) 500 East Broward Blvd. Suite 2100 Fort Lauderdale, FL 33394-3091 | Chief Financial Officer | Since May 2004 | Not Applicable | None |
| PRINCIPAL OCCUPATION DURING PAST 5 YEARS: Officer of 51 of the investment companies in Franklin Templeton Investments; Senior Vice Preside LLC; and FORMERLY, Managing Director, RSM McGladrey, Inc.; and Partner, McGladrey & Pullen, LLP. | | | | |

*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment adviser or affiliated investment advisers.

**Charles B. Johnson and Rupert H. Johnson, Jr. are considered to be interested persons of the Trust under the federal securities laws due to their positions as officers and directors and major shareholders of Franklin Resources, Inc., which is the parent company of the Trust's adviser and distributor. Note: Charles B. Johnson and Rupert H. Johnson, Jr. are brothers.

THE SARBANES-OXLEY ACT OF 2002 AND RULES ADOPTED BY THE SECURITIES AND EXCHANGE COMMISSION REQUIRE THE FUND TO DISCLOSE WHETHER THE FUND'S AUDIT COMMITTEE INCLUDES AT LEAST ONE MEMBER WHO IS AN AUDIT COMMITTEE FINANCIAL EXPERT WITHIN THE MEANING OF SUCH ACT AND RULES. THE FUND'S BOARD OF TRUSTEES HAS DETERMINED THAT THERE IS AT LEAST ONE SUCH FINANCIAL EXPERT ON THE AUDIT COMMITTEE AND HAS DESIGNATED FRANK W.T. LAHAYE AS ITS AUDIT COMMITTEE FINANCIAL EXPERT. THE BOARD BELIEVES THAT MR. LAHAYE QUALIFIES AS SUCH AN EXPERT IN VIEW OF HIS EXTENSIVE BUSINESS BACKGROUND AND EXPERIENCE, INCLUDING SERVICE AS PRESIDENT AND DIRECTOR OF MCCORMICK SELPH ASSOCIATES FROM 1954 THROUGH 1965; DIRECTOR AND CHAIRMAN OF TELEDYNE CANADA LTD. FROM 1966 THROUGH 1971; DIRECTOR AND CHAIRMAN OF QUARTERDECK CORPORATION FROM 1982 THROUGH 1998; AND SERVICES AS A DIRECTOR OF VARIOUS OTHER PUBLIC COMPANIES INCLUDING U.S. TELEPHONE INC. (1981-1984), FISHER IMAGING INC. (1991-1998) AND DIGITAL TRANSMISSIONS SYSTEMS (1995-1999). IN ADDITION, MR. LAHAYE SERVED FROM 1981 TO 2000 AS A DIRECTOR AND CHAIRMAN OF PEREGRINE VENTURE MANAGEMENT CO., A VENTURE CAPITAL FIRM, AND HAS BEEN A MEMBER AND CHAIRMAN OF THE FUND'S AUDIT COMMITTEE SINCE ITS INCEPTION. AS A RESULT OF

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SUCH BACKGROUND AND EXPERIENCE, THE BOARD OF TRUSTEES BELIEVES THAT MR. LAHAYE HAS ACQUIRED AN UNDERSTANDING OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND FINANCIAL STATEMENTS, THE GENERAL APPLICATION OF SUCH PRINCIPLES IN CONNECTION WITH THE ACCOUNTING ESTIMATES, ACCRUALS AND RESERVES, AND ANALYZING AND EVALUATING FINANCIAL STATEMENTS THAT PRESENT A BREADTH AND LEVEL OF COMPLEXITY OF ACCOUNTING ISSUES GENERALLY COMPARABLE TO THOSE OF THE FUND, AS WELL AS AN UNDERSTANDING OF INTERNAL CONTROLS AND PROCEDURES FOR FINANCIAL REPORTING AND AN UNDERSTANDING OF AUDIT COMMITTEE FUNCTIONS. MR. LAHAYE IS AN INDEPENDENT TRUSTEE AS THAT TERM IS DEFINED UNDER THE RELEVANT SECURITIES AND EXCHANGE COMMISSION RULES AND RELEASES.

THE STATEMENT OF ADDITIONAL INFORMATION (SAI) INCLUDES ADDITIONAL INFORMATION ABOUT THE BOARD MEMBERS AND IS AVAILABLE, WITHOUT CHARGE, UPON REQUEST. SHAREHOLDERS MAY CALL 1-800/DIAL BEN (1-800/342-5236) TO REQUEST THE SAI.

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Franklin Floating Rate Trust

SHAREHOLDER INFORMATION

PROXY VOTING POLICIES AND PROCEDURES

The Fund has established Proxy Voting Policies and Procedures ("Policies") that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at 1-954/847-2268 or by sending a written request to: Franklin Templeton Companies, LLC, 500 East Broward Boulevard, Suite 1500, Fort Lauderdale, FL 33394, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at franklintempleton.com and posted on the Securities and Exchange Commission's website at sec.gov and reflect the 12-month period beginning July 1, 2003, and ending June 30, 2004.

QUARTERLY STATEMENT OF INVESTMENTS

The Fund files a complete statement of investments with the Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling 1-800/SEC-0330.

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Literature Request

For a brochure and prospectus, which contains more complete information, including charges, expenses and risks, call Franklin Templeton Investments at 1-800/DIAL BEN(R) (1-800/342-5236). Please read the prospectus carefully before investing or sending money. To ensure the highest quality of service, we may monitor, record and access telephone calls to or from our service departments. These calls can be identified by the presence of a regular beeping tone.

FRANKLIN TEMPLETON INVESTMENTS

INTERNATIONAL

Mutual European Fund
Templeton China World Fund
Templeton Developing Markets Trust
Templeton Foreign Fund
Templeton Foreign Smaller Companies Fund
Templeton International (Ex EM) Fund

GLOBAL

Franklin Global Aggressive Growth Fund
Franklin Global Growth Fund
Mutual Discovery Fund
Templeton Capital Accumulator Fund
Templeton Global Long-Short Fund
Templeton Global Opportunities Trust
Templeton Global Smaller Companies Fund
Templeton Growth Fund
Templeton World Fund

GROWTH

Franklin Aggressive Growth Fund
Franklin Capital Growth Fund
Franklin Flex Cap Growth Fund
Franklin Small-Mid Cap Growth Fund
Franklin Small Cap Growth Fund II 1

VALUE

Franklin Balance Sheet Investment Fund 2
Franklin Equity Income Fund
Franklin Large Cap Value Fund
Franklin MicroCap Value Fund 2
Franklin Small Cap Value Fund
Mutual Beacon Fund
Mutual Qualified Fund
Mutual Recovery Fund 3
Mutual Shares Fund

BLEND

Franklin Blue Chip Fund
Franklin Convertible Securities Fund
Franklin Growth Fund
Franklin Rising Dividends Fund
Franklin U.S. Long-Short Fund 4

SECTOR

Franklin Biotechnology Discovery Fund
Franklin DynaTech Fund

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Franklin Global Communications Fund
Franklin Global Health Care Fund
Franklin Gold and Precious Metals Fund
Franklin Natural Resources Fund
Franklin Real Estate Securities Fund
Franklin Utilities Fund
Franklin Technology Fund
Mutual Financial Services Fund

ASSET ALLOCATION

Franklin Templeton Corefolio Allocation Fund
Franklin Templeton Founding Funds Allocation Fund

TARGET FUNDS

Franklin Templeton Conservative Target Fund
Franklin Templeton Growth Target Fund
Franklin Templeton Moderate Target Fund

INCOME

Franklin Adjustable U.S. Government Securities Fund 5
Franklin's AGE High Income Fund
Franklin Federal Money Fund 5,6
Franklin Floating Rate Daily Access Fund
Franklin Floating Rate Trust 3
Franklin Income Fund
Franklin Money Fund 5,6
Franklin Short-Intermediate U.S. Government Securities Fund 5
Franklin Strategic Income Fund
Franklin Strategic Mortgage Portfolio
Franklin Templeton Hard Currency Fund
Franklin Total Return Fund
Franklin U.S. Government Securities Fund 5
Templeton Global Bond Fund

TAX-FREE INCOME 7

NATIONAL FUNDS

Double Tax-Free Income Fund
Federal Tax-Free Income Fund
High Yield Tax-Free Income Fund
Insured Tax-Free Income Fund 8
Tax-Exempt Money Fund 5,6

LIMITED-TERM FUNDS

California Limited-Term Tax-Free Income Fund
Federal Limited-Term Tax-Free Income Fund
New York Limited-Term Tax-Free Income Fund

INTERMEDIATE-TERM FUNDS

California Intermediate-Term Tax-Free Income Fund
Federal Intermediate-Term Tax-Free Income Fund
New York Intermediate-Term Tax-Free Income Fund

STATE-SPECIFIC 7

Alabama
Arizona
California 9
Colorado
Connecticut
Florida 9
Georgia
Kentucky
Louisiana

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Maryland
Massachusetts 8
Michigan 8
Minnesota 8
Missouri
New Jersey
New York 9
North Carolina
Ohio 8
Oregon
Pennsylvania
Tennessee
Virginia

INSURANCE FUNDS

Franklin Templeton Variable Insurance
Products Trust 10

1. The fund is closed to new investors. Existing shareholders can continue adding to their accounts.
2. The fund is only open to existing shareholders as well as select retirement plans.
3. The fund is a continuously offered, closed-end fund. Shares may be purchased daily; there is no daily redemption. However, each quarter, pending board approval, the fund will authorize the repurchase of 5%-25% of the outstanding number of shares. Investors may tender all or a portion of their shares during the tender period.
4. Upon reaching approximately \$350 million in assets, the fund intends to close to all investors.
5. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.
6. No assurance exists that the fund's \$1.00 per share price will be maintained. It is possible to lose money by investing in the fund.
7. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.
8. Portfolio of insured municipal securities.
9. These funds are available in two or more variations, including long-term portfolios, portfolios of insured securities, a high-yield portfolio (CA) and limited-term, intermediate-term and money market portfolios (CA and NY).
10. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts.

02/04 Not part of the annual report

[LOGO OMITTED]
FRANKLIN[R] TEMPLETON[R] One Franklin Parkway
INVESTMENTS San Mateo, CA 94403-1906

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franklintempleton.com. See inside for details.

ANNUAL REPORT AND SHAREHOLDER LETTER
FRANKLIN FLOATING RATE TRUST

INVESTMENT MANAGER
Franklin Advisers, Inc.

DISTRIBUTOR
Franklin Templeton Distributors, Inc.
1-800/DIAL BEN(R)
franklintempleton.com

SHAREHOLDER SERVICES
1-800/632-2301

Authorized for distribution only when accompanied or preceded by a prospectus. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information; please read it carefully before investing.

To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular beeping tone.

020 A2004 09/04

ITEM 2. CODE OF ETHICS.

(a) The Registrant has adopted a code of ethics that applies to its principal executive officers and principal financial and accounting officer.

(c) N/A

(d) N/A

(f) Pursuant to Item 11(A), the Registrant is attaching as an exhibit a copy of its code of ethics that applies to its principal executive officers and principal financial and accounting officer.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

(a) (1) The Registrant has an audit committee financial expert serving on its audit committee.

(2) The audit committee financial expert is Frank W. T. LaHaye, and he is "independent" as defined under the relevant Securities and Exchange Commission Rules and Releases.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

(a) Audit Fees

The aggregate fees paid to the principal accountant for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements or for services that are normally provided by the

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principal accountant in connection with statutory and regulatory filings or engagements were \$83,245 for the fiscal year ended July 31, 2004 and \$51,245 for the fiscal year ended July 31, 2003.

(b) Audit-Related Fees

There were no fees paid to the principal accountant for assurance and related services rendered by the principal accountant to the registrant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported under paragraph (a) of Item 4.

The aggregate fees paid to the principal accountant for assurance and related services rendered by the principal accountant to the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant that are reasonably related to the performance of the audit of the their financial statements were \$48,134 for the fiscal year ended July 31, 2004 and \$0 for the fiscal year ended July 31, 2003. The services for which these fees were paid included attestation services.

(c) Tax Fees

There were no fees paid to the principal accountant for professional services rendered by the principal accountant to the registrant for tax compliance, tax advice and tax.

There were no fees paid to the principal accountant for professional services rendered by the principal accountant to the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant for tax compliance, tax advice and tax planning.

(d) All Other Fees

The aggregate fees paid to the principal accountant for products and services rendered by the principal accountant to the registrant not reported in paragraphs (a)-(c) of Item 4 were \$609 for the fiscal year ended July 31, 2004 and \$0 for the fiscal year ended July 31, 2003. The services for which these fees were paid included review of materials provided to the fund Board in connection with the investment management contract renewal process.

The aggregate fees paid to the principal accountant for products and services rendered by the principal accountant to the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant not reported in paragraphs (a)-(c) of Item 4 were \$99,391 for the fiscal year ended July 31, 2004 and \$12,972 for the fiscal year ended July 31, 2003. The services for which these fees were paid included review of materials provided to the fund Board in connection with the investment management contract renewal process, subscription fees and a review of an ICI transfer agent survey.

(e) (1) The registrant's audit committee is directly responsible for approving the services to be provided by the auditors, including:

- (i) pre-approval of all audit and audit related services;
- (ii) pre-approval of all non-audit related services to be provided to the Fund by the auditors;
- (iii) pre-approval of all non-audit related services to be provided to the registrant by the auditors to the registrant's investment adviser or to any entity that controls, is controlled by or is under common control with the registrant's investment adviser and that provides ongoing services to the registrant where the non-audit services relate directly to the operations or

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financial reporting of the registrant; and

(iv) establishment by the audit committee, if deemed necessary or appropriate, as an alternative to committee pre-approval of services to be provided by the auditors, as required by paragraphs (ii) and (iii) above, of policies and procedures to permit such services to be pre-approved by other means, such as through establishment of guidelines or by action of a designated member or members of the committee; provided the policies and procedures are detailed as to the particular service and the committee is informed of each service and such policies and procedures do not include delegation of audit committee responsibilities, as contemplated under the Securities Exchange Act of 1934, to management; subject, in the case of (ii) through (iv), to any waivers, exceptions or exemptions that may be available under applicable law or rules.

(e) (2) None of the services provided to the registrant described in paragraphs (b)-(d) of Item 4 were pre-approved by the audit committee pursuant to paragraph (c) (7) (i) (C) of Rule 2-01 of regulation S-X.

(f) No disclosures are required by this Item 4(f).

(g) The aggregate non-audit fees paid to the principal accountant for services rendered by the principal accountant to the registrant and the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant were \$148,134 for the fiscal year ended July 31, 2004 and \$12,972 for the fiscal year ended July 31, 2003.

(h) No disclosures are required by this Item 4(h).

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS. N/A

ITEM 6. SCHEDULE OF INVESTMENTS. N/A

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES. The Board has delegated the authority to vote proxies related to the portfolio securities held by the Fund to the Fund's manager Franklin Advisers, Inc. (Advisers) in accordance with the Proxy Voting Policies and Procedures (Policies) adopted by the manager.

The manager has delegated its administrative duties with respect to the voting of proxies to the Proxy Group within Franklin Templeton Companies, LLC (Proxy Group), an affiliate and wholly owned subsidiary of Franklin Resources, Inc. All proxies received by the Proxy Group will be voted based upon the manager's instructions and/or policies.

To assist it in analyzing proxies, the manager subscribes to Institutional Shareholder Services (ISS), an unaffiliated third party corporate governance research service that provides in-depth analyses of shareholder meeting agendas, vote recommendations, recordkeeping and vote disclosure services. In addition, the manager subscribes to Glass Lewis & Co., LLC (Glass Lewis), an unaffiliated third party analytical research firm, to receive analyses and vote recommendations on the shareholder meetings of publicly held U.S. companies. Although ISS' and/or Glass Lewis' analyses are thoroughly reviewed and considered in making a final voting decision, the manager does not consider recommendations from ISS, Glass Lewis or any other third party to be determinative of the manager's ultimate decision. The manager votes proxies solely in the interests of the Fund and its shareholders. As a matter of policy, the officers, trustees and employees of the Fund, the manager and the Proxy Group will not be influenced by outside sources whose interests conflict with the interests of the Fund and its shareholders. All conflicts are resolved in the interests of the manager's clients. In situations where the manager

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perceives a material conflict of interest, the manager may: disclose the conflict to the Fund's board of trustees; defer to the voting recommendation of the Fund's board of trustees, ISS, Glass Lewis or those of another independent third party provider of proxy services; or take such other action in good faith (in consultation with counsel) which would protect the interests of the Fund and its shareholders.

The recommendation of management on any issue is a factor which the manager considers in determining how proxies should be voted, but is not determinative of the manager's ultimate decision. As a matter of practice, the votes with respect to most issues are cast in accordance with the position of the company's management. Each issue, however, is considered on its own merits, and the manager will not support the position of the company's management in any situation where it deems that the ratification of management's position would adversely affect the investment merits of owning that company's shares.

MANAGER'S PROXY VOTING POLICIES AND PRINCIPLES

The manager has adopted general proxy voting guidelines, which are summarized below. These guidelines are not an exhaustive list of all the issues that may arise and the manager cannot anticipate all future situations. In all cases, each proxy will be considered based on the relevant facts and circumstances.

BOARD OF DIRECTORS. The manager supports an independent board of directors, and prefers that key committees such as audit, nominating, and compensation committees be comprised of independent directors. The manager will generally vote against management efforts to classify a board and will generally support proposals to declassify the board of directors. The manager may withhold votes from directors who have attended less than 75% of meetings without a valid reason. While generally in favor of separating Chairman and CEO positions, the manager will review this issue as well as proposals to restore or provide for cumulative voting on a case-by-case basis, taking into consideration factors such as the company's corporate governance guidelines or provisions and performance.

RATIFICATION OF AUDITORS. In light of several high profile accounting scandals, the manager will closely scrutinize the role and performance of auditors. On a case-by-case basis, the manager will examine proposals relating to non-audit relationships and non-audit fees. The manager will also consider, on a case-by-case basis, proposals to rotate auditors, and will vote against the ratification of auditors when there is clear and compelling evidence of accounting irregularities or negligence.

MANAGEMENT & DIRECTOR COMPENSATION. A company's equity-based compensation plan should be in alignment with its shareholders' long-term interests. The manager evaluates plans on a case-by-case basis by considering several factors to determine whether the plan is fair and reasonable, including the ISS quantitative model utilized to assess such plans and/or the Glass Lewis evaluation of the plans. The manager will generally oppose plans that have the potential to be excessively dilutive, and will almost always oppose plans that are structured to allow the repricing of underwater options, or plans that have an automatic share replenishment "evergreen" feature. The manager will generally support employee stock option plans in which the purchase price is at least 85% of fair market value, and when potential dilution is 10% or less.

Severance compensation arrangements will be reviewed on a case-by-case basis, although the manager will generally oppose "golden parachutes" that are considered to be excessive. The manager will normally support proposals that require a percentage of directors' compensation to be in the form of common stock, as it aligns their interests with those of shareholders. The manager will review on a case-by-case basis any shareholder proposals to adopt policies on expensing stock option plans.

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ANTI-TAKEOVER MECHANISMS AND RELATED ISSUES. The manager generally opposes anti-takeover measures since they tend to reduce shareholder rights. On occasion, the manager may vote with management when the research analyst has concluded that the proposal is not onerous and would not harm the Fund or its shareholders' interests. The manager generally supports proposals that require shareholder rights' plans ("poison pills") to be subject to a shareholder vote and will closely evaluate such plans on a case-by-case basis to determine whether or not they warrant support. The manager will generally vote against any proposal to issue stock that has unequal or subordinate voting rights. The manager generally opposes any supermajority voting requirements as well as the payment of "greenmail." The manager generally supports "fair price" provisions and confidential voting.

CHANGES TO CAPITAL STRUCTURE. The manager will review, on a case-by-case basis, proposals by companies to increase authorized shares and the purpose for the increase and proposals seeking preemptive rights. The manager will generally not vote in favor of dual-class capital structures to increase the number of authorized shares where that class of stock would have superior voting rights. The manager will generally vote in favor of the issuance of preferred stock in cases where the company specifies the voting, dividend, conversion and other rights of such stock and the terms of the preferred stock issuance are deemed reasonable.

MERGERS AND CORPORATE RESTRUCTURING. Mergers and acquisitions will be subject to careful review by the research analyst to determine whether each will be beneficial to shareholders. The manager will analyze various economic and strategic factors in making the final decision on a merger or acquisition. Corporate restructuring and reincorporation proposals are also subject to a thorough examination on a case-by-case basis.

SOCIAL AND CORPORATE POLICY ISSUES. The manager will generally give management discretion with regard to social, environmental and ethical issues, although the manager may vote in favor of those that are believed to have significant economic benefits or implications for the Fund and its shareholders.

GLOBAL CORPORATE GOVERNANCE. Many of the tenets discussed above are applied to proxy voting decisions for international companies. However, the manager must be more flexible in these instances and must be mindful of the varied market practices of each region.

The manager will attempt to process every proxy it receives for all domestic and foreign proxies. However, there may be situations in which the manager cannot process proxies, for example, where a meeting notice was received too late, or sell orders preclude the ability to vote. The manager may abstain from voting under certain circumstances or vote against items such as "Other Business" when the manager is not given adequate information from the company.

Shareholders may view the complete Policies on-line at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at 1-954-847-2268 or by sending a written request to: Franklin Templeton Companies, LLC, 500 East Broward Boulevard, Suite 1500, Fort Lauderdale, FL 33394, Attention: Proxy Group. Copies of the Fund's proxy voting records are available on-line at franklintempleton.com and posted on the SEC website at WWW.SEC.GOV and reflect the twelve-month period beginning July 1, 2003, and ending June 30, 2004.

ITEM 8. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS. N/A. Registrant's equity securities are not registered for sale on an exchange pursuant to Section 12 of the Exchange Act (15 U.S.C. 781).

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ITEM 9. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. There have been no changes to the procedures by which shareholders may recommend nominees to the Registrant's Board of Trustees that would require disclosure herein.

ITEM 10. CONTROLS AND PROCEDURES.

(A) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. The Registrant maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Registrant's filings under the Securities Exchange Act of 1934 and the Investment Company Act of 1940 is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission. Such information is accumulated and communicated to the Registrant's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. The Registrant's management, including the principal executive officer and the principal financial officer, recognizes that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Within 90 days prior to the filing date of this Shareholder Report on Form N-CSR, the Registrant had carried out an evaluation, under the supervision and with the participation of the Registrant's management, including the Registrant's principal executive officer and the Registrant's principal financial officer, of the effectiveness of the design and operation of the Registrant's disclosure controls and procedures. Based on such evaluation, the Registrant's principal executive officer and principal financial officer concluded that the Registrant's disclosure controls and procedures are effective.

(B) CHANGES IN INTERNAL CONTROLS. There have been no significant changes in the Registrant's internal controls or in other factors that could significantly affect the internal controls subsequent to the date of their evaluation in connection with the preparation of this Shareholder Report on Form N-CSR.

ITEM 11. EXHIBITS.

(A) Code of Ethics

(B) (1) Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Jimmy D. Gambill, Chief Executive Officer - Finance and Administration, and Galen G. Vetter, Chief Financial Officer

(B) (2) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Jimmy D. Gambill, Chief Executive Officer - Finance and Administration, and Galen G. Vetter, Chief Financial Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FRANKLIN FLOATING RATE TRUST

By /s/Jimmy D. Gambill

Chief Executive Officer - Finance and Administration

Date September 30, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

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By /s/Jimmy D. Gambill

Chief Executive Officer - Finance and Administration

Date September 30, 2004

By /s/Galen G. Vetter

Chief Financial Officer

Date September 30, 2004