

WESTERN ASSET MANAGED MUNICIPALS FUND INC.  
Form N-CSR  
July 25, 2012

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 811-6629

Western Asset Managed Municipals Fund Inc.  
(Exact name of registrant as specified in charter)

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

10018  
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

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

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

Date of fiscal year end: May 31

Date of reporting period: May 31, 2012

---

ITEM 1. REPORT TO STOCKHOLDERS.

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

---

May 31, 2012

**Annual Report**

**Western Asset Managed Municipals Fund Inc.**

**(MMU)**

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

II

Western Asset Managed Municipals Fund Inc.

**Fund objective**

The Fund seeks to maximize current income exempt from federal income tax\* as is consistent with preservation of principal.

\* Certain investors may be subject to the federal alternative minimum tax ( AMT ), and state and local taxes will apply. Capital gains, if any, are fully taxable. Please consult your personal tax or legal adviser.

**What's inside**

Letter from the chairman	II
Investment commentary	III
Fund overview	1
Fund at a glance	5
Spread duration	6
Effective duration	7
Schedule of investments	8
Statement of assets and liabilities	22
Statement of operations	23
Statements of changes in net assets	24
Financial highlights	25
Notes to financial statements	26
Report of independent registered public accounting firm	35
Additional information	36
Annual chief executive officer and principal financial officer certifications	42
Other shareholder communications regarding accounting matters	43
Important tax information	44
Dividend reinvestment plan	45

**Letter from the chairman**

**Dear Shareholder,**

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

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

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

We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA

Edgar Filing: WESTERN ASSET MANAGED MUNICIPALS FUND INC. - Form N-CSR

Chairman, President and Chief Executive Officer

June 29, 2012

**Investment commentary****Economic review**

The U.S. economy continued to grow over the twelve months ended May 31, 2012, albeit at an uneven pace. U.S. gross domestic product (GDP) growth, as reported by the U.S. Department of Commerce, was 1.3% and 1.8% in the second and third quarters of 2011, respectively. The economy then gathered further momentum late in 2011, as the Commerce Department reported that fourth quarter GDP growth was 3.0% the fastest pace since the second quarter of 2010. However, economic growth in the U.S. then moderated somewhat, as the Commerce Department reported that first quarter 2012 GDP growth was 1.9%.

Two factors constraining economic growth were the weak job market and continued troubles in the housing market. While there was some improvement during the reporting period, unemployment remained elevated. When the reporting period began, unemployment, as reported by the U.S. Department of Labor, was 9.0%. Unemployment stayed at or above 9.0% until October, when it dipped to 8.9%. Unemployment then declined during five out of the next six months and was 8.1% in April 2012, the lowest rate since January 2009. However, the unemployment rate then moved up to 8.2% in May 2012. The housing market showed some positive signs, although it still appears to be searching for a bottom. According to the National Association of Realtors (NAR), existing-home sales fluctuated throughout the period. Existing-home sales fell 1.5% on a seasonally adjusted basis in May 2012 versus the previous month. However, the NAR reported that the median existing-home price for all housing types was \$182,600 in May 2012, up 7.9% from May 2011. In addition, the inventory of unsold homes fell 0.4% in May versus the previous month.

The manufacturing sector overcame a soft patch in the summer of 2011 and continued to expand during the reporting period. Looking back, based on the Institute for Supply Management's PMI (PMI)ii, in February 2011, the manufacturing sector expanded at its fastest pace since May 2004, with a reading of 61.4 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). The PMI then generally moderated over the next several months and was 50.6 in August 2011, its lowest reading in two years. The manufacturing sector gathered momentum and ended January 2012 at 54.1, its highest reading since June 2011. The PMI then fluctuated over the last four months of the reporting period and was 53.5 in May 2012.

The Federal Reserve Board (Fed)iii took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As has been the case since December 2008, the Fed kept the federal funds rateiv at a historically low range between zero and 0.25%. In August 2011, the Fed declared its intention to keep the federal funds rate steady until mid-2013. Then, in September 2011, the Fed announced its intention to purchase \$400 billion of longer-term Treasury securities and to sell an equal amount of shorter-term Treasury securities by June 2012 (often referred to as Operation Twist). In January 2012, the Fed extended the period it expects to keep rates on hold,

IV

Western Asset Managed Municipals Fund Inc.

**Investment commentary (continued)**

saying economic conditions including low rates of resource utilization and a subdued outlook for inflation over the medium run are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014. In June, after the reporting period ended, the Fed announced that it would extend Operation Twist until the end of 2012 and that it was prepared to take further action as appropriate to promote a stronger economic recovery and sustained improvement in labor market conditions in a context of price stability.

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

Sincerely,

R. Jay Gerken, CFA

Chairman, President and  
Chief Executive Officer

June 29, 2012

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

- i Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.
- ii The Institute for Supply Management's PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.
- iii The Federal Reserve Board ( Fed ) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- iv The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.



## Fund overview

### Q. What is the Fund's investment strategy?

A. The Fund seeks to maximize current income exempt from federal income tax as is consistent with the preservation of principal. We select securities primarily by identifying undervalued sectors and individual securities, while also selecting securities that we believe will benefit from changes in market conditions.

Under normal market conditions, the Fund invests primarily in investment grade municipal bonds, but it can also invest up to 20% of its total assets in municipal bonds rated below investment grade by a nationally recognized statistical rating organization or, if unrated, determined to be of equivalent quality. The Fund may also use a variety of derivative instruments for investment purposes, as well as for hedging or risk-management purposes.

At Western Asset Management Company (Western Asset), the Fund's subadviser, we utilize a fixed-income team approach, with decisions derived from interaction among various investment management sector specialists. The sector teams are comprised of Western Asset's senior portfolio managers, research analysts and an in-house economist. Under this team approach, management of client fixed-income portfolios will reflect a consensus of interdisciplinary views within the Western Asset organization. The portfolio managers responsible for development of investment strategy, day-to-day portfolio management, oversight and coordination of the Fund are Stephen A. Walsh, Robert E. Amodeo and David T. Fare.

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

A. The spread sectors (non-Treasuries) experienced periods of volatility during the reporting period, but ultimately generated positive results. Risk aversion generally ruled the markets from June through September 2011, given mostly disappointing economic data, the European sovereign debt crisis and the Standard & Poor's rating downgrade of U.S. sovereign debt. Most spread sectors then rallied in October given hopes of progress in Europe and some better-than-expected economic data. While risk aversion returned in November given an escalation of the European sovereign debt crisis, risk appetite returned in December and generally remained robust during the next three months. This shift in investor sentiment was triggered by indications that the U.S. economy was gathering momentum and signs of progress in the European sovereign debt crisis. However, fears that the economy may be experiencing a soft patch and contagion fears from Europe led to periods of heightened risk aversion late in the period.

Both short- and long-term Treasury yields moved lower during the reporting period. When the period began, two- and ten-year Treasury yields were 0.45% and 3.05%, respectively. Treasury yields initially moved higher and two- and ten-year Treasury yields peaked at 0.50% and 3.22%, respectively, on July 1, 2011. Yields then declined during much of the next two months due to disappointing economic data, and two-year Treasuries hit their low for the reporting period of 0.16% on September 19, 2011. Yields then moved higher during much of the next six months as the economy gained some traction and rising oil prices fanned inflationary concerns. However, yields moved sharply lower in April and

Edgar Filing: WESTERN ASSET MANAGED MUNICIPALS FUND INC. - Form N-CSR

May given some moderating economic data in the U.S. and renewed fears regarding the situation in Europe. When the reporting period ended on May 31, 2012, two-year Treasury yields were 0.27% and ten-year Treasury yields were 1.59% a record low.

Western Asset Managed Municipals Fund Inc. 2012 Annual Report

**Fund overview (cont d)**

Aside from some temporary setbacks, the municipal bond market generated strong results during the reporting period. Looking back, prior to the beginning of the period in late 2010 and early 2011, the municipal market performed poorly given concerns regarding the financial health of some issuers, fears of increasing defaults and investor redemptions from municipal bond mutual funds. However, the municipal market started to rally in April 2011 and it posted positive returns during ten of the twelve months covered by this report. Supporting the municipal market were increasing tax revenues, falling new issuance, generally strong investor demand and extremely low defaults. In addition, while certain challenges remain, a number of states took actions to reduce spending and get their financial houses in order. All told, the Barclays Capital Municipal Bond Index<sup>i</sup> returned 10.40% for the twelve months ended May 31, 2012. Over the same period, the overall taxable bond market, as measured by the Barclays Capital U.S. Aggregate Index<sup>ii</sup>, returned 7.12%.

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

**A.** There were only minor changes to the Fund during the reporting period, as we were generally comfortable with its sector and yield curve<sup>iii</sup> positioning. However, while we maintained an overweight to Health Care, we reduced this exposure somewhat to capture profits given the sector's strong performance during the period. In addition, the Fund's allocation to short-term investments increased.

The Fund employed short U.S. Treasury futures on several occasions during the reporting period to manage duration<sup>iv</sup>. This strategy modestly detracted from the Fund's performance during the reporting period.

During the reporting period, we tactically utilized leverage in the Fund. We generally maintained leverage as a percentage of gross assets of approximately 29.6% during the reporting period. The use of leverage was additive for results given the positive performance of the municipal bond market over the twelve months ended May 31, 2012.

**Performance review**

For the twelve months ended May 31, 2012, Western Asset Managed Municipals Fund Inc. returned 20.38% based on its net asset value (NAV)<sup>v</sup> and 20.09% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the Barclays Capital Municipal Bond Index, returned 10.40% for the same period. The Lipper General & Insured Municipal Debt (Leveraged) Closed-End Funds Category Average<sup>vi</sup> returned 20.76% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

Certain investors may be subject to the federal alternative minimum tax, and state and local taxes will apply. Capital gains, if any, are fully taxable. Please consult your personal tax or legal adviser.

During the twelve-month period, the Fund made distributions to shareholders totaling \$0.78 per share. The performance table shows the Fund's twelve-month total return based on its NAV and market price as of May 31, 2012. **Past performance is no guarantee of future results.**

**Performance Snapshot as of May 31, 2012**

<b>Price Per Share</b>	<b>12-Month Total Return*</b>
\$13.98(NAV)	20.38%
\$13.86(Market Price)	20.09%

**All figures represent past performance and are not a guarantee of future results.**

**\* Total returns are based on changes in NAV or market price, respectively.**

**Total return assumes the reinvestment of all distributions at NAV. Prior to January 1, 2012, total return assumed the reinvestment of all distributions in additional shares in accordance with the Fund's Dividend Reinvestment Plan.**

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

**Q. What were the leading contributors to performance?**

**A.** The largest contributors to the Fund's relative performance during the reporting period were its duration and overall yield curve positioning. The Fund's duration was longer than that of the benchmark, which was beneficial as rates moved lower during the reporting period. From a yield curve perspective, the Fund maintained an overweight to the 20+ year portion of the municipal yield curve. This positively impacted performance as longer-term securities outperformed shorter-term securities.

Also benefiting the Fund's performance were its overweight exposure to lower-rated investment grade municipal bonds and its underweight to AAA-rated municipal bonds. We felt that high-quality securities were richly valued and the underweight position was rewarded given that they lagged their lower-rated counterparts during the period.

Sector positioning, overall, enhanced the Fund's results during the reporting period. In particular, overweights to the strong performing Health Care, Transportation and Industrial Revenue sectors were positive for performance. In addition, having underweights to State and Local General Obligation bonds (GOs) were rewarded as they lagged the benchmark.

**Q. What were the leading detractors from performance?**

**A.** The largest detractor from relative performance during the reporting period was the Fund's allocation to securities with maturities of five years and less given their relatively poor results.

From a sector perspective, underweights to Leasing and Power were drags on results as they both outperformed the benchmark during the reporting period.

Finally, the Fund's short U.S. Treasury futures position was a modest detractor as Treasury yields declined during the period given several flights to quality.

**Looking for additional information?**

## Edgar Filing: WESTERN ASSET MANAGED MUNICIPALS FUND INC. - Form N-CSR

The Fund is traded under the symbol `MMU` and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol `XMMUX` on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as [www.lmcef.com](http://www.lmcef.com).

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

Thank you for your investment in Western Asset Managed Municipals Fund

4

Western Asset Managed Municipals Fund Inc. 2012 Annual Report

**Fund overview (cont d)**

Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Western Asset Management Company

June 19, 2012

**RISKS:** *The Fund's investments are subject to a number of risks such as liquidity risk, interest rate risk, credit risk, leveraging risk and management risk. As interest rates rise, the price of fixed-income investments declines. Lower-rated, higher-yielding bonds are subject to greater credit risk than higher-rated investment grade securities. Municipal securities purchased by the Fund may be adversely affected by changes in the financial condition of municipal issuers and insurers, regulatory and political developments, uncertainties and public perceptions, and other factors. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses and could have a potentially large impact on Fund performance. Leverage may result in greater volatility of NAV and market price of common shares and may increase a shareholder's risk of loss.*

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. Portfolio holdings are subject to change at any time and may not be representative of the portfolio managers' current or future investments. The Fund's portfolio composition is subject to change at any time.

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

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

## Edgar Filing: WESTERN ASSET MANAGED MUNICIPALS FUND INC. - Form N-CSR

The Barclays Capital Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.

- ii The Barclays Capital U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.
- iii The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.
- iv Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.
- v Net asset value ( NAV ) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total investments) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.
- vi Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended May 31, 2012, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 84 funds in the Fund's Lipper category.



**Fund at a glance (unaudited)**

**Investment breakdown (%) as a percent of total investments**

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

Western Asset Managed Municipals Fund Inc. 2012 Annual Report

**Spread duration (unaudited)**

**Economic Exposure May 31, 2012**

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

---

BC Muni Bond	Barclays Capital Municipal Bond Index
MMU	Western Asset Managed Municipals Fund Inc.
VRDN	Variable Rate Demand Notes

**Effective duration (unaudited)**

**Interest Rate Exposure May 31, 2012**

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

---

BC Muni Bond	Barclays Capital Municipal Bond Index
MMU	Western Asset Managed Municipals Fund Inc.
VRDN	Variable Rate Demand Notes

## Western Asset Managed Municipals Fund Inc. 2012 Annual Report

**Schedule of investments**

May 31, 2012

**Western Asset Managed Municipals Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Municipal Bonds 130.5%</b>				
<i>Arizona 6.4%</i>				
Greater Arizona Development Authority, Development Authority Infrastructure Revenue, Pinal County Road Project, NATL	5.000%	8/1/19	\$ 3,705,000	\$ 4,128,778
Phoenix, AZ, Civic Improvement Corp. Airport Revenue	5.000%	7/1/40	5,000,000	5,384,800
Phoenix, AZ, Civic Improvement Corp. Airport Revenue, Senior Lien, FGIC	5.250%	7/1/22	3,000,000	3,005,040(a)
Phoenix, AZ, GO	5.000%	7/1/27	580,000	581,769
Phoenix, AZ, GO	5.000%	7/1/27	420,000	421,466(b)
Salt Verde, AZ, Financial Corp. Gas Revenue	5.000%	12/1/32	15,000,000	15,527,550
Salt Verde, AZ, Financial Corp. Gas Revenue	5.000%	12/1/37	7,040,000	7,183,123
Salt Verde, AZ, Financial Corp. Senior Gas Revenue	5.250%	12/1/28	2,000,000	2,149,080
<b>Total Arizona</b>				<b>38,381,606</b>
<i>California 17.7%</i>				
Bay Area Toll Authority, CA, Toll Bridge Revenue, San Francisco Bay Area	5.125%	4/1/39	21,700,000	24,128,664
California EFA Revenue, Pooled College, Western University of Health Sciences	5.625%	7/1/23	1,170,000	1,103,216
California Health Facilities Financing Authority Revenue, Stanford Hospital & Clinics	5.150%	11/15/40	2,000,000	2,230,140
California Housing Finance Agency Revenue, Home Mortgage	4.700%	8/1/24	3,100,000	2,982,386(a)
California Statewide CDA Revenue, Methodist Hospital Project, FHA	6.625%	8/1/29	5,885,000	7,404,742
Garden Grove, CA, Agency for Community Development, Tax Allocation, Refunding, AMBAC	5.000%	10/1/29	7,375,000	7,215,626
Imperial Irrigation District, CA, Electric Revenue	5.500%	11/1/41	2,750,000	3,098,343
Los Angeles, CA, Convention & Exhibition Center Authority, Lease Revenue	5.125%	8/15/22	7,250,000	8,015,383
Los Angeles, CA, Department of Airports Revenue, Los Angeles International Airport	5.000%	5/15/40	7,215,000	7,944,076
M-S-R Energy Authority, CA	7.000%	11/1/34	3,000,000	3,949,440
M-S-R Energy Authority, CA, Gas Revenue	6.500%	11/1/39	9,000,000	11,190,150
Modesto, CA, Irrigation District, COP, Capital Improvements	6.000%	10/1/39	6,500,000	7,098,715
Rancho Cucamonga, CA, RDA, Tax Allocation, Rancho Redevelopment Projects, NATL	5.125%	9/1/30	3,340,000	3,340,301

Edgar Filing: WESTERN ASSET MANAGED MUNICIPALS FUND INC. - Form N-CSR

Sacramento County, CA, COP, Unrefunded Balance, Public Facilities Project, NATL	5.375%	2/1/19	1,145,000	1,146,431
San Bernardino County, CA, COP, Arrowhead Project	5.125%	8/1/24	5,185,000	5,591,452

See Notes to Financial Statements.

## Western Asset Managed Municipals Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b>California continued</b>				
San Mateo County Community College District, COP, NATL	5.000%	10/1/25	\$ 3,000,000	\$ 3,321,600 (b)
Shafter Wasco Irrigation District Revenue, CA, COP	5.000%	11/1/40	5,000,000	5,328,050
<b>Total California</b>				<b>105,088,715</b>
<b>Colorado 11.7%</b>				
Colorado Health Facilities Authority Revenue:				
Catholic Health Initiatives	5.000%	9/1/41	4,000,000	4,216,520
Sisters Leavenworth	5.000%	1/1/35	6,000,000	6,469,740
Denver, CO, City & County Airport Revenue	6.125%	11/15/25	10,945,000	14,936,642 (a)(c)
Denver, CO, City & County Airport Revenue, Unrefunded Balance	6.125%	11/15/25	13,630,000	13,669,118 (a)
El Paso County, CO, COP, Detention Facility Project, AMBAC	5.000%	12/1/23	1,700,000	1,740,103 (b)
Garfield County, CO, GO:				
School District No. 2, AGM, State Aid Withholding	5.000%	12/1/23	2,300,000	2,354,257 (b)
School District No. 2, AGM, State Aid Withholding	5.000%	12/1/25	1,000,000	1,023,590 (b)
Public Authority for Colorado Energy, Natural Gas Purchase Revenue	6.500%	11/15/38	20,000,000	25,274,000
<b>Total Colorado</b>				<b>69,683,970</b>
<b>District of Columbia 2.6%</b>				
District of Columbia, Hospital Revenue, Children's Hospital Obligation, AGM	5.450%	7/15/35	14,495,000	<b>15,762,298</b>
<b>Florida 10.8%</b>				
Florida State Department of Transportation, GO, Right of Way Project, FGIC	5.000%	7/1/25	1,465,000	1,484,807
Jacksonville, FL, Electric Authority, Electric System Revenue	5.000%	10/1/28	3,305,000	3,415,189
Martin County, FL, IDA Revenue, Indiantown Cogeneration Project	7.875%	12/15/25	6,500,000	6,530,615 (a)
Miami-Dade County, FL, Aviation Revenue	5.500%	10/1/41	10,000,000	10,950,000
Miami-Dade County, FL, Aviation Revenue, Miami International Airport	5.375%	10/1/35	10,705,000	11,970,652
Miami-Dade County, FL, Expressway Authority Toll System Revenue	5.000%	7/1/40	10,000,000	10,615,700
Orange County, FL, Health Facilities Authority Revenue, Hospital-Orlando Regional Healthcare	5.000%	11/1/35	4,545,000	4,855,014
Orange County, FL, School Board, COP, AGC	5.500%	8/1/34	8,000,000	9,113,200
Orlando, FL, State Sales Tax Payments Revenue	5.000%	8/1/32	5,000,000	5,483,700
<b>Total Florida</b>				<b>64,418,877</b>
<b>Georgia 4.5%</b>				
Atlanta, GA, Water & Wastewater Revenue	6.250%	11/1/39	13,000,000	15,416,440

See Notes to Financial Statements.

10

Western Asset Managed Municipals Fund Inc. 2012 Annual Report

**Schedule of investments (cont d)**

May 31, 2012

**Western Asset Managed Municipals Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Georgia continued</b>				
DeKalb, Newton & Gwinnett Counties, GA, Joint Development Authority Revenue, GGC Foundation LLC Project	6.125%	7/1/40	\$ 6,220,000	\$ 7,134,216
Main Street Natural Gas Inc., GA, Gas Project Revenue	5.000%	3/15/22	4,000,000	4,270,720
<b>Total Georgia</b>				<b>26,821,376</b>
<b>Hawaii 1.3%</b>				
Hawaii State Airports System Revenue	5.000%	7/1/39	7,000,000	<b>7,543,690</b>
<b>Illinois 7.3%</b>				
Chicago, IL, O Hare International Airport Revenue	5.625%	1/1/35	6,415,000	7,437,487
Chicago, IL, O Hare International Airport Revenue	5.750%	1/1/39	6,000,000	6,934,440
Illinois Finance Authority Revenue:				
Advocate Health Care & Hospitals Corp. Network	6.250%	11/1/28	2,445,000	2,999,135
Depaul University	6.125%	10/1/40	5,000,000	5,746,850
Memorial Health System	5.500%	4/1/39	7,000,000	7,595,000
Metropolitan Pier & Exposition Authority, IL, Dedicated State Tax Revenue, McCormick Project	5.250%	6/15/50	12,000,000	13,029,720
<b>Total Illinois</b>				<b>43,742,632</b>
<b>Indiana 2.8%</b>				
Indiana Finance Authority, Wastewater Utility Revenue, CWA Authority	5.000%	10/1/41	5,000,000	5,562,500
Indianapolis, IN, Thermal Energy System	5.000%	10/1/25	5,000,000	5,565,700 (d)
Richmond, IN, Hospital Authority Revenue, Reid Hospital & Health Care Services Inc. Project	6.625%	1/1/39	5,000,000	5,776,750
<b>Total Indiana</b>				<b>16,904,950</b>
<b>Kentucky 1.9%</b>				
Louisville & Jefferson County, KY, Metropolitan Government Health System Revenue, Norton Healthcare Inc.	5.250%	10/1/36	11,000,000	<b>11,464,750</b>
<b>Louisiana 0.9%</b>				
St. Charles Parish, LA, Gulf Zone Opportunity Zone Revenue, Valero Refining-New Orleans LLC	4.000%	12/1/40	5,000,000	<b>5,128,500</b> (d)
<b>Maryland 1.3%</b>				
Baltimore, MD, Project Revenue:				
Refunding, Wastewater Projects, FGIC	5.125%	7/1/32	2,500,000	2,505,675



Edgar Filing: WESTERN ASSET MANAGED MUNICIPALS FUND INC. - Form N-CSR

Refunding, Wastewater Projects, FGIC		5.200%	7/1/32	2,000,000	2,004,660	
Maryland State Health & Higher EFA Revenue, Johns Hopkins Hospital Issue		5.000%	11/15/26	3,075,000	3,282,686	(b)
<b>Total Maryland</b>					<b>7,793,021</b>	

See Notes to Financial Statements.

## Western Asset Managed Municipals Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b>Massachusetts 5.2%</b>				
Massachusetts DFA Revenue, Merrimack College Issue, NATL	5.200%	7/1/32	\$ 1,125,000	\$ 1,125,180
Massachusetts State DFA Revenue:				
Boston University	5.000%	10/1/29	3,000,000	3,337,470
Boston University, AMBAC	5.000%	10/1/39	3,500,000	3,617,600
Broad Institute Inc.	5.250%	4/1/37	8,000,000	8,774,160
Massachusetts State HEFA Revenue, Suffolk University	5.750%	7/1/39	8,000,000	8,839,200
Massachusetts State Housing Finance Agency Revenue	7.000%	12/1/38	4,575,000	5,079,394
<b>Total Massachusetts</b>				<b>30,773,004</b>
<b>Michigan 2.4%</b>				
Lansing, MI, Board of Water & Light Utility System Revenue	5.000%	7/1/37	7,000,000	7,781,200
Michigan State Hospital Finance Authority Revenue, Refunding, Trinity Health Credit	5.375%	12/1/23	1,500,000	1,538,145 (b)
Royal Oak, MI, Hospital Finance Authority Revenue, William Beaumont Hospital	8.250%	9/1/39	4,000,000	5,149,640
<b>Total Michigan</b>				<b>14,468,985</b>
<b>Minnesota 0.3%</b>				
Dakota County, MN, CDA, MFH Revenue, Southfork Apartments, LIQ-FNMA	5.625%	2/1/26	1,500,000	1,500,495
<b>Missouri 2.2%</b>				
Kansas City, MO, Water Revenue	5.250%	12/1/32	1,000,000	1,138,720
Missouri State HEFA Revenue, Children's Mercy Hospital	5.625%	5/15/39	6,000,000	6,593,580
Platte County, MO, IDA Revenue, Refunding & Improvement Zona Rosa Retail Project	5.000%	12/1/32	5,000,000	5,494,650
<b>Total Missouri</b>				<b>13,226,950</b>
<b>Montana 1.4%</b>				
Montana State Board of Investment, Resource Recovery Revenue, Yellowstone Energy LP Project	7.000%	12/31/19	8,325,000	8,328,497 (a)
<b>Nebraska 0.6%</b>				
Nebraska Public Power Generation Agency Revenue, Whelan Energy Center Unit 2-A, AMBAC	5.000%	1/1/25	3,000,000	3,289,440
<b>Nevada 2.3%</b>				
Reno, NV, Hospital Revenue, Washoe Medical Centre, AGM	5.500%	6/1/33	12,750,000	13,605,653
<b>New Jersey 5.9%</b>				
New Jersey State EDA Revenue	5.000%	6/15/26	2,500,000	2,776,825
New Jersey State Higher Education Assistance Authority, Student Loan Revenue	5.625%	6/1/30	12,320,000	13,744,685

See Notes to Financial Statements.

12

Western Asset Managed Municipals Fund Inc. 2012 Annual Report

## Schedule of investments (cont d)

May 31, 2012

## Western Asset Managed Municipals Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b><i>New Jersey continued</i></b>				
New Jersey State Higher Education Assistance Authority, Student Loan Revenue, AGC	6.125%	6/1/30	\$10,000,000	\$10,949,000 <sup>(a)</sup>
New Jersey State Housing & Mortgage Finance Agency Revenue	6.375%	10/1/28	5,865,000	6,511,440
South Jersey Port Corp., New Jersey Revenue, Refunding	5.000%	1/1/26	1,350,000	1,369,413
<b><i>Total New Jersey</i></b>				<b>35,351,363</b>
<b><i>New Mexico 1.0%</i></b>				
New Mexico State Hospital Equipment Loan Council, Hospital Revenue, Presbyterian Healthcare Services	6.125%	8/1/28	5,000,000	5,940,050
<b><i>New York 12.1%</i></b>				
Liberty, NY, Development Corporation Revenue:				
Goldman Sachs Headquarters	5.250%	10/1/35	9,000,000	10,037,700
Goldman Sachs Headquarters	5.500%	10/1/37	8,985,000	10,530,240
Long Island Power Authority, NY, Electric System Revenue	6.000%	5/1/33	24,570,000	29,338,791
MTA, NY, Revenue	5.250%	11/15/40	5,000,000	5,592,200
New York City, NY, TFA, Building Aid Revenue	5.000%	1/15/32	4,000,000	4,486,600
New York Liberty Development Corp., Liberty Revenue:				
4 World Trade Center LLC Project	5.750%	11/15/51	5,000,000	5,724,800
Second Priority, Bank of America Tower	5.125%	1/15/44	1,000,000	1,095,120
New York State Dormitory Authority Revenue, Willow Towers Inc. Project, GNMA-Collateralized	5.250%	2/1/22	920,000	936,450
Port Authority of New York & New Jersey	5.000%	1/15/41	3,820,000	4,281,915
<b><i>Total New York</i></b>				<b>72,023,816</b>
<b><i>North Carolina 0.7%</i></b>				
Harnett County, NC, GO, Refunded Custody Receipts, AMBAC	5.250%	6/1/24	1,615,000	1,762,918
North Carolina Capital Facilities Finance Agency, Educational Facilities Revenue:				
Elizabeth City State University Housing Foundation LLC Project, AMBAC	5.000%	6/1/23	1,000,000	1,003,820
Elizabeth City State University Housing Foundation LLC Project, AMBAC	5.000%	6/1/33	1,250,000	1,230,837
<b><i>Total North Carolina</i></b>				<b>3,997,575</b>

Edgar Filing: WESTERN ASSET MANAGED MUNICIPALS FUND INC. - Form N-CSR

<b>North Dakota 1.0%</b>					
North Dakota State Housing Finance Agency Revenue, Housing Finance Program, Home Mortgage Finance		5.625%	1/1/39	5,785,000	<b>5,986,549</b>
<b>Ohio 2.5%</b>					
Hamilton County, OH, Hospital Facilities Revenue, Cincinnati Children's Hospital, FGIC		5.250%	5/15/23	2,000,000	2,059,500

See Notes to Financial Statements.

## Western Asset Managed Municipals Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
<b>Ohio continued</b>				
Lorain County, OH, Hospital Revenue, Catholic Healthcare Partners	5.375%	10/1/30	\$ 7,500,000	\$ 7,625,700 (b)
Ohio State Water Development Authority, Environmental Improvement Revenue, U.S. Steel Corp. Project	6.600%	5/1/29	3,000,000	3,402,270
Summit County, OH, GO:				
FGIC	5.000%	12/1/21	1,000,000	1,028,260
FGIC	5.000%	12/1/22	500,000	513,755
<b>Total Ohio</b>				<b>14,629,485</b>
<b>Oregon 0.4%</b>				
Oregon State Housing & Community Services Department, Mortgage Revenue, Single-Family Mortgage Program	5.050%	7/1/26	1,415,000	1,472,703 (a)
Umatilla County, OR, Hospital Facility Authority Revenue:				
Catholic Health Initiatives	5.000%	5/1/32	535,000	559,316
Catholic Health Initiatives	5.000%	5/1/32	465,000	506,027 (b)
<b>Total Oregon</b>				<b>2,538,046</b>
<b>Pennsylvania 2.4%</b>				
Pennsylvania State Public School Building Authority Lease Revenue, Philadelphia School District Project, AGM	5.000%	6/1/33	7,255,000	7,691,025 (e)
Pennsylvania State Turnpike Commission Revenue	5.250%	12/1/41	6,000,000	6,562,560
<b>Total Pennsylvania</b>				<b>14,253,585</b>
<b>Puerto Rico 8.0%</b>				
Puerto Rico Commonwealth Aqueduct & Sewer Authority Revenue	5.000%	7/1/33	7,000,000	7,060,410
Puerto Rico Commonwealth, GO, Public Improvement	5.000%	7/1/41	7,500,000	7,523,250
Puerto Rico Electric Power Authority Revenue	5.500%	7/1/38	5,000,000	5,334,000
Puerto Rico Sales Tax Financing Corp., Sales Tax Revenue	5.750%	8/1/37	6,000,000	6,671,100
Puerto Rico Sales Tax Financing Corp., Sales Tax Revenue	5.250%	8/1/41	5,550,000	5,924,902
Puerto Rico Sales Tax Financing Corp., Sales Tax Revenue	6.000%	8/1/42	4,000,000	4,522,520
Puerto Rico Sales Tax Financing Corp., Sales Tax Revenue	5.000%	8/1/43	10,000,000	10,424,600
<b>Total Puerto Rico</b>				<b>47,460,782</b>
<b>Rhode Island 1.0%</b>				
Rhode Island State Health & Educational Building Corp., Revenue, Hospital Financing	7.000%	5/15/39	5,000,000	5,878,350

See Notes to Financial Statements.

14

Western Asset Managed Municipals Fund Inc. 2012 Annual Report

**Schedule of investments (cont d)**

May 31, 2012

**Western Asset Managed Municipals Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>South Carolina 0.5%</b>				
South Carolina State Ports Authority Revenue	5.250%	7/1/40	\$ 2,500,000	\$ 2,744,425
<b>Tennessee 0.1%</b>				
Hardeman County, TN, Correctional Facilities Corp., Correctional Facilities Revenue	7.750%	8/1/17	705,000	706,191
<b>Texas 10.4%</b>				
Dallas-Fort Worth, TX, International Airport Facilities Improvement Corp. Revenue, American Airlines Inc., Guarantee Agreement	6.375%	5/1/35	5,000,000	2,051,350(a)(f)
Dallas-Fort Worth, TX, International Airport Revenue: Joint Improvement	5.000%	11/1/45	10,000,000	10,856,200
NATL	6.000%	11/1/23	2,065,000	2,071,401(a)
Harris County, TX, Health Facilities Development Corp., School Health Care System Revenue	5.750%	7/1/27	1,000,000	1,327,580(c)
Love Field Airport Modernization Corp, TX, Special Facilities Revenue, Southwest Airlines Co. Project	5.250%	11/1/40	15,000,000	15,694,050
North Texas Tollway Authority Revenue	5.750%	1/1/33	5,000,000	5,474,800
North Texas Tollway Authority Revenue	5.750%	1/1/40	15,000,000	16,244,550
Texas Private Activity Bond Surface Transportation Corp. Revenue, LBJ Infrastructure Group LLC	7.000%	6/30/40	7,000,000	8,340,010
<b>Total Texas</b>				<b>62,059,941</b>
<b>Virginia 0.9%</b>				
Virginia State Small Business Financing Authority Revenue: Elizabeth River Crossings OpCo LLC Project	5.250%	1/1/32	3,000,000	3,121,290(a)
Elizabeth River Crossings OpCo LLC Project	5.500%	1/1/42	2,000,000	2,094,420(a)
<b>Total Virginia</b>				<b>5,215,710</b>
<b>Total Investments before Short-Term Investments (Cost \$686,735,877)</b>				<b>776,713,277</b>
<b>Short-Term Investments 10.5%</b>				
<b>California 0.8%</b>				
ABAG Finance Authority for Nonprofit Corp., CA, Revenue, Acacia Creek at Union Project, SPA-Bank of America N.A.	0.270%	7/1/38	2,000,000	2,000,000(g)(h)
Metropolitan Water District of Southern California, SPA-Banco Bilbao Vizcaya	0.320%	7/1/35	2,600,000	2,600,000(g)(h)
<b>Total California</b>				<b>4,600,000</b>
<b>Colorado 0.3%</b>				
Denver, CO, City & County, COP, SPA-JPMorgan Chase	0.200%	12/1/29	1,700,000	1,700,000(g)(h)
<b>Florida 2.6%</b>				
Orlando & Orange County, FL, Expressway Authority Revenue, LOC-SunTrust Bank	0.230%	7/1/40	15,000,000	15,000,000(g)(h)

See Notes to Financial Statements.



**Western Asset Managed Municipals Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Florida continued</b>				
Pinellas County, FL, Health Facilities Authority Revenue, Hospital Facilities Bayfront Projects, LOC-SunTrust Bank	0.360%	7/1/34	\$ 400,000	\$ 400,000(g)(h)
<b>Total Florida</b>				<b>15,400,000</b>
<b>Illinois 0.9%</b>				
Illinois Development Finance Authority Revenue, Evanston Northwestern, SPA-JPMorgan Chase	0.200%	5/1/31	5,480,000	5,480,000(g)(h)
<b>New York 0.3%</b>				
New York City, NY, GO, AGM, SPA-Dexia Credit Local	0.350%	11/1/26	400,000	400,000(g)(h)
New York City, NY, Municipal Water Finance Authority, Water & Sewer System Revenue, Second General Resolution, SPA-Fortis Bank S.A.	0.180%	6/15/36	1,100,000	1,100,000(g)(h)
New York City, NY, TFA, New York City Recovery Project Revenue, Subordinated, LIQ-Dexia Credit Local	0.350%	11/1/22	300,000	300,000(g)(h)
<b>Total New York</b>				<b>1,800,000</b>
<b>North Carolina 4.5%</b>				
Charlotte-Mecklenburg Hospital Authority, NC, Health Care System Revenue: AGM, SPA-Dexia Credit Local	0.230%	1/15/43	12,600,000	12,600,000(g)(h)
AGM, SPA-Dexia Credit Local	0.230%	1/15/44	14,000,000	14,000,000(g)(h)
<b>Total North Carolina</b>				<b>26,600,000</b>
<b>Pennsylvania 0.1%</b>				
Geisinger Authority, PA, Health System Revenue, Geisinger Health System, SPA-PNC Bank N.A.	0.140%	8/1/28	500,000	500,000(g)(h)
<b>Tennessee 1.0%</b>				
Clarksville, TN, Public Building Authority Revenue, Pooled Financing, Tennessee Municipal Bond Fund, LOC-Bank of America N.A.	0.290%	11/1/35	6,300,000	6,300,000(g)(h)
<b>Total Short-Term Investments (Cost \$62,380,000)</b>				<b>62,380,000</b>
<b>Total Investments 141.0% (Cost \$749,115,877#)</b>				<b>839,093,277</b>
<b>Auction Rate Cumulative Preferred Stock, at Liquidation Value (42.0)%</b>				<b>(250,000,000)</b>
<b>Other Assets in Excess of Liabilities 1.0%</b>				<b>5,868,554</b>
<b>Total Net Assets 100.0%</b>				<b>\$594,961,831</b>

(a) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax ( AMT ).

(b) Pre-Refunded bonds are escrowed with U.S. government obligations and/or U.S. government agency securities and are considered by the manager to be triple-A rated even if issuer has not applied for new ratings.

Edgar Filing: WESTERN ASSET MANAGED MUNICIPALS FUND INC. - Form N-CSR

(c) Bonds are escrowed to maturity by government securities and/or U.S. government agency securities and are considered by the manager to be triple-A rated even if issuer has not applied for new ratings.

See Notes to Financial Statements.

16

Western Asset Managed Municipals Fund Inc. 2012 Annual Report

**Schedule of investments (cont d)**

May 31, 2012

**Western Asset Managed Municipals Fund Inc.**

(d) Variable rate security. Interest rate disclosed is as of the most recent information available.

(e) All or a portion of this security is held at the broker as collateral for open futures contracts.

(f) The coupon payment on these securities is currently in default as of May 31, 2012.

(g) Variable rate demand obligations have a demand feature under which the Fund can tender them back to the issuer or liquidity provider on no more than 7 days notice.

(h) Maturity date shown is the final maturity date. The security may be sold back to the issuer before final maturity.

# Aggregate cost for federal income tax purposes is \$748,265,554.

**Abbreviations used in this schedule:**

ABAG	Association of Bay Area Governments
AGC	Assured Guaranty Corporation Insured Bonds
AGM	Assured Guaranty Municipal Corporation Insured Bonds
AMBAC	American Municipal Bond Assurance Corporation Insured Bonds
CDA	Communities Development Authority
COP	Certificates of Participation
DFA	Development Finance Agency
EDA	Economic Development Authority
EFA	Educational Facilities Authority
FGIC	Financial Guaranty Insurance Company Insured Bonds
FHA	Federal Housing Administration
FNMA	Federal National Mortgage Association
GNMA	Government National Mortgage Association
GO	General Obligation
HEFA	Health & Educational Facilities Authority
IDA	Industrial Development Authority
LIQ	Liquidity Facility
LOC	Letter of Credit
MFH	Multi-Family Housing
MTA	Metropolitan Transportation Authority
NATL	National Public Finance Guarantee Corporation Insured Bonds
RDA	Redevelopment Agency
SPA	Standby Bond Purchase Agreement Insured Bonds
TFA	Transitional Finance Authority

See Notes to Financial Statements.



**Western Asset Managed Municipals Fund Inc.****Summary of Investments by Industry (unaudited)**

Transportation	22.0%
Health care	13.7
Industrial revenue	13.5
Power	9.5
Education	7.9
Special tax obligation	7.4
Leasing	4.6
Pre-refunded/escrowed to maturity	4.5
Water & sewer	4.0
Housing	2.8
Other	1.3
State general obligation	0.9
Local general obligation	0.5
Short-term investments	7.4
	<b>100.0%</b>

As a percentage of total investments. Please note that Fund holdings are as of May, 31, 2012 and are subject to change.

**Ratings Table\* (unaudited)**

Standard & Poor's/Moody's/Fitch**	
AAA/Aaa	1.8%
AA/Aa	30.4
A	48.4
BBB/Baa	8.6
BB/Ba	1.2
A-1/VMIG 1	7.4
NR	2.2
	<b>100.0%</b>

\* As a percentage of total investments.

\*\* The ratings shown are based on each portfolio security's rating as determined by Standard & Poor's, Moody's or Fitch, each a Nationally Recognized Statistical Rating Organization (NRSRO). These ratings are the opinions of the NRSRO and are not measures of quality or guarantees of performance. Securities may be rated by other NRSROs, and these ratings may be higher. In the event that a security is rated by multiple NRSROs and receives different ratings, the Fund will treat the security as being rated in the highest rating category received from a NRSRO.

See pages 18 through 21 for definitions of ratings.

See Notes to Financial Statements.

18

Western Asset Managed Municipals Fund Inc. 2012 Annual Report

## Bond ratings

The definitions of the applicable rating symbols are set forth below:

### Long-term security ratings (unaudited)

*Standard & Poor's Ratings Service (Standard & Poor's) Long-term Issue Credit Ratings* Ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standings within the major rating categories.

AAA	An obligation rated AAA has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated AA differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
BBB	An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.
BB	An obligation rated BB is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.
B	An obligation rated B is more vulnerable to nonpayment than obligations rated BB, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.
CCC	An obligation rated CCC is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.
CC	An obligation rated CC is currently highly vulnerable to nonpayment.
C	The C rating may be used to cover a situation where a bankruptcy petition has been filed or similar action has been taken, but payments on this obligation are being continued.
D	An obligation rated D is in payment default. The D rating category is used when payments on an obligation are not made on the date due, even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments of an obligation are jeopardized.

*Moody's Investors Service (Moody's) Long-term Obligation Ratings* Numerical modifiers 1, 2 and 3 may be applied to each generic rating from Aa to Caa, where 1 is the highest and 3 the lowest ranking within its generic category.

Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated A are considered upper-medium grade and are subject to low credit risk.
Baa	Obligations rated Baa are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics.
Ba	Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.
B	Obligations rated B are considered speculative and are subject to high credit risk.
Caa	Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.
Ca	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery for principal and interest.
C	Obligations rated C are the lowest rated class and are typically in default, with little prospect of recovery for principal and interest.

*Fitch Ratings Service (Fitch) Structured, Project & Public Finance Obligations* Ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standings within the major rating categories.

AAA	Obligations rated AAA by Fitch denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Obligations rated AA denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	Obligations rated A denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Obligations rated BBB indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.
BB	Obligations rated BB indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.
B	Obligations rated B indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Default is a real possibility.
CC	Default of some kind appears probable.
C	Default is imminent or inevitable, or the issuer is in standstill.
NR	Indicates that the obligation is not rated by Standard & Poor's, Moody's or Fitch.



**Short-term security ratings (unaudited)**

*Standard & Poor's Municipal Short-Term Notes Ratings*

- SP-1 A short-term obligation rated SP-1 is rated in the highest category by Standard & Poor's. Strong capacity to pay principal and interest. An issue determined to possess a very strong capacity to pay debt service is given a plus (+) designation.
- SP-2 A short-term obligation rated SP-2 is a Standard & Poor's rating indicating satisfactory capacity to pay principal and interest, with some vulnerability to adverse financial and economic changes over the term of the notes.
- SP-3 A short-term obligation rated SP-3 is a Standard & Poor's rating indicating speculative capacity to pay principal and interest.

*Standard & Poor's Short-Term Issues Credit Ratings*

- A-1 A short-term obligation rated A-1 is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
- A-2 A short-term obligation rated A-2 by Standard & Poor's is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.
- A-3 A short-term obligation rated A-3 by Standard & Poor's exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.
- B A short-term obligation rated B by Standard & Poor's is regarded as having significant speculative characteristics. Ratings of B-1, B-2 and B-3 may be assigned to indicate finer distinctions within the B category. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

*Moody's Variable Rate Demand Obligations (VRDO) Ratings*

- VMIG 1 Moody's highest rating for issues having a variable rate demand feature VRDO. This designation denotes superior credit quality. Excellent protection is afforded by the superior short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price on demand.
- VMIG 2 This designation denotes strong credit quality. Good protection is afforded by the strong short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price on demand.
- VMIG 3 This designation denotes acceptable credit quality. Adequate protection is afforded by the strong short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price on demand.
- SG This designation denotes speculative-grade credit quality. Demand features rated in this category may be supported by a liquidity provider that does not have an investment grade short term rating or may lack the structural and/or legal protections necessary to ensure the timely payment of purchase price upon demand.

*Moody's Short-Term Municipal Obligations Ratings*

MIG 1	Moody's highest rating for short-term municipal obligations. This designation denotes superior credit quality. Excellent protection is afforded by established cash flows, highly reliable liquidity support, or demonstrated broad-based access to the market for refinancing.
MIG 2	This designation denotes strong credit quality. Margins of protection are ample, although not as large as the preceding group.
MIG 3	This designation denotes acceptable credit quality. Liquidity and cash flow protection may be narrow, and market access for refinancing is likely to be less well-established.
SG	This designation denotes speculative-grade credit quality. Debt instruments in this category may lack sufficient margins of protection.

*Moody's Short-Term Obligations Ratings*

P-1	Moody's highest rating for commercial paper and for VRDO prior to the advent of the VMIG 1 rating. Have a superior ability to repay short-term debt obligations.
P-2	Have a strong ability to repay short-term debt obligations.
P-3	Have an acceptable ability to repay short-term debt obligations.
NP	Issuers do not fall within any of the Prime rating categories.

*Fitch's Short-Term Issuer or Obligations Ratings*

F1	Fitch's highest rating indicating the strongest intrinsic capacity for timely payment of financial commitments; may have an added + to denote any exceptionally strong credit feature.
F2	Fitch rating indicating good intrinsic capacity for timely payment of financial commitments.
F3	Fitch rating indicating intrinsic capacity for timely payment of financial commitments is adequate.
B	Fitch rating indicating minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term changes in financial and economic conditions.
C	Fitch rating indicating default is a real possibility.
NR	Indicates that the obligation is not rated by Standard & Poor's, Moody's or Fitch.

## Western Asset Managed Municipals Fund Inc. 2012 Annual Report

**Statement of assets and liabilities**

May 31, 2012

<b>Assets:</b>		
Investments, at value (Cost \$749,115,877)		\$839,093,277
Cash		35,412
Interest receivable		10,454,484
Receivable for securities sold		1,000,000
Prepaid expenses		50,671
<b>Total Assets</b>		<b>850,633,844</b>
<b>Liabilities:</b>		
Payable for securities purchased		5,000,000
Investment management fee payable		393,084
Payable to broker variation margin on open futures contracts		151,875
Distributions payable to Auction Rate Cumulative Preferred Stockholders		7,388
Accrued expenses		119,666
<b>Total Liabilities</b>		<b>5,672,013</b>
Series M, T, W, Th and F Auction Rate Cumulative Preferred Stock (2,000 shares for each series authorized and issued at \$25,000 for each share) (Note 5)		250,000,000
<b>Total Net Assets</b>		<b>\$594,961,831</b>
<b>Net Assets:</b>		
Par value (\$0.001 par value, 42,562,180 common shares issued and outstanding; 500,000,000 common shares authorized)		\$ 42,562
Paid-in capital in excess of par value		516,073,143
Undistributed net investment income		17,286,230
Accumulated net realized loss on investments and futures contracts		(25,858,423)
Net unrealized appreciation on investments and futures contracts		87,418,319
<b>Total Net Assets</b>		<b>\$594,961,831</b>
Shares Outstanding		42,562,180
Net Asset Value		\$13.98

See Notes to Financial Statements.

**Statement of operations**

For the Year Ended May 31, 2012

<b>Investment Income:</b>	
<i>Interest</i>	<b>\$ 41,034,020</b>
<b>Expenses:</b>	
Investment management fee (Note 2)	4,444,363
Auction participation fees (Note 5)	125,000
Directors' fees	87,878
Transfer agent fees	78,425
Audit and tax	65,800
Fund accounting fees	54,591
Legal fees	53,311
Shareholder reports	35,807
Auction agent fees	29,301
Stock exchange listing fees	27,907
Rating agency fees	14,111
Insurance	10,753
Custody fees	9,700
Miscellaneous expenses	9,517
<b>Total Expenses</b>	<b>5,046,464</b>
<b>Net Investment Income</b>	<b>35,987,556</b>
<b>Realized and Unrealized Gain (Loss) on Investments and Futures Contracts (Notes 1, 3 and 4):</b>	
Net Realized Gain From:	
Investment transactions	5,206,195
Futures contracts	1,535,095
<b>Net Realized Gain</b>	<b>6,741,290</b>
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	63,447,668
Futures contracts	(2,559,081)
<b>Change in Net Unrealized Appreciation (Depreciation)</b>	<b>60,888,587</b>
<b>Net Gain on Investments and Futures Contracts</b>	<b>67,629,877</b>
<b>Distributions Paid to Auction Rate Cumulative Preferred Stockholders from Net Investment Income (Note 1)</b>	<b>(576,203)</b>
<b>Increase in Net Assets from Operations</b>	<b>\$ 103,041,230</b>

See Notes to Financial Statements.

## Western Asset Managed Municipals Fund Inc. 2012 Annual Report

**Statements of changes in net assets**

<b>For the Years Ended May 31,</b>	<b>2012</b>	<b>2011</b>
<b>Operations:</b>		
Net investment income	\$ 35,987,556	\$ 36,824,567
Net realized gain (loss)	6,741,290	(798,453)
Change in net unrealized appreciation (depreciation)	60,888,587	(23,123,480)
Distributions paid to auction rate cumulative preferred stockholders from net investment income	(576,203)	(1,028,923)
<b><i>Increase in Net Assets From Operations</i></b>	<b><i>103,041,230</i></b>	<b><i>11,873,711</i></b>
<b>Distributions to Common Stock Shareholders From (Note 1):</b>		
Net investment income	(33,087,041)	(32,997,649)
<b><i>Decrease in Net Assets From Distributions to Common Stock Shareholders</i></b>	<b><i>(33,087,041)</i></b>	<b><i>(32,997,649)</i></b>
<b>Fund Share Transactions:</b>		
Reinvestment of distributions (217,081 and 341,060 shares issued, respectively)	2,848,085	4,101,534
<b><i>Increase in Net Assets From Fund Share Transactions</i></b>	<b><i>2,848,085</i></b>	<b><i>4,101,534</i></b>
<b><i>Increase (Decrease) in Net Assets</i></b>	<b><i>72,802,274</i></b>	<b><i>(17,022,404)</i></b>
<b>Net Assets:</b>		
Beginning of year	522,159,557	539,181,961
<b>End of year*</b>	<b>\$594,961,831</b>	<b>\$522,159,557</b>
* Includes undistributed net investment income of:	\$17,286,230	\$15,183,580

See Notes to Financial Statements.

**Financial highlights**

For a share of capital stock outstanding throughout each year ended May 31:

	2012	2011	2010	2009	2008
<b>Net asset value, beginning of year</b>	\$12.33	\$12.84	\$11.80	\$12.07	\$12.04
<b>Income (loss) from operations:</b>					
Net investment income	0.84	0.87	0.88	0.83	0.78
Net realized and unrealized gain (loss)	1.60	(0.58)	0.91	(0.41)	0.01
Distributions paid to auction rate cumulative preferred stockholders from net investment income	(0.01)	(0.02)	(0.03)	(0.13)	(0.22)
<b>Total income from operations</b>	<b>2.43</b>	<b>0.27</b>	<b>1.76</b>	<b>0.29</b>	<b>0.57</b>
<b>Distributions paid to common stock shareholders from:</b>					
Net investment income	(0.78)	(0.78)	(0.72)	(0.56)	(0.54)
<b>Net asset value, end of year</b>	\$13.98	\$12.33	\$12.84	\$11.80	\$12.07
<b>Market price, end of year</b>	\$13.86	\$12.26	\$12.90	\$11.10	\$11.13
<b>Total return, based on NAV<sup>1,2</sup></b>	<b>20.38%</b>	<b>2.47%</b>	<b>15.44%</b>	<b>3.19%</b>	<b>5.30%</b>
<b>Total return, based on Market Price<sup>3</sup></b>	<b>20.09%</b>	<b>1.42%</b>	<b>23.29%</b>	<b>5.27%</b>	<b>4.57%</b>
<b>Net assets, end of year (000s)</b>	\$594,962	\$522,160	\$539,182	\$494,582	\$505,751
<b>Ratios to Average Net Assets<sup>4</sup>:</b>					
Gross expenses	0.90%	0.95%	0.97%	1.16%	1.09%
Net expenses <sup>5</sup>	0.90	0.95	0.97	1.16	1.09
Net investment income	6.45	7.09	7.06	7.59	6.47
<b>Portfolio turnover rate</b>	12%	23%	28%	49%	40%
<b>Auction Rate Preferred Stock:</b>					
Total Amount Outstanding (000s)	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
Asset Coverage Per Share	84,496	77,216	78,918	74,458	75,575
Involuntary Liquidating Preference Per Share <sup>6</sup>	25,000	25,000	25,000	25,000	25,000

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

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

Edgar Filing: WESTERN ASSET MANAGED MUNICIPALS FUND INC. - Form N-CSR

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

4 Calculated on the basis of average net assets of common stock shareholders. Ratios do not reflect the effect of dividend payments to preferred stockholders.

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

6 Excludes accumulated and unpaid distributions.

See Notes to Financial Statements.

## Notes to financial statements

### 1. Organization and significant accounting policies

Western Asset Managed Municipals Fund Inc. (the Fund) was incorporated in Maryland and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund seeks to maximize current income exempt from federal income tax as is consistent with preservation of principal.

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

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

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North American Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the



effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

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

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

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

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

- Level 1 quoted prices in active markets for identical investments
  
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
  
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

28

Western Asset Managed Municipals Fund Inc. 2012 Annual Report

**Notes to financial statements (cont d)**

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

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

Description	ASSETS			Total
	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Municipal bonds		\$776,713,277		\$776,713,277
Short-term investments		62,380,000		62,380,000
<b>Total investments</b>		<b>\$839,093,277</b>		<b>\$839,093,277</b>

Description	LIABILITIES			Total
	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Other financial instruments:				
Futures contracts	\$2,559,081			\$2,559,081

See Schedule of Investments for additional detailed categorizations.

**(b) Futures contracts.** The Fund uses futures contracts generally to gain exposure to, or hedge against, changes in interest rates or gain exposure to, or hedge against, changes in certain asset classes. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. The daily changes in contract value are recorded as unrealized gains or losses in the Statement of Operations and the Fund recognizes a realized gain or loss when the contract is closed.

Futures contracts involve, to varying degrees, risk of loss in excess of the amounts reflected in the financial statements. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

**(c) Security transactions and investment income.** Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults or a credit event occurs that impacts the issuer, the Fund may halt any additional interest income accruals

and consider the realizability of interest accrued up to the date of default or credit event.

**(d) Distributions to shareholders.** Distributions from net investment income of the Fund, if any, are declared quarterly and paid on a monthly basis. The Fund intends to satisfy conditions that will enable interest from municipal securities, which is exempt from federal and certain state income taxes, to retain such tax-exempt status when distributed to the shareholders of the Fund. Distributions of net realized gains, if any, are taxable and are declared at least annually. Distributions to shareholders of the Fund are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

In addition, the holders of the Auction Rate Cumulative Preferred Stock ( ARCP ) shall be entitled to receive dividends in accordance with an auction that will normally be held weekly and out of the funds legally available to shareholders.

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

**(f) Net asset value.** The net asset value ( NAV ) of the Fund's common stock is determined no less frequently than the close of business on the Fund's last business day of each week (generally Friday) and on the last business day of the month. It is determined by dividing the value of the net assets available to common stock by the total number of shares of common stock outstanding. For the purpose of determining the NAV per share of the common stock, the value of the Fund's net assets shall be deemed to equal the value of the Fund's assets less (1) the Fund's liabilities, and (2) the aggregate liquidation value (i.e., \$25,000 per outstanding share) of the ARCP.

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

Management has analyzed the Fund's tax positions taken on income tax returns for all open tax years and has concluded that as of May 31, 2012, no provision for income tax is required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by Internal Revenue Service and state departments of revenue.

**(h) Reclassification.** GAAP requires that certain components of net assets be reclassified to reflect permanent differences between financial and tax

30

Western Asset Managed Municipals Fund Inc. 2012 Annual Report

**Notes to financial statements (cont d)**

reporting. These reclassifications have no effect on net assets or net asset values per share. During the current year, the following reclassifications have been made:

	<b>Undistributed Net Investment Income</b>	<b>Accumulated Net Realized Loss</b>
(a)	\$(221,662)	\$221,662

(a) Reclassifications are primarily due to differences between book and tax accretion of market discount on fixed income securities.

**2. Investment management agreement and other transactions with affiliates**

Legg Mason Partners Fund Advisor, LLC ( LMPFA ) is the Fund's investment manager and Western Asset Management Company ( Western Asset ) is the Fund's subadviser. LMPFA and Western Asset are wholly-owned subsidiaries of Legg Mason, Inc. ( Legg Mason ).

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.55% of the Fund's average daily net assets plus the aggregate liquidation value of the Fund's preferred stock.

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

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

**3. Investments**

During the year ended May 31, 2012, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

Edgar Filing: WESTERN ASSET MANAGED MUNICIPALS FUND INC. - Form N-CSR

Purchases	\$ 90,473,886
Sales	128,731,779

At May 31, 2012, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	\$93,553,855
Gross unrealized depreciation	(2,726,132)
<b>Net unrealized appreciation</b>	<b>\$90,827,723</b>

At May 31, 2012, the Fund had the following open futures contracts:

	<b>Number of Contracts</b>	<b>Expiration Date</b>	<b>Basis Value</b>	<b>Market Value</b>	<b>Unrealized Loss</b>
<b>Contracts to Sell:</b>					
U.S. Treasury 30-Year Bonds	243	6/12	\$33,959,263	\$36,518,344	\$(2,559,081)

**4. Derivative instruments and hedging activities**

Financial Accounting Standards Board Codification Topic 815 requires enhanced disclosure about an entity's derivative and hedging activities.

Below is a table, grouped by derivative type, that provides information about the fair value and the location of derivatives within the Statement of Assets and Liabilities at May 31, 2012.

**LIABILITY DERIVATIVES<sup>1</sup>**

	<b>Interest Rate Risk</b>
Futures contracts <sup>2</sup>	\$2,559,081

<sup>1</sup> Generally, the balance sheet location for asset derivatives is receivables/net unrealized appreciation (depreciation) and for liability derivatives is payables/net unrealized appreciation (depreciation).

<sup>2</sup> Includes cumulative appreciation (depreciation) of futures contracts as reported in the footnotes. Only variation margin is reported within the receivables and/or payables of the Statement of Assets and Liabilities.

The following tables provide information about the effect of derivatives and hedging activities on the Fund's Statement of Operations for the year ended May 31, 2012. The first table provides additional detail about the amounts and sources of gains (losses) realized on derivatives during the period. The second table provides additional information about the change in unrealized appreciation (depreciation) resulting from the Fund's derivatives and hedging activities during the period.

**AMOUNT OF REALIZED GAIN (LOSS) ON DERIVATIVES RECOGNIZED**

	<b>Interest Rate Risk</b>
Futures contracts	\$1,535,095

**CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) ON DERIVATIVES RECOGNIZED**

	<b>Interest Rate Risk</b>
Futures contracts	\$(2,559,081)

During the year ended May 31, 2012, the volume of derivative activity for the Fund was as follows:

	<b>Average Market Value</b>
Futures contracts (to sell)	\$18,671,233

**5. Auction rate cumulative preferred stock**

As of May 31, 2012, the Fund had 2,000 outstanding shares of each of ARCPS Series M, Series T, Series W, Series Th and Series F. The ARCPS dividends are cumulative at a rate determined at an auction and the dividend period is typically seven days. The dividend rate cannot exceed a certain maximum rate, including in the event of a failed auction, unless the Board of Directors of the Fund authorizes an increased maximum rate. Due to failed auctions experienced by the Fund's ARCPS starting February 14, 2008,



Western Asset Managed Municipals Fund Inc. 2012 Annual Report

**Notes to financial statements (cont d)**

the Fund paid the applicable maximum rate, which was calculated as 110% of the prevailing 30-day AA Financial Composite Commercial Paper Rate. The Fund may pay higher maximum rates if the rating of the Fund's ARCPS were to be lowered by the rating agencies.

The dividend rates ranged from 0.107% to 0.396% during the year ended May 31, 2012. At May 31, 2012, the dividend rates in effect were as follows:

	<b>Series M</b>	<b>Series T</b>	<b>Series W</b>	<b>Series Th</b>	<b>Series F</b>
Dividend Rates	0.320%	0.289%	0.289%	0.320%	0.320%

The ARCPS are redeemable under certain conditions by the Fund, or subject to mandatory redemption (if the Fund is in default of certain coverage requirements) at a redemption price equal to the liquidation preference, which is the sum of \$25,000 per share plus accumulated and unpaid dividends.

The Fund is required to maintain certain asset coverages with respect to the ARCPS. If the Fund fails to maintain these coverages and does not cure any such failure within the required time period, the Fund is required to redeem a requisite number of the ARCPS in order to meet the applicable requirement. Additionally, failure to meet the foregoing asset requirements would restrict the Fund's ability to pay dividends to common stock shareholders.

Citigroup Global Markets Inc. (CGM) currently acts as the broker/dealer in connection with the auction of ARCPS. After each auction, the auction agent will pay to the participating broker/dealer, from monies the Fund provides, a participation fee at an annual rate of 0.25% of the purchase price of the ARCPS that the broker/dealer places at the auction. However, effective August 3, 2009, CGM reduced its participation fee to an annual rate of 0.05% of the purchase price of the ARCPS, in the case of a failed auction. For the year ended May 31, 2012, the Fund incurred auction participation fees of \$125,000 for CGM's services as the participating broker/dealer.

**6. Distributions subsequent to May 31, 2012**

On May 10, 2012, the Fund's Board of Directors declared three distributions, each in the amount of \$0.065 per share, payable on June 29, 2012, July 27, 2012 and August 31, 2012 to common stock shareholders of record on June 22, 2012, July 20, 2012, and August 24, 2012, respectively.

## Western Asset Managed Municipals Fund Inc. 2012 Annual Report

**7. Income tax information and distributions to shareholders**

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

	2012	2011
<b>Distributions Paid From:</b>		
<b>Tax-Exempt Income:</b>		
Common Stock Shareholders	\$32,942,924	\$32,884,136
Auction Rate Cumulative Preferred Stockholders	572,008	1,025,882
<b>Total Tax-Exempt Distributions</b>	<b>\$33,514,932</b>	<b>\$33,910,018</b>
<b>Taxable Income:</b>		
Common Stock Shareholders	\$ 144,117	\$ 113,513
Auction Rate Cumulative Preferred Stockholders	4,195	3,041
<b>Total Taxable Distributions</b>	<b>\$ 148,312</b>	<b>\$ 116,554</b>
<b>Total Distributions Paid</b>	<b>\$33,663,244</b>	<b>\$34,026,572</b>

As of May 31, 2012, the components of accumulated earnings on a tax basis were as follows:

Undistributed tax-exempt income net	\$ 17,373,855
Capital loss carryforward*	(28,916,304)
Other book/tax temporary differences(a)	2,119,933
Unrealized appreciation (depreciation)(b)	88,268,642
<b>Total accumulated earnings (losses) net</b>	<b>\$ 78,846,126</b>

\* During the taxable year ended May 31, 2012, the Fund utilized \$ 4,549,841 of its capital loss carryover available from prior years. As of May 31, 2012, the Fund had the following net capital loss carryforwards remaining:

<b>Year of Expiration</b>	<b>Amount</b>
5/31/2013	\$(21,182,117)
5/31/2018	(3,349,357)
5/31/2019	(4,384,830)
	\$(28,916,304)

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

- (a) Other book/tax temporary differences are attributable primarily to the realization for tax purposes of unrealized losses on certain futures contracts, the deferral of post-October capital losses for tax purposes and book/tax differences in the timing of the deductibility of various expenses.
- (b) The difference between book-basis and tax-basis unrealized appreciation (depreciation) is attributable primarily to the difference between book and tax accretion methods for market discount on fixed income securities.

**8. Recent accounting pronouncement**

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ( ASU No. 2011-04 ). ASU No. 2011-04 establishes common requirements for measuring fair value and for disclosing information about fair value measurements. ASU No. 2011-04 is effective during interim and annual periods beginning after December 15, 2011. Management has evaluated ASU No. 2011-04 and concluded that it does not materially impact the financial statement amounts; however, as required, additional disclosure has been included about fair value measurement.

**Notes to financial statements (cont'd)**

**9. Subsequent event**

On July 12, 2012, Moody's Investors Service lowered ratings of securities issued by closed end funds investing in nationally diversified municipal bonds. The Fund's Auction Rate Cumulative Preferred Stock ( ARCPS ) ratings were lowered by Moody's from Aaa to Aa1. Management has concluded that the change in the Fund's ARCPS ratings does not materially impact the financial statements and will not cause the Fund to increase its dividend rates on the ARCPS.

**Report of independent registered public accounting firm**

**The Board of Directors and Shareholders  
Western Asset Managed Municipals Fund Inc.:**

We have audited the accompanying statement of assets and liabilities of Western Asset Managed Municipals Fund Inc., including the schedule of investments, as of May 31, 2012, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of May 31, 2012, by correspondence with the custodian and brokers or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Western Asset Managed Municipals Fund Inc. as of May 31, 2012, the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

New York, New York  
July 20, 2012

36

Western Asset Managed Municipals Fund Inc.

**Additional information (unaudited)****Information about Directors and Officers**

The business and affairs of Western Asset Managed Municipals Fund Inc. (the Fund) are conducted by management under the supervision and subject to the direction of its Board of Directors. The business address of each Director is c/o R. Jay Gerken, 620 Eighth Avenue, 49th Floor, New York, New York 10018. Information pertaining to the Directors and officers of the Fund is set forth below.

**Independent Directors :****Carol L. Colman**

Year of birth	1946
Position(s) held with Fund <sup>1</sup>	Director and Member of the Nominating and Audit Committees, Class I
Term of office <sup>1</sup> and length of time served	Since 2006
Principal occupation(s) during past five years	President, Colman Consulting Company (consulting)
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director	None

**Daniel P. Cronin**

Year of birth	1946
Position(s) held with Fund <sup>1</sup>	Director and Member of the Nominating and Audit Committees, Class II
Term of office <sup>1</sup> and length of time served	Since 2006
Principal occupation(s) during past five years	Retired; formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director	None

**Paolo M. Cucchi**

Year of birth	1941
Position(s) held with Fund <sup>1</sup>	Director and Member of the Nominating and Audit Committees, Class I
Term of office <sup>1</sup> and length of time served	Since 2001
Principal occupation(s) during past five years	Professor of French and Italian at Drew University; formerly, Vice President and Dean of College of Liberal Arts at Drew University (1984 to 2009)
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director	None

**Independent Directors cont d**

**Leslie H. Gelb**

Year of birth	1937
Position(s) held with Fund <sup>1</sup>	Director and Member of the Nominating and Audit Committees, Class III
Term of office <sup>1</sup> and length of time served	Since 2006
Principal occupation(s) during past five years	President Emeritus and Senior Board Fellow (since 2003), The Council on Foreign Relations; formerly, President, (prior to 2003), the Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director	Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited India Fund, Inc. and Asia Tigers Fund, Inc. (since 1994)

**William R. Hutchinson**

Year of birth	1942
Position(s) held with Fund <sup>1</sup>	Director and Member of the Nominating and Audit Committees, Class III
Term of office <sup>1</sup> and length of time served	Since 1995
Principal occupation(s) during past five years	President, W.R. Hutchinson & Associates Inc. (Consulting) (since 2001)
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director	Director (Non-Executive Chairman of the Board (since December 1, 2009)), Associated Banc Corp. (banking) (since 1994)

**Riordan Roett**

Year of birth	1938
Position(s) held with Fund <sup>1</sup>	Director and Member of the Nominating and Audit Committees, Class III
Term of office <sup>1</sup> and length of time served	Since 2007
Principal occupation(s) during past five years	The Sarita and Don Johnston Professor of Political Science and Director of Western Hemisphere Studies, Paul H. Nitze School of Advanced International Studies, The John Hopkins University (since 1973)
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director	None

38

Western Asset Managed Municipals Fund Inc.

**Additional information (unaudited) (cont d)**

**Information about Directors and Officers**

**Independent Directors cont d**

**Jeswald W. Salacuse**

Year of birth	1938
Position(s) held with Fund <sup>1</sup>	Director and Member of the Nominating and Audit Committees, Class II
Term of office <sup>1</sup> and length of time served	Since 2007
Principal occupation(s) during past five years	Henry J. Braker Professor of Commercial Law, The Fletcher School of Law and Diplomacy, Tufts University (since 1986); President and Member, Arbitration Tribunal, World Bank/ICSID (since 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	27
Other board memberships held by Director	Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited India Fund, Inc. and Asia Tigers Fund, Inc. (since 1993)

**Interested Director and Officer:**

**R. Jay Gerken<sup>2</sup>**

Year of birth	1951
Position(s) held with Fund <sup>1</sup>	Director, Chairman, President and Chief Executive Officer, Class I
Term of office <sup>1</sup> and length of time served	Since 2002
Principal occupation(s) during past five years	Managing Director of Legg Mason & Co., LLC ( Legg Mason & Co. ) (since 2005); Officer and Trustee/Director of 160 funds associated with Legg Mason Partners Fund Advisor, LLC ( LMPFA ) or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); President and Chief Executive Officer ( CEO ) of LMPFA (since 2006); President and CEO of Smith Barney Fund Management LLC ( SBFM ) (formerly a registered investment adviser)
Number of portfolios in fund complex overseen by Director (including the Fund)	160
Other board memberships held by Director	None



**Additional Officers:**

**Ted P. Becker**

**Legg Mason**

**620 Eighth Avenue, New York, NY 10018**

Year of birth

Position(s) held with Fund1

Term of office1 and length of time served

Principal occupation(s) during past five years

1951

Chief Compliance Officer

Since 2006

Director of Global Compliance at Legg Mason (since 2006); Chief Compliance Officer of LMPFA (since 2006); Managing Director of Compliance of Legg Mason & Co. (since 2005); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

**Vanessa A. Williams**

**Legg Mason**

**100 First Stamford Place, Stamford, CT 06902**

Year of birth

Position(s) with Fund1

Term of office1 and length of time served

Principal occupation(s) during past five years

1979

Identity Theft Prevention Officer

Since 2011

Identity Theft Prevention Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); Chief Anti-Money Laundering Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); formerly, Assistant Vice President and Senior Compliance Officer of Legg Mason & Co. (2008 to 2011); formerly, Compliance Analyst of Legg Mason & Co. or its predecessors (2004 to 2008)

**Robert I. Frenkel**

**Legg Mason**

**100 First Stamford Place, Stamford, CT 06902**

Year of birth

Position(s) held with Fund1

Term of office1 and length of time served

Principal occupation(s) during past five years

1954

Secretary and Chief Legal Officer

Since 2003

Vice President and Deputy General Counsel of Legg Mason (since 2006); Managing Director and General Counsel of Global Mutual Funds for Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

40

Western Asset Managed Municipals Fund Inc.

**Additional information (unaudited) (continued)**

**Information about Directors and Officers**

**Officers continued**

**Thomas C. Mandia**

**Legg Mason**

**100 First Stamford Place, Stamford, CT 06902**

Year of birth

Position(s) held with Fund1

Term of office1 and length of time served

Principal occupation(s) during past five years

1962

Assistant Secretary

Since 2006

Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); Secretary of LMPFA (since 2006); Assistant Secretary of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); Secretary of SBFM and CFM (since 2002)

**Richard F. Sennett**

**Legg Mason**

**100 International Drive, Baltimore, MD 21202**

Year of birth

Position(s) held with Fund1

Term of office1 and length of time served

Principal occupation(s) during past five years

1970

Principal Financial Officer

Since 2011

Principal Financial Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); Managing Director of Legg Mason & Co. and Senior Manager of the Treasury Policy group for Legg Mason & Co.'s Global Fiduciary Platform (since 2011); formerly, Chief Accountant within the SEC's Division of Investment Management (2007 to 2011); formerly, Assistant Chief Accountant within the SEC's Division of Investment Management (2002 to 2007)

**Steven Frank**

**Legg Mason**

**55 Water Street, New York, NY 10041**

Year of birth

Position(s) held with Fund1

Term of office1 and length of time served

Principal occupation(s) during past five years

1967

Treasurer

Since 2010

Vice President of Legg Mason & Co. and Legg Mason & Co. predecessors (since 2008); Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2010); formerly, Controller of certain mutual funds associated with Legg Mason & Co. or its affiliates (prior to 2010); formerly, Assistant Controller of certain mutual funds associated with Legg Mason & Co. predecessors (prior to 2005)

**Officers cont d**

**Jeanne M. Kelly**

**Legg Mason**

**620 Eighth Avenue, New York, NY 10018**

Year of birth

1951

Position(s) with Fund<sup>1</sup>

Senior Vice President

Term of office<sup>1</sup> and length of time served

Since 2007

Principal occupation(s) during past five years

Senior Vice President of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2007); Senior Vice President of LMPFA (since 2006); Managing Director of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005)

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

- 1 The Fund's Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of the Class I, II and III Directors expire at the Annual Meetings of Stockholders in the year 2012, year 2013 and year 2014, respectively, or thereafter in each case when their respective successors are duly elected and qualified. The Fund's executive officers are chosen each year at the first meeting of the Fund's Board of Directors following the Annual Meeting of Stockholders, to hold office until the meeting of the Board following the next Annual Meeting of Stockholders and until their successors are duly elected and qualified.
- 2 Mr. Gerken is an interested person of the Fund as defined in the 1940 Act because Mr. Gerken is an officer of LMPFA and certain of its affiliates.

42

Western Asset Managed Municipals Fund Inc.

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

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

**Other shareholder communications regarding accounting matters (unaudited)**

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

The CCO may be contacted at:  
Legg Mason & Co., LLC  
Compliance Department  
620 Eighth Avenue, 49th Floor  
New York, New York 10018

Complaints may also be submitted by telephone at 1-800-742-5274.

Complaints submitted through this number will be received by the CCO.

44

Western Asset Managed Municipals Fund Inc.

**Important tax information (unaudited)**

The following information is provided with respect to the distributions paid to Common Stock Shareholders during the taxable year ended May 31, 2012:

Distributions Paid	June 2011 - November 2011	December 2011	January 2012 - May 2012
Tax-exempt interest	100.00%	94.77%	100.00%
Taxable ordinary income		5.23%*	

Additionally, all distributions paid to auction rate cumulative preferred stockholders during the taxable year ended May 31, 2012 except for the taxable portion noted in the table below qualify as tax-exempt interest dividends for Federal income tax purposes.

Series:	Record Date	Payable Date	Tax-Exempt Portion	Taxable Portion
Series M	12/19/2011	12/20/2011	64.71%	35.29%*
Series T	12/20/2011	12/21/2011	63.87%	36.13%*
Series W	12/21/2011	12/22/2011	61.47%	38.53%*
Series H	12/22/2011	12/23/2011	61.47%	38.53%*
Series F	12/23/2011	12/27/2011	66.93%	33.07%*

The following information is applicable to non-U.S. resident shareholders:

\* Additionally, all of the taxable ordinary income distributions paid by the Fund represent Qualified Net Interest Income and Qualified Short-Term Gain eligible for exemption from U.S. withholding tax for nonresident aliens and foreign corporations.

Please retain this information for your records.

**Dividend reinvestment plan (unaudited)**

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

The number of shares of common stock distributed to participants in the Plan in lieu of a cash dividend is determined in the following manner. When the market price of the common stock is equal to or exceeds 98% of the net asset value per share of the common stock on the determination date (generally, the record date for the distribution), Plan participants will be issued shares of common stock by the Fund at a price equal to the greater of 98% of net asset value or 95% of the market price of the common stock.

If the market price of the common stock is less than 98% of the net asset value of the common stock at the time of valuation (which is the close of business on the determination date), AST will buy common stock in the open market, on the NYSE or elsewhere, for the participants accounts. If following the commencement of the purchases and before AST has completed its purchases, the market price exceeds the net asset value of the common stock as of the valuation time, AST will attempt to terminate purchases in the open market and cause the Fund to issue the remaining portion of the dividend or distribution in shares at a price equal to the greater of (a) 98% of net asset value as of the valuation time or (b) 95% of the then current market price. In this case, the number of shares received by a Plan participant will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares. To the extent AST is unable to stop open market purchases and cause the Fund to issue the remaining shares, the average per share purchase price paid by AST may exceed the net asset value of the common stock as of the valuation time, resulting in the acquisition of fewer shares than if the dividend or capital gains distribution had been paid in common stock issued by the Fund at such net asset value. AST will begin to purchase common stock on the open market as soon as practicable after the determination date for the dividend or capital gains distribution, but in no event shall such purchases continue later than 30 days after the payment date for such dividend or distribution, or the record date for a succeeding dividend or distribution, except when

46

Western Asset Managed Municipals Fund Inc.

**Dividend reinvestment plan (unaudited) (cont d)**

necessary to comply with applicable provisions of the federal securities laws.

AST maintains all shareholder accounts in the Plan and furnishes written confirmations of all transactions in each account, including information needed by a shareholder for personal and tax records. The automatic reinvestment of dividends and capital gains distributions will not relieve Plan participants of any income tax that may be payable on the dividends or capital gains distributions. Common stock in the account of each Plan participant will be held by AST in uncertificated form in the name of the Plan participant.

Plan participants are subject to no charge for reinvesting dividends and capital gains distributions under the Plan. AST's fees for handling the reinvestment of dividends and capital gains distributions will be paid by the Fund. No brokerage charges apply with respect to shares of common stock issued directly by the Fund under the Plan. Each Plan participant will, however, bear a proportionate share of any brokerage commissions actually incurred with respect to any open market purchases made under the Plan.

Experience under the Plan may indicate that changes to it are desirable. The Fund reserves the right to amend or terminate the Plan as applied to any dividend or capital gains distribution paid subsequent to written notice of the change sent to participants at least 30 days before the record date for the dividend or capital gains distribution. The Plan also may be amended or terminated by AST, with the Fund's prior written consent, on at least 30 days' written notice to Plan participants. All correspondence concerning the plan should be directed by mail to American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10038 or by telephone at 1-888-888-0151.



**Western Asset  
Managed Municipals Fund Inc.**

**Directors**

Carol L. Colman  
Daniel P. Cronin  
Paolo M. Cucchi  
Leslie H. Gelb  
R. Jay Gerken  
*Chairman*  
William R. Hutchinson  
Riordan Roett  
Jeswald W. Salacuse

**Officers**

R. Jay Gerken  
*President and Chief Executive Officer*  
Richard F. Sennett  
*Principal Financial Officer*  
Ted P. Becker  
*Chief Compliance Officer*  
Vanessa A. Williams  
*Identity Theft Prevention Officer*  
Robert I. Frenkel  
*Secretary and Chief Legal Officer*  
Thomas C. Mandia  
*Assistant Secretary*  
Steven Frank  
*Treasurer*  
Jeanne M. Kelly  
*Senior Vice President*

**Western Asset Managed Municipals Fund Inc.**

620 Eighth Avenue  
49th Floor  
New York, NY 10018

**Investment manager**

Legg Mason Partners Fund  
Advisor, LLC

**Subadviser**

Western Asset Management Company

**Auction agent**

Deutsche Bank  
60 Wall Street  
New York, NY 10005

**Custodian**

State Street Bank and Trust Company  
1 Lincoln Street  
Boston, MA 02111

**Transfer agent**

American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, NY 10038

**Independent registered public accounting firm**

KPMG LLP  
345 Park Avenue  
New York, NY 10154

**Legal counsel**

Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, NY 10017

**New York Stock Exchange Symbol**

MMU

## **Legg Mason Funds Privacy and Security Notice**

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

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

### **The Type of Nonpublic Personal Information the Funds Collect About You**

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

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

### **How the Funds Use Nonpublic Personal Information About You**

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

- Employees, agents, and affiliates on a "need to know" basis to enable the Funds to conduct ordinary business or comply with obligations to government regulators;
- Service providers, including the Funds' affiliates, who assist the Funds as part of the ordinary course of business (such as printing, mailing services, or processing or servicing your account with us) or otherwise perform services on the Funds' behalf, including companies that may perform marketing services solely for the Funds;

- The Funds' representatives such as legal counsel, accountants and auditors; and
- Fiduciaries or representatives acting on your behalf, such as an IRA custodian or trustee of a grantor trust.

**NOT PART OF THE ANNUAL REPORT**

**Legg Mason Funds Privacy and Security Notice (cont d)**

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

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

**Keeping You Informed of the Funds' Privacy and Security Practices**

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

**The Funds' Security Practices**

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

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

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

Revised April 2011

**NOT PART OF THE ANNUAL REPORT**

**Western Asset Managed Municipals Fund Inc.**

Western Asset Managed Municipals Fund Inc.  
620 Eighth Avenue  
49th Floor  
New York, NY 10018

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

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

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

This report is transmitted to the shareholders of Western Asset Managed Municipals Fund Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or any securities mentioned in this report.

American Stock  
Transfer & Trust Company  
59 Maiden Lane  
New York, NY 10038

**WASX010003 7/12 SR12-1696**

ITEM 2. CODE OF ETHICS.

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

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The Board of Trustees of the registrant has determined that William R. Hutchinson, a member of the Board's Audit Committee, possesses the technical attributes identified in Instruction 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert, and has designated Mr. Hutchinson as the Audit Committee's financial expert. Mr. Hutchinson is an independent Trustee pursuant to paragraph (a)(2) of Item 3 to Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

a) Audit Fees. The aggregate fees billed in the last two fiscal years ending May 31, 2011 and May 31, 2012 (the Reporting Periods) for professional services rendered by the Registrant's principal accountant (the Auditor) for the audit of the Registrant's annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were \$58,700 in 2011 and \$61,000 in 2012.

b) Audit-Related Fees. The aggregate fees billed in the Reporting Period for assurance and related services by the Auditor that are reasonably related to the performance of the Registrant's financial statements were \$0 in 2011 and \$0 in 2012.

In addition, there were no Audit-Related Fees billed in the Reporting Period for assurance and related services by the Auditor to the Registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the Western Asset Managed Municipals Fund Inc. (service affiliates), that were reasonably related to the performance of the annual audit of the service affiliates. Accordingly, there were no such fees that required pre-approval by the Audit Committee for the Reporting Periods.

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were \$0 in 2011 and \$3,100 in 2012. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and

(iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

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

d) All Other Fees. There were no other fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) for the Item 4 for the Western Asset Managed Municipals Fund Inc.

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

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

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

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

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such

---



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

(2) For the Western Asset Managed Municipals Fund Inc., the percentage of fees that were approved by the audit committee, with respect to: Audit-Related Fees were 100% and 100% for 2011 and 2012; Tax Fees were 100% and 100% for 2011 and 2012; and Other Fees were 100% and 100% for 2011 and 2012.

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to Western Asset Managed Municipals Fund Inc., LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to Western Asset Managed Municipals Fund Inc. during the reporting period were \$0 in 2012.

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

ITEM 5.

AUDIT COMMITTEE OF LISTED REGISTRANTS.

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

William R. Hutchinson

Paolo M. Cucchi

Daniel P. Cronin

Carol L. Colman

Leslie H. Gelb

Dr. Riordan Roett

Jeswald W. Salacuse

---

b) Not applicable

ITEM 6. SCHEDULE OF INVESTMENTS.

Included herein under Item 1.

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

**Proxy Voting Guidelines and Procedures**

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

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

**Background**

Western Asset Management Company ( WA or Western Asset ) have adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 ( Advisers Act ). Our authority to vote the proxies of our clients is established through investment management agreements or comparable documents, and our proxy voting guidelines have been tailored to reflect these specific contractual obligations. In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.

In exercising its voting authority, Western Asset will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (except that WA may so consult and agree with each other) regarding the voting of any securities owned by its clients.

**Policy**

Western Asset's proxy voting procedures are designed and implemented in a way that is reasonably expected to ensure that proxy matters are handled in the best interest of our clients. While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration Western Asset's contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent Western Asset deems appropriate).

**Procedures**

Responsibility and Oversight

The Western Asset Legal and Compliance Department ( Legal and Compliance Department ) is responsible for administering and overseeing the proxy voting process. The gathering of proxies is coordinated through

---

the Corporate Actions area of Investment Support ( Corporate Actions ). Research analysts and portfolio managers are responsible for determining appropriate voting positions on each proxy utilizing any applicable guidelines contained in these procedures.

#### Client Authority

The Investment Management Agreement for each client is reviewed at account start-up for proxy voting instructions. If an agreement is silent on proxy voting, but contains an overall delegation of discretionary authority or if the account represents assets of an ERISA plan, Western Asset will assume responsibility for proxy voting. The Legal and Compliance Department maintains a matrix of proxy voting authority.

#### Proxy Gathering

Registered owners of record, client custodians, client banks and trustees ( Proxy Recipients ) that receive proxy materials on behalf of clients should forward them to Corporate Actions. Proxy Recipients for new clients (or, if Western Asset becomes aware that the applicable Proxy Recipient for an existing client has changed, the Proxy Recipient for the existing client) are notified at start-up of appropriate routing to Corporate Actions of proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. If Western Asset personnel other than Corporate Actions receive proxy materials, they should promptly forward the materials to Corporate Actions.

#### Proxy Voting

Once proxy materials are received by Corporate Actions, they are forwarded to the Legal and Compliance Department for coordination and the following actions:

- a. Proxies are reviewed to determine accounts impacted.
- b. Impacted accounts are checked to confirm Western Asset voting authority.
- c. Legal and Compliance Department staff reviews proxy issues to determine any material conflicts of interest. (See conflicts of interest section of these procedures for further information on determining material conflicts of interest.)
- d. If a material conflict of interest exists, (i) to the extent reasonably practicable and permitted by applicable law, the client is promptly notified, the conflict is disclosed and Western Asset obtains the client's proxy voting instructions, and (ii) to the extent that it is not reasonably practicable or permitted by applicable law to notify the client and obtain such instructions (e.g., the client is a mutual fund or other commingled vehicle or is an ERISA plan client), Western Asset seeks voting instructions from an independent third party.

e. Legal and Compliance Department staff provides proxy material to the appropriate research analyst or portfolio manager to obtain their recommended vote. Research analysts and portfolio managers determine votes on a case-by-case basis taking into account the voting guidelines contained in these procedures. For avoidance of doubt, depending on the best interest of each individual client, Western Asset may vote the same proxy differently for different clients. The analyst's or portfolio manager's basis for their decision is documented and maintained by the Legal and Compliance Department.

f. Legal and Compliance Department staff votes the proxy pursuant to the instructions received in (d) or (e) and returns the voted proxy as indicated in the proxy materials.

---

Timing

Western Asset personnel act in such a manner to ensure that, absent special circumstances, the proxy gathering and proxy voting steps noted above can be completed before the applicable deadline for returning proxy votes.

Recordkeeping

Western Asset maintains records of proxies voted pursuant to Section 204-2 of the Advisers Act and ERISA DOL Bulletin 94-2. These records include:

- a. A copy of Western Asset's policies and procedures.
- b. Copies of proxy statements received regarding client securities.
- c. A copy of any document created by Western Asset that was material to making a decision how to vote proxies.
- d. Each written client request for proxy voting records and Western Asset's written response to both verbal and written client requests.
- e. A proxy log including:
  1. Issuer name;
  2. Exchange ticker symbol of the issuer's shares to be voted;
  3. Committee on Uniform Securities Identification Procedures (CUSIP) number for the shares to be voted;
  4. A brief identification of the matter voted on;
  5. Whether the matter was proposed by the issuer or by a shareholder of the issuer;
  6. Whether a vote was cast on the matter;
  7. A record of how the vote was cast; and
  8. Whether the vote was cast for or against the recommendation of the issuer's management team.

Records are maintained in an easily accessible place for five years, the first two in Western Asset's offices.

Disclosure

Part II of the WA Form ADV contains a description of Western Asset's proxy policies. Clients will be provided a copy of these policies and procedures upon request. In addition, upon request, clients may receive reports on how their proxies have been voted.

Conflicts of Interest

All proxies are reviewed by the Legal and Compliance Department for material conflicts of interest. Issues to be reviewed include, but are not limited to:

1. Whether Western Asset (or, to the extent required to be considered by applicable law, its affiliates) manages assets for the company or an employee group of the company or otherwise has an interest in the company;
-



2. Whether Western Asset or an officer or director of Western Asset or the applicable portfolio manager or analyst responsible for recommending the proxy vote (together, "Voting Persons") is a close relative of or has a personal or business relationship with an executive, director or person who is a candidate for director of the company or is a participant in a proxy contest; and

3. Whether there is any other business or personal relationship where a Voting Person has a personal interest in the outcome of the matter before shareholders.

### **Voting Guidelines**

Western Asset's substantive voting decisions turn on the particular facts and circumstances of each proxy vote and are evaluated by the designated research analyst or portfolio manager. The examples outlined below are meant as guidelines to aid in the decision making process.

Guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals which have been approved and are recommended by a company's board of directors; Part II deals with proposals submitted by shareholders for inclusion in proxy statements; Part III addresses issues relating to voting shares of investment companies; and Part IV addresses unique considerations pertaining to foreign issuers.

#### **I. Board Approved Proposals**

The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself that have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies, Western Asset generally votes in support of decisions reached by independent boards of directors. More specific guidelines related to certain board-approved proposals are as follows:

##### **1. Matters relating to the Board of Directors**

Western Asset votes proxies for the election of the company's nominees for directors and for board-approved proposals on other matters relating to the board of directors with the following exceptions:

a. Votes are withheld for the entire board of directors if the board does not have a majority of independent directors or the board does not have nominating, audit and compensation committees composed solely of independent directors.

b. Votes are withheld for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director.

c. Votes are withheld for any nominee for director who attends less than 75% of board and committee meetings without valid reasons for absences.

d. Votes are cast on a case-by-case basis in contested elections of directors.

---

2. Matters relating to Executive Compensation

Western Asset generally favors compensation programs that relate executive compensation to a company's long-term performance. Votes are cast on a case-by-case basis on board-approved proposals relating to executive compensation, except as follows:

- a. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for stock option plans that will result in a minimal annual dilution.
- b. Western Asset votes against stock option plans or proposals that permit replacing or repricing of underwater options.
- c. Western Asset votes against stock option plans that permit issuance of options with an exercise price below the stock's current market price.
- d. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for employee stock purchase plans that limit the discount for shares purchased under the plan to no more than 15% of their market value, have an offering period of 27 months or less and result in dilution of 10% or less.

3. Matters relating to Capitalization

The management of a company's capital structure involves a number of important issues, including cash flows, financing needs and market conditions that are unique to the circumstances of each company. As a result, Western Asset votes on a case-by-case basis on board-approved proposals involving changes to a company's capitalization except where Western Asset is otherwise withholding votes for the entire board of directors.

- a. Western Asset votes for proposals relating to the authorization of additional common stock.
- b. Western Asset votes for proposals to effect stock splits (excluding reverse stock splits).
- c. Western Asset votes for proposals authorizing share repurchase programs.

4. Matters relating to Acquisitions, Mergers, Reorganizations and Other Transactions

## Edgar Filing: WESTERN ASSET MANAGED MUNICIPALS FUND INC. - Form N-CSR

Western Asset votes these issues on a case-by-case basis on board-approved transactions.

### 5. Matters relating to Anti-Takeover Measures

Western Asset votes against board-approved proposals to adopt anti-takeover measures except as follows:

a. Western Asset votes on a case-by-case basis on proposals to ratify or approve shareholder rights plans.

b. Western Asset votes on a case-by-case basis on proposals to adopt fair price provisions.

### 6. Other Business Matters

Western Asset votes for board-approved proposals approving such routine business matters such as changing the company's name, ratifying the appointment of auditors and procedural matters relating to the shareholder meeting.

---

- a. Western Asset votes on a case-by-case basis on proposals to amend a company's charter or bylaws.
- b. Western Asset votes against authorization to transact other unidentified, substantive business at the meeting.

## II. Shareholder Proposals

SEC regulations permit shareholders to submit proposals for inclusion in a company's proxy statement. These proposals generally seek to change some aspect of a company's corporate governance structure or to change some aspect of its business operations. Western Asset votes in accordance with the recommendation of the company's board of directors on all shareholder proposals, except as follows:

1. Western Asset votes for shareholder proposals to require shareholder approval of shareholder rights plans.
2. Western Asset votes for shareholder proposals that are consistent with Western Asset's proxy voting guidelines for board-approved proposals.
3. Western Asset votes on a case-by-case basis on other shareholder proposals where the firm is otherwise withholding votes for the entire board of directors.

## III. Voting Shares of Investment Companies

Western Asset may utilize shares of open or closed-end investment companies to implement its investment strategies. Shareholder votes for investment companies that fall within the categories listed in Parts I and II above are voted in accordance with those guidelines.

1. Western Asset votes on a case-by-case basis on proposals relating to changes in the investment objectives of an investment company taking into account the original intent of the fund and the role the fund plays in the clients' portfolios.
2. Western Asset votes on a case-by-case basis all proposals that would result in increases in expenses (e.g., proposals to adopt 12b-1 plans, alter investment advisory arrangements or approve fund mergers) taking into account comparable expenses for similar funds and the services to be provided.

## IV. Voting Shares of Foreign Issuers

## Edgar Filing: WESTERN ASSET MANAGED MUNICIPALS FUND INC. - Form N-CSR

In the event Western Asset is required to vote on securities held in non-U.S. issuers i.e. issuers that are incorporated under the laws of a foreign jurisdiction and that are not listed on a U.S. securities exchange or the NASDAQ stock market, the following guidelines are used, which are premised on the existence of a sound corporate governance and disclosure framework. These guidelines, however, may not be appropriate under some circumstances for foreign issuers and therefore apply only where applicable.

1. Western Asset votes for shareholder proposals calling for a majority of the directors to be independent of management.
  2. Western Asset votes for shareholder proposals seeking to increase the independence of board nominating, audit and compensation committees.
-

3. Western Asset votes for shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law and the listing requirements of U.S. stock exchanges, and that do not otherwise violate the laws of the jurisdiction under which the company is incorporated.

4. Western Asset votes on a case-by-case basis on proposals relating to (1) the issuance of common stock in excess of 20% of a company's outstanding common stock where shareholders do not have preemptive rights, or (2) the issuance of common stock in excess of 100% of a company's outstanding common stock where shareholders have preemptive rights.

#### **Retirement Accounts**

For accounts subject to ERISA, as well as other Retirement Accounts, Western Asset is presumed to have the responsibility to vote proxies for the client. The Department of Labor ( DOL ) has issued a bulletin that states that investment managers have the responsibility to vote proxies on behalf of Retirement Accounts unless the authority to vote proxies has been specifically reserved to another named fiduciary. Furthermore, unless Western Asset is expressly precluded from voting the proxies, the DOL has determined that the responsibility remains with the investment manager.

In order to comply with the DOL's position, Western Asset will be presumed to have the obligation to vote proxies for its Retirement Accounts unless Western Asset has obtained a specific written instruction indicating that: (a) the right to vote proxies has been reserved to a named fiduciary of the client, and (b) Western Asset is precluded from voting proxies on behalf of the client. If Western Asset does not receive such an instruction, Western Asset will be responsible for voting proxies in the best interests of the Retirement Account client and in accordance with any proxy voting guidelines provided by the client.

---

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

(a)(1):

NAME AND ADDRESS	LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
Stephen A. Walsh Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2006	Co-portfolio manager of the fund; Deputy Chief Investment Officer of Western Asset from 2000 to 2008; Chief Investment Officer of Western Asset since 2008.
David Fare Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2004	Co-portfolio manager of the fund; portfolio manager at Western Asset since 2005; prior to that time, Mr. Fare was with Citigroup Asset Management or one of its affiliates since 1989.
Robert Amodeo Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2007	Co-portfolio manager of the fund; portfolio manager at Western Asset since 2005; prior to that time, Mr. Amodeo was a Managing Director and portfolio manager with Salomon Brothers Asset Management Inc from 1992 to 2005.



**(a)(2): DATA TO BE PROVIDED BY FINANCIAL CONTROL**

The following tables set forth certain additional information with respect to the fund's portfolio managers for the fund. Unless noted otherwise, all information is provided as of May 31, 2012.

## Other Accounts Managed by Portfolio Managers

The table below identifies the number of accounts (other than the fund) for which the fund's portfolio managers have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles, and other accounts. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated.

Portfolio Manager(s)	Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts
Stephen A. Walsh	101 registered investment companies with \$171.7 billion in total assets under management	219 Other pooled investment vehicles with \$97.9 billion in assets under management*	743 Other accounts with \$176.1 billion in total assets under management**
David T. Fare	16 registered investment companies with \$15.3 billion in total assets under management	0 Other pooled investment vehicles with \$0.0 billion in assets under management	12 Other accounts with \$1.6 billion in total assets under management
Robert Amodeo	24 registered investment companies with \$19.3 billion in total assets under management	0 Other pooled investment vehicles with \$0.0 billion in assets under management	26 Other accounts with \$3.9 billion in total assets under management

\* Includes 6 accounts managed, totaling \$851 million, for which advisory fee is performance based.

\*\* Includes 74 accounts managed, totaling \$16.4 billion, for which advisory fee is performance based.

*The numbers above reflect the overall number of portfolios managed by employees of Western Asset Management Company (Western Asset). Mr. Walsh is involved in the management of all the Firm's portfolios, but they are not solely responsible for particular portfolios. Western Asset's investment discipline emphasizes a team approach that combines the efforts of groups of specialists working in different market sectors. They are responsible for overseeing implementation of Western Asset's overall investment ideas and coordinating the work of the various sector teams. This structure ensures that client portfolios benefit from a consensus that draws on the expertise of all team members.*

**(a)(3): Portfolio Manager Compensation**

With respect to the compensation of the portfolio managers, Western Asset's compensation system assigns each employee a total compensation range, which is derived from annual market surveys that



benchmark each role with its job function and peer universe. This method is designed to reward employees with total compensation reflective of the external market value of their skills, experience, and ability to produce desired results. Standard compensation includes competitive base salaries, generous employee benefits, and a retirement plan.

In addition, the subadviser's employees are eligible for bonuses. These are structured to closely align the interests of employees with those of the subadviser, and are determined by the professional's job function and pre-tax performance as measured by a formal review process. All bonuses are completely discretionary. The principal factor considered is a portfolio manager's investment performance versus appropriate peer groups and benchmarks (*e.g.*, a securities index and with respect to a fund, the benchmark set forth in the fund's Prospectus to which the fund's average annual total returns are compared or, if none, the benchmark set forth in the fund's annual report). Performance is reviewed on a 1, 3 and 5 year basis for compensation with 3 years having the most emphasis. The subadviser may also measure a portfolio manager's pre-tax investment performance against other benchmarks, as it determines appropriate. Because portfolio managers are generally responsible for multiple accounts (including the funds) with similar investment strategies, they are generally compensated on the performance of the aggregate group of similar accounts, rather than a specific account. Other factors that may be considered when making bonus decisions include client service, business development, length of service to the subadviser, management or supervisory responsibilities, contributions to developing business strategy and overall contributions to the subadviser's business.

Finally, in order to attract and retain top talent, all professionals are eligible for additional incentives in recognition of outstanding performance. These are determined based upon the factors described above and include Legg Mason stock options and long-term incentives that vest over a set period of time past the award date.

## **Potential Conflicts of Interest**

### *Conflicts of Interest*

The manager, subadvisers and portfolio managers have interests which conflict with the interests of the fund. There is no guarantee that the policies and procedures adopted by the manager, the subadvisers and the fund will be able to identify or mitigate these conflicts of interest.

Some examples of material conflicts of interest include:

*Allocation of Limited Time and Attention.* A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. A portfolio manager may not be able to formulate a complete strategy or identify equally attractive investment opportunities for each of those funds and accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. Such a portfolio manager may make general determinations across multiple funds, rather than tailoring a unique approach for each fund. The effects of this conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

*Allocation of Limited Investment Opportunities; Aggregation of Orders.* If a portfolio manager identifies a limited investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit the fund's ability to take full advantage of the investment opportunity. Additionally, a subadviser may aggregate transaction orders for multiple

accounts for purpose of execution. Such aggregation may cause the price or brokerage costs to be less favorable to a particular client than if similar transactions were not being executed

---

concurrently for other accounts. In addition, a subadviser's trade allocation policies may result in the fund's orders not being fully executed or being delayed in execution.

*Pursuit of Differing Strategies.* At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts. For example, a portfolio manager may determine that it would be in the interest of another account to sell a security that the fund holds long, potentially resulting in a decrease in the market value of the security held by the fund.

*Cross Trades.* Portfolio managers may manage funds that engage in cross trades, where one of the manager's funds or accounts sells a particular security to another fund or account managed by the same manager. Cross trades may pose conflicts of interest because of, for example, the possibility that one account sells a security to another account at a higher price than an independent third party would pay or otherwise enters into a transaction that it would not enter into with an independent party, such as the sale of a difficult-to-obtain security.

*Selection of Broker/Dealers.* Portfolio managers may select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds and/or accounts that they supervise. In addition to executing trades, some brokers and dealers provide subadvisers with brokerage and research services. These services may be taken into account in the selection of brokers and dealers whether a broker is being selected to effect a trade on an agency basis for a commission or (as is normally the case for the funds) whether a dealer is being selected to effect a trade on a principal basis. This may result in the payment of higher brokerage fees and/or execution at a less favorable price than might have otherwise been available. The services obtained may ultimately be more beneficial to certain of the manager's funds or accounts than to others (but not necessarily to the funds that pay the increased commission or incur the less favorable execution). A decision as to the selection of brokers and dealers could therefore yield disproportionate costs and benefits among the funds and/or accounts managed.

*Variation in Financial and Other Benefits.* A conflict of interest arises where the financial or other benefits available to a portfolio manager differ among the funds and/or accounts that he or she manages. If the amount or structure of the investment manager's management fee and/or a portfolio manager's compensation differs among funds and/or accounts (such as where certain funds or accounts pay higher management fees or performance-based management fees), the portfolio manager might be motivated to help certain funds and/or accounts over others. Similarly, the desire to maintain assets under management or to enhance the portfolio manager's performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to those funds and/or accounts that could most significantly benefit the portfolio manager. A portfolio manager may, for example, have an incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor such funds and/or accounts. Also, a portfolio manager's or the manager's or a subadviser's desire to increase assets under management could influence the portfolio manager to keep a fund open for new investors without regard to potential benefits of closing the fund to new investors. Additionally, the portfolio manager might be motivated to favor funds and/or accounts in which he or she has an ownership interest or in which the investment manager and/or its affiliates have ownership interests. Conversely, if a portfolio manager does not personally hold an investment in the fund, the portfolio manager's conflicts of interest with respect to the fund may be more acute.

*Related Business Opportunities.* The investment manager or its affiliates may provide more services (such as distribution or recordkeeping) for some types of funds or accounts than for others. In such cases, a portfolio manager may benefit, either directly or indirectly, by devoting disproportionate attention to the management of funds and/or accounts that provide greater overall returns to the investment manager and its affiliates.

(a)(4): *Portfolio Manager Securities Ownership*

The table below identifies the dollar range of securities beneficially owned by each portfolio managers as of May 31, 2012.

Portfolio Manager(s)	Dollar Range of Portfolio Securities Beneficially Owned
Stephen A. Walsh	A
David T. Fare	A
Robert Amodeo	A

Dollar Range ownership is as follows:

- A: none
- B: \$1 - \$10,000
- C: 10,001 - \$50,000
- D: \$50,001 - \$100,000
- E: \$100,001 - \$500,000
- F: \$500,001 - \$1 million
- G: over \$1 million

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not Applicable.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

NONE.

ITEM 11. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

---

ITEM 12.

EXHIBITS.

(a) (1) Code of Ethics attached hereto.

Exhibit 99.CODE ETH

(a) (2) Certifications pursuant to section 302 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.CERT

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.906CERT

---



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, there unto duly authorized.

**Western Asset Managed Municipals Fund Inc.**

By: **/s/ R. Jay Gerken**  
**R. Jay Gerken**  
Chief Executive Officer of  
**Western Asset Managed Municipals Fund Inc.**

Date: July 25, 2012

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.

By: **/s/ R. Jay Gerken**  
**R. Jay Gerken**  
Chief Executive Officer of  
**Western Asset Managed Municipals Fund Inc.**

Date: July 25, 2012

By: **/s/ Richard F. Sennett**  
**Richard F. Sennett**  
Principal Financial Officer of  
**Western Asset Managed Municipals Fund Inc.**

Date: July 25, 2012

---