WESTERN ASSET MANAGED MUNICIPALS FUND INC.
Form N-CSR
July 28, 2014

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 811-06629

Western Asset Managed Municipals Fund Inc.

(Exact name of registrant as specified in charter)

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

(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, CT 06902

(Name and address of agent for service)

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

Date of fiscal year end: May 31

Date of reporting period: May 31, 2014

ITEM 1. REPORT TO STOCKHOLDERS.

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

Annual Report May 31, 2014

WESTERN ASSET

MANAGED MUNICIPALS FUND INC. (MMU)

What s inside

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.

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, 2014. Please read on for a detailed look at prevailing economic and market conditions during the Fund s reporting period and to learn how those conditions have affected Fund performance.

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

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

We look forward to helping you meet your financial goals.

Sincerely,

Kenneth D. Fuller

Chairman, President and Chief Executive Officer

June 27, 2014

Investment commentary

Economic review

After generally expanding at a moderate pace since the end of the Great Recession, the U.S. economy experienced a setback toward the end of the twelve months ended May 31, 2014 (the reporting period). Looking back, U.S. gross domestic product (GDP)[i] growth, as reported by the U.S. Department of Commerce, was 2.5% during the second quarter of 2013. The economic expansion accelerated during the third quarter, with GDP growth of 4.1%, its best reading since the fourth quarter of 2011. The economy then moderated during the fourth quarter of 2013, as GDP growth was 2.6%. Slower growth was due to several factors, including a deceleration in private inventory investment, declining federal government spending and less residential fixed investments. The Commerce Department s final reading for first quarter 2014 GDP growth, released after the reporting period ended, was -2.9%. This represented the first negative reading for GDP growth since the first quarter of 2011. The contraction was partially attributed to severe winter weather in the U.S., as well as slower growth overseas. In particular, the Commerce Department reported that moderating growth primarily reflected negative contributions from private inventory investment, exports, state and local government spending, nonresidential fixed investment, and residential fixed investment that were partly offset by a positive contribution from personal consumption expenditures.

The U.S. job market improved during the reporting period. When the period began, unemployment, as reported by the U.S. Department of Labor, was 7.5%. Unemployment fell to 7.3% in July 2013 and as low as 6.6% in January 2014, before ticking up to 6.7% in February and holding steady in March 2014. Unemployment then fell to 6.3% in April and was unchanged in May, the lowest level since September 2008. However, falling unemployment during the period was partially due to a decline in the workforce participation rate, which was 62.8% in both April and May 2014, matching the lowest level since 1978. The number of longer-term unemployed remained elevated, as roughly 34.6% of the 9.8 million Americans looking for work in May 2014 had been out of work for more than six months.

Sales of existing-homes fluctuated during the reporting period given changing mortgage rates and weather-related factors. According to the National Association of Realtors (NAR), after three consecutive monthly declines, existing-home sales rose 1.3% on a seasonally adjusted basis in April 2014 versus the previous month s sales. Sales then rose 4.9% in May versus the previous month. The NAR reported that the median existing-home price for all housing types was $213,400 in May 2014, up 5.1% from May 2013. The inventory of homes available for sale in May 2014 was 2.2% higher than the previous month at a 5.6 month supply at the current sales pace and 6.0% higher than in May 2013.

The manufacturing sector continued to expand, although it decelerated on several occasions. Based on revised figures for the Institute for Supply Management s Purchasing Managers Index (PMI)[ii], manufacturing expanded during all twelve months of the reporting period. It peaked in November 2013, with a PMI of 57.0 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). This represented the PMI s highest reading since

Investment commentary (cont d)

April 2011. The PMI then moderated somewhat in December 2013 to 56.5 and fell to 51.3 in January 2014, its weakest reading since May 2013. However, the PMI moved up the next four months and was 55.4 in May 2014. During May, seventeen of the eighteen industries within the PMI expanded.

The Federal Reserve Board (Fed[iii]) took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As has been the case since December 2008, the Fed kept the federal funds rate[iv] at a historically low range between zero and 0.25%. At its meeting in December 2012, prior to the beginning of the reporting period, the Fed announced that it would continue purchasing $40 billion per month of agency mortgage-backed securities (MBS), as well as initially purchasing $45 billion per month of longer-term Treasuries. At a press conference following its meeting that ended on June 19, 2013, then Fed Chairman Ben Bernanke said the Committee currently anticipates that it would be appropriate to moderate the monthly pace of purchases later this year. In a surprise to many investors, at its meeting that ended on September 18, 2013, the Fed did not taper its asset purchase program. Then, at its meeting that concluded on December 18, 2013, the Fed announced that it would begin reducing its monthly asset purchases, saying Beginning in January 2014, the Committee will add to its holdings of agency MBS at a pace of $35 billion per month rather than $40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of $40 billion per month rather than $45 billion per month.

At each of the Fed s next three meetings (January, March and May 2014), it announced further $10 billion tapering of its asset purchases. Finally, at its meeting that ended on June 18, 2014, after the reporting period ended, the Fed again cut its monthly asset purchases. Beginning in July, it will buy a total of $35 billion per month ($15 billion per month of agency MBS and $20 billion per month of longer-term Treasuries).

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

Sincerely,

Kenneth D. Fuller

Chairman, President and Chief Executive Officer

June 27, 2014

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 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 management personnel, research analysts and an in-house economist. Under this team approach, management of client fixed-income portfolios will reflect a consensus of interdisciplinary views within the Western Asset organization.

The individuals responsible for development of investment strategy, day-to-day portfolio management, oversight and coordination of the Fund are S. Kenneth Leech, Robert E. Amodeo, David T. Fare and Dennis J. McNamara. Effective on March 31, 2014, Mr. Leech joined the Fund s portfolio management team. Mr. Leech has been employed by Western Asset as an investment professional for more than 20 years.

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

A. The spread sectors (non-Treasuries) experienced several periods of volatility but generally outperformed equal-duration[i] Treasuries over the twelve months ended May 31, 2014. Risk aversion was prevalent at times given mixed economic data, shifting monetary policy by the Federal Reserve Board (Fed[ii]), the U.S government s sixteen-day partial shutdown in October 2013 and several geopolitical issues.

Both short- and long-term Treasury yields moved higher during the twelve months ended May 31, 2014. Two-year Treasury yields rose from 0.30% at the beginning of the period to 0.37% at the end of the period. Their peak of 0.52% occurred on September 5, 2013 and they were as low as 0.27% in mid-June 2013. Ten-year Treasury yields were 2.16% at the beginning of the period and reached a low of 2.08% on June 6, 2013. Their peak of 3.04% occurred on December 31, 2013 and they ended the reporting period at 2.48%.

The municipal bond market modestly outperformed its taxable bond counterpart during the twelve month reporting period ended May 31, 2014. Over that time, the Barclays Municipal Bond Index[iii] and the Barclays U.S. Aggregate Index[iv] returned 3.05% and 2.71%, respectively. The municipal bond market significantly lagged the taxable bond market during the first three months covered by this report. In addition to the negative impact of higher interest rates, investor sentiment for municipal bonds weakened

Fund overview (cont d)

given a number of well publicized events. These included questions regarding the future tax favored status for municipal bonds, as well as credit issues in Puerto Rico and the fallout from the city of Detroit s bankruptcy filing. However, the municipal bond market then outperformed the taxable bond market during eight of the last nine months covered by this report. This turnaround was triggered by a number of factors, including improving fundamentals, attractive valuations, moderating supply and increased demand, especially by crossover buyers, such as pensions and hedge funds.

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

A. There were no significant changes to the Fund s portfolio during the reporting period. That being said, toward the end of the period we reduced the Fund s duration. The Fund employed the use of short U.S. Treasury futures during the reporting period to manage duration. This strategy slightly detracted from the Fund s performance.

During the reporting period, we utilized leverage in the Fund. We generally maintained liabilities as a percentage of gross assets of approximately 30% during the 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, 2014.

Performance review

For the twelve months ended May 31, 2014, Western Asset Managed Municipals Fund Inc. returned 3.78% based on its net asset value (NAV[v]) and 4.82% based on its New York Stock Exchange (NYSE) market price per share. The Fund s unmanaged benchmark, the Barclays Municipal Bond Index (the Index), returned 3.05% for the same period. The Lipper General & Insured Municipal Debt (Leveraged) Closed-End Funds Category Average[vi] returned 4.04% 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, 2014. **Past performance is no guarantee of future results.**

Performance Snapshot as of May 31, 2014

Price Per Share	12-month Total Return**
$13.80 (NAV)	3.78%
$13.17 (Market Price)	4.82%

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

**** Total returns are based on changes in NAV or market price, respectively. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.**

Total return assumes the reinvestment of all distributions at NAV.

* For the tax character of distributions paid during the fiscal year ended May 31, 2014, please refer to page 28 of this report.

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

Q. What were the leading contributors to performance?

A. The largest contributor to the Fund s relative performance during the reporting period was its positioning in a number of sectors. Overweights to the Industrial Revenue, Health Care and Transportation sectors were rewarded given their outperformance versus the Index. In addition, security selection in all three sectors enhanced the Fund s results.

Elsewhere, from a credit quality perspective, the Fund s allocation to BB-rated securities was additive for results given their outperformance versus the Index.

Q. What were the leading detractors from performance?

A. The largest detractor from relative performance during the reporting period was the Fund s overweight to holdings in Puerto Rico. Despite rallying toward the end of the reporting period, this was not enough to offset their earlier weakness, as Commonwealth bonds significantly underperformed the Index during the reporting period as a whole.

Also impacting the Fund s performance was its yield curve[xii] positioning. The Fund maintained an overweight to the 22+ year portion of the municipal yield curve throughout the period, while having an underweight to the eight to seventeen year portion of the curve. This underweight position detracted from results, as it was the best performing portion of the municipal yield curve in the Index during the reporting period.

As mentioned, the Fund s short U.S. Treasury futures position was a small detractor from performance as interest rates moved higher during the twelve months ended May 31, 2014.

Looking for additional information?

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.

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 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 17, 2014

See Notes to Financial Statements.

Fund overview (cont d)

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.

[i] Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.

[ii] The Federal Reserve Board (Fed) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

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

[iv] The Barclays U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

[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, 2014, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 77 funds in the Fund s Lipper category.

[vii] The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

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, 2014 and May 31, 2013 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.
Represents less than 0.1%.

Spread duration (unaudited)

Economic exposure May 31, 2014

Total Spread Duration

MMU	8.34
Benchmark	6.31

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.

Benchmark	Barclays Municipal Bond Index
MMU	Western Asset Managed Municipals Fund Inc.

Effective duration (unaudited)

Interest rate exposure May 31, 2014

Total Effective Duration	
MMU	8.02 years
Benchmark	7.16 years

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

Benchmark	Barclays Municipal Bond Index
MMU	Western Asset Managed Municipals Fund Inc.

Schedule of investments

May 31, 2014

Western Asset Managed Municipals Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Municipal Bonds 137.7%				
Alabama 4.8%				
Jefferson County, AL, Sewer Revenue	6.000%	10/1/42	$ 9,230,000	$ 10,175,337
Jefferson County, AL, Sewer Revenue:				
AGM	5.500%	10/1/53	1,400,000	1,507,590
Convertible CAB	0.000%	10/1/50	15,000,000	8,658,600 (a)
Subordinated Lien Warrants	6.500%	10/1/53	6,900,000	7,847,301
Total Alabama				*28,188,828*
Arizona 4.9%				
Greater Arizona Development Authority, Development Authority Infrastructure Revenue, Pinal County Road Project, NATL	5.000%	8/1/19	3,705,000	4,013,145
Phoenix, AZ, Civic Improvement Corp. Airport Revenue	5.000%	7/1/40	5,000,000	5,226,000
Salt Verde, AZ, Financial Corp. Gas Revenue	5.000%	12/1/32	10,000,000	11,200,300
Salt Verde, AZ, Financial Corp. Gas Revenue	5.000%	12/1/37	5,500,000	6,135,415
Salt Verde, AZ, Financial Corp. Senior Gas Revenue	5.250%	12/1/28	2,000,000	2,308,760
Total Arizona				*28,883,620*
California 23.3%				
Bay Area Toll Authority, CA, Toll Bridge Revenue:				
San Francisco Bay Area	1.160%	4/1/24	7,000,000	7,039,830 (a)(b)
San Francisco Bay Area	5.125%	4/1/39	21,700,000	24,399,263
California Health Facilities Financing Authority Revenue, Stanford Hospital & Clinics	5.150%	11/15/40	2,000,000	2,187,740
California Housing Finance Agency Revenue, Home Mortgage	4.700%	8/1/24	2,110,000	2,130,340 (c)
California State PCFA, Water Furnishing Revenue	5.000%	11/21/45	12,500,000	12,766,000 (c)(d)
California State PCFA, Water Furnishing Revenue	5.000%	11/21/45	5,000,000	5,079,500 (d)
California State, GO	0.805%	12/1/17	4,000,000	4,037,600