

WESTERN ASSET CLAYMORE US TREASURY INFLATION PRO SEC FUND 2
Form N-CSR
March 08, 2006

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: 811-21477
Name of Fund: Western Asset/Claymore U.S. Treasury Inflation Protected Securities Fund 2
Address of Principal Executive Offices: 385 East Colorado Boulevard
Pasadena, CA 91101
Name and address of agent for service: Gregory B. McShea
385 East Colorado Boulevard
Pasadena, CA 91101

Registrant's telephone number, including area code: (626) 844-9400

Date of fiscal year end: December 31, 2005

Date of reporting period: December 31, 2005

Item 1. Report to Shareholders

*Western Asset/Claymore U.S. Treasury
Inflation Protected Securities Fund 2*

Annual Report to Shareholders

December 31, 2005

Annual Report to Shareholders

Dear Shareholder:

We thank you for your investment in Western Asset/Claymore U.S. Treasury Inflation Protected Securities Fund 2 (*WIW* or *Fund*). As Investment Adviser for the Fund, we are pleased to submit the *WIW* annual shareholder report for the 12-month period ended December 31, 2005.

As you may know, the Fund's investment objective is to provide current income and, when consistent with current income, capital appreciation. To achieve that objective, the Fund invests at least 80% of its managed assets in U.S. Treasury Inflation Protected Securities (*U.S. TIPS*). *U.S. TIPS* provide income-oriented investors the potential for attractive current income that is protected from the adverse affects of inflation as measured by the Consumer Price Index for All Urban Consumers (*CPI-U*). The Fund may also invest up to 20% of its total managed assets in other income-producing securities and may utilize hedging strategies to help mitigate risk and to preserve capital. There can be no assurance, however, that the Fund will achieve its investment objectives.

Western Asset Management Company, a subsidiary of Legg Mason, Inc., is the Fund's Investment Manager and manages the portfolio of securities on a day-to-day basis. The firm was founded in 1971 and has offices in Pasadena, London and Singapore. Western Asset managed \$249 billion in assets as of December 31, 2005.

During the 12-month period, the Fund generated a total return of 2.94% at net asset value (*NAV*). This represents a change in *NAV* from \$14.00 at the start of the period to \$13.46 on December 31, 2005 including the reinvestment of the Fund's monthly dividends. On a market value basis, the Fund's total return, including reinvestment of monthly dividends, was -0.26%, which reflects a market price of \$11.87 at the close of the period vs. \$12.82 on December 31, 2004.

The Fund's market price is currently trading at a discount to the net asset value. This discount from *NAV* may be caused by numerous factors, and highlights the fact that most closed-end funds have fallen out of favor with investors recently. However, we feel that this discount represents an opportunity as common shares of the Fund are now available in the market at prices below the value of the securities in the underlying portfolio.

Shareholders have the opportunity to reinvest their dividends from the Fund through the Dividend Reinvestment Plan (*Plan*) that is described in detail on page 4 of this report. If shares trade at a discount to *NAV*, the Plan takes advantage of the discount by reinvesting the monthly dividend distribution in common shares of the Fund purchased in the market at a price less than *NAV*. Conversely, when the market price of the Fund's common shares is at a premium above *NAV*, the Plan reinvests participants' dividends in newly-issued common shares at *NAV*, subject to an IRS limitation that the purchase price cannot be more than 5% below the market price per share. The Plan provides a cost effective means to accumulate additional shares with the potential of compounding returns over time.

To learn more about the Fund's performance over this fiscal period, we encourage you to read the *Fund Highlights* section of the report beginning on page 3. You'll find information on what impacted the performance of the Fund during the fiscal period and Western Asset Management's views on the overall market environment.

We appreciate your investment and look forward to serving your investment needs in the future. For the most up-to-date information on your investment, please visit the Fund's website at www.westernclaymore.com.

Sincerely,

Claymore Advisors, LLC

February 3, 2006

Annual Report to Shareholders

MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE

The Market

In calendar 2005, U.S. Treasury Inflation Protected Securities (U.S. TIPS) performed similar to U.S. Treasuries except for the long maturity securities. The Barclays U.S. Government Inflation-Linked All Maturities Index^A generated a total return of 2.73%, while the U.S. Government Breakeven Index (composed of nominal U.S. Treasuries corresponding to the maturity of each U.S. TIPS issue) returned 3.75%. Almost all of the nominal outperformance occurred in the 30-year area of the curve. Shorter-term U.S. TIPS issues generally performed better than shorter-term nominal issues because of higher-than-expected inflation accretion, but longer-term nominal issues outperformed U.S. TIPS issues because long maturity nominal rates fell while real rates rose slightly.

Headline inflation, as expressed by the Consumer Price Index for All Urban Consumers (CPI-U), rose from 3.3% (year-over-year) in December 2004 to 3.4% (year-over-year) in December 2005, despite a spike in September 2005 to a peak rate of 4.7%. The big story was the rise in energy prices, particularly oil, gasoline, and natural gas, following the hurricanes. However, once the hurricanes passed, these were seen as mostly temporary increases resulting in little change to core inflation measures. Core CPI (i.e. excluding the effects of food and energy) remained unchanged at 2.2% from December 2004 to December 2005, while core personal consumption expenditures (PCE), which we believe is the Federal Reserve System's (Fed) favorite inflation measure, actually fell in 2005, down from 2.3% in 2004 to only 1.9% in 2005. We believe this reinforced the notion that higher productivity and overseas competitors continued to limit long-term inflation. For the first time in three years, the U.S. dollar appreciated, gaining approximately 10% against major foreign currencies, and we believe this reduced fears of imported inflation. Since long-term inflation expectations remained stable, break-even spreads (the difference between 10-year U.S. Treasury yields and 10-year U.S. TIPS yields) narrowed and 10-year U.S. TIPS performed similarly to 10-year U.S. Treasuries.

The Fed continued raising rates, taking them from 2.25% to 4.25% by the end of December. During this process the Fed kept up its rhetoric of maintaining vigilance against inflation and inflation expectations. We believe market participants remained confident about the Fed's credibility and, therefore, no significant inflation scare occurred. As a result, the U.S. Treasury yield curve flattened dramatically, with 10-year and under 10-year maturity U.S. Treasury yields rising while longer bond yields actually declined.

Performance

U.S. TIPS performed similar to U.S. Treasuries except for the long maturity securities as reduced inflation anxiety caused break-even spreads to decline despite higher-than-expected inflation. Long maturity U.S. Treasuries outperformed all other government issues as long rates fell and the yield curve flattened significantly.

For the year ended December 31, 2005, the Fund paid dividends from net investment income of \$0.94 per share to common shareholders (including a supplemental dividend of \$0.17 per share paid in December) and generated a total return of 2.94% on a net asset value (NAV) basis. The Fund made a supplemental year-end distribution primarily because CPI-U spiked unexpectedly in the fourth quarter of 2005 due to the effects of the hurricanes. On a share price basis, the Fund returned -0.26% during the same period as, among other things, leveraged closed-end funds as a whole experienced a sharp sell-off during the fourth quarter of 2005, regardless of asset class.

The emerging market debt component of the Fund was a star performer as strong fundamentals easy money, rising commodity prices, and ongoing global growth led to spreads narrowing by over 70 bp^B.

Though the Fund is not required to be hedged, we continue to implement hedging strategies in the Fund's portfolio, primarily through the use of short futures and long put options. We believe short futures contracts have helped us maintain a hedge over time without losing option premium to time decay while the market is largely range bound. There is no guarantee that future hedging strategies will be successful. Depending on market and other conditions, we may discontinue our hedging strategies at any time.

One of our goals is to maintain a relatively stable NAV; in bull markets, our hedging strategies may cause us to underperform published indices on a total return basis. In bear markets, the hedging strategies are designed to help protect the NAV against a significant decline in value, although, of course, this may not be achieved by our hedging strategies.

Western Asset Management Company

January 20, 2006

^A *This index is the U.S. component of the Barclays Global Inflation-Linked Bond Index, which measures the performance of the major government inflation-linked bond markets.*

^B *100 basis points = 1%.*

Annual Report to Shareholders

FUND HIGHLIGHTS

(Amounts in Thousands, except per share amounts)

	December 31	
	2005	2004
Net Asset Value	\$823,471	\$856,560
Per Share	\$13.46	\$14.00
Market Value Per Share	\$11.87	\$12.82
Net Investment Income	\$70,662	\$58,928
Per Common Share	\$1.15	\$0.97
Dividends Paid to Common Shareholders	\$57,513	\$53,147
Per Common Share	\$0.94	\$0.87
Dividends Paid to Preferred Shareholders	\$13,473	\$4,802
Per Share	\$0.22	\$0.08

The Fund

Western Asset/Claymore U.S. Treasury Inflation Protected Securities Fund 2 (*WIW* or the *Fund*) is a closed-end, diversified management investment company which seeks to provide current income for its shareholders. Capital appreciation, when consistent with current income, is a secondary investment objective. Substantially all of the Fund's net investment income (after payment of dividends to holders of preferred shares and interest in connection with other forms of leverage (if applicable)) is distributed to the Fund's common shareholders. A Dividend Reinvestment Plan is available to those common shareholders of record desiring it. The Fund's common shares are listed on the New York Stock Exchange (*NYSE*) where they are traded under the symbol *WIW*.

Performance Information

Total return on market value measures investment performance in terms of appreciation or depreciation in market value per share, plus dividends and any capital gain distributions. Total return on net asset value measures investment performance in terms of appreciation or depreciation in net asset value per share, plus dividends and any capital gain distributions. Total return on market value assumes that dividends and distributions were reinvested at prices obtained under the Fund's dividend reinvestment plan. Total return on net asset value assumes that dividends and distributions were reinvested at net asset value. Average annual returns tend to smooth out variations in a fund's return, so that they differ from actual year-to-year results. No adjustment has been made for any income taxes payable by shareholders.

	Fourth Quarter 2005	Year Ended December 31, 2005	Average Annual Return Since Inception ^A
Total Return based on:			
Market Value	(0.38)%	(0.26)%	(4.97)%
Net Asset Value	(1.03)%	2.94%	3.76%
Barclays U.S. Government Inflation-Linked 1-10 Year Index ^B	(0.02)%	3.16%	4.26%
Barclays U.S. Government Inflation-Linked Index (All Maturities) ^C	0.02%	2.73%	4.51%

The performance data quoted represents past performance and does not guarantee future results. The performance stated may have been due to extraordinary market conditions, which may not be duplicated in the future. Current performance may be lower or higher than the performance data quoted. To obtain the most recent month-end performance information please visit <http://www.westernclaymore.com>. The investment return and principal value of the Fund will fluctuate so that an investor's shares, when sold, may be worth more or less than the original cost. Calculations assume reinvestment of dividends and capital gain distributions.

^A *The Fund's inception date is February 27, 2004.*

^B *This index is the 1 to 10 year component of the Barclays Global Inflation-Linked Bond Index, which measures the performance of the major government inflation-linked bond markets.*

^C *This index is the U.S. component of the Barclays Global Inflation-Linked Bond Index, which measures the performance of the major government inflation-linked bond markets.*

Annual Report to Shareholders

FUND HIGHLIGHTS Continued

Investment Policies

The Fund's investment policies include, among others, that its portfolio be invested as follows:

At least 80% of total managed assets^D in U.S. Treasury Inflation Protected Securities.

Up to 20% of total managed assets in corporate bonds or other securities and instruments, including securities and instruments of issuers located in developing or emerging market countries.

Preferred shares, together with other forms of leverage (including reverse repurchase agreements and dollar roll transactions), will not exceed 38% of the Fund's total managed assets.

Dividend Reinvestment Plan

The Fund and Computershare Trust Company, N.A. (Agent), as the Transfer Agent and Registrar of WIW, offer a convenient way to add shares of WIW to your account. WIW offers to all common shareholders a Dividend Reinvestment Plan (Plan). Under the Plan, cash distributions (e.g., dividends and capital gains) on the common shares are automatically invested in shares of WIW unless the shareholder elects otherwise by contacting the Agent at the address set forth below.

As a participant in the Dividend Reinvestment Plan, you will automatically receive your dividend or net capital gains distribution in newly issued shares of WIW, if the market price of the shares on the date of the distribution is at or above the net asset value (NAV) of the shares, minus estimated brokerage commissions that would be incurred upon the purchase of common shares on the open market. The number of shares to be issued to you will be determined by dividing the amount of the cash distribution to which you are entitled (net of any applicable withholding taxes) by the greater of the NAV per share on such date or 95% of the market price of a share on such date. If the market price of a share on such distribution date is below the NAV, less estimated brokerage commissions that would be incurred upon the purchase of common shares on the open market, the Agent will, as agent for the participants, buy shares of WIW through a broker on the open market. All common shares acquired on your behalf through the Plan will be automatically credited to an account maintained on the books of the Agent.

Additional Information Regarding the Plan

WIW will pay all costs applicable to the Plan, except for brokerage commissions for open market purchases by the Agent under the Plan which will be charged to participants. All shares acquired through the Plan receive voting rights and are eligible for any stock split, stock dividend, or other rights accruing to shareholders that the Board of Trustees may declare.

You may terminate participation in the Plan at any time by giving notice to the Agent. Such termination shall be effective prior to the record date next succeeding the receipt of such instructions or by a later date of termination specified in such instructions. Upon termination, a participant will receive a certificate for the full shares credited to his or her account or may request the sale of all or part of such shares. Fractional shares credited to a terminating account will be paid for in cash at the current market price at the time of termination.

Dividends and other distributions invested in additional shares under the Plan are subject to income tax just as if they had been received in cash. After year end, dividends paid on the accumulated shares will be included in the Form 1099-DIV information return to the Internal Revenue Service and only one Form 1099-DIV will be sent to participants each year.

Inquiries regarding the Plan, as well as notices of termination, should be directed to Computershare Trust Company, N.A., P.O. Box 43010, Providence, Rhode Island 02940-3010 Investor Relations telephone number (800) 426-5523.

^D *Total managed assets* means the total assets of the Fund (including any assets attributable to leverage) minus accrued liabilities (other than liabilities representing leverage).

Annual Report to Shareholders

Annual Certifications

In June 2005, the Fund submitted a CEO annual certification to the NYSE in which the Fund's principal executive officer certified that he was not aware, as of the date of the certification, of any violation by the Fund of the NYSE's Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related Securities and Exchange Commission (SEC) rules, the Fund's principal executive and principal financial officers have made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q, relating to, among other things, the Fund's disclosure controls and procedures and internal control over financial reporting.

Schedule of Portfolio Holdings

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. You may obtain a free copy of the Fund's Form N-Q by calling 1-800-345-7999, visiting the Fund's website (<http://www.westernclaymore.com>), or by writing to the Fund, or you may obtain a copy of this report (and other information relating to the Fund) from the SEC's website (<http://www.sec.gov>). Additionally, the Fund's Form N-Q can be viewed or copied at the SEC's Public Reference Room in Washington D.C. Information about the operation of the Public Reference Room can be obtained by calling 1-800-732-0330.

Proxy Voting

You may request a free description of the policies and procedures that the Fund uses to determine how proxies relating to the Fund's portfolio securities are voted by calling 1-800-345-7999 or by writing to the Fund, or you may obtain a copy of these policies and procedures (and other information relating to the Fund) from the SEC's website (<http://www.sec.gov>). You may request a free report regarding the Fund's voting of proxies relating to portfolio securities during the most recent twelve-month period ended June 30 by calling 1-800-345-7999 or by writing to the Fund, or you may obtain a copy of this report (and other information relating to the Fund) from the SEC's website (<http://www.sec.gov>).

IMPORTANT TAX INFORMATION 2005

The portion of dividends attributable to interest earned on direct obligations of the U.S. Government is exempt from state income tax in many states. The percentage of such interest earned by the Fund for each quarter and for the year ended December 31, 2005, is as follows:

First Quarter 2005	Second Quarter 2005	Third Quarter 2005	Fourth Quarter 2005	Year Ended December 31, 2005
39.11%	83.96%	67.34%	85.94%	77.74%

Annual Report to Shareholders

PORTFOLIO DIVERSIFICATION

December 31, 2005

The pie chart and bar chart above represent the Fund's portfolio as of December 31, 2005. The Fund's portfolio is actively managed, and its portfolio composition, credit quality breakdown, and other portfolio characteristics will vary from time to time. U.S. Treasury Inflation-Protected Securities are unrated, but are backed by the full faith and credit of the government of the United States of America and are therefore considered by the Fund's investment manager to be comparable to bonds rated AAA/Aaa.

Quarterly Comparison of Market Price and Net Asset Value (NAV), Discount or Premium to NAV and Average Daily Volume of Shares Traded

	Market Price	Net Asset Value	Premium/ (Discount)	Average Daily Volume (Shares)
March 31, 2005	\$ 13.12	\$ 13.56	(3.24)%	182,534
June 30, 2005	\$ 12.67	\$ 13.90	(8.85)%	148,336
September 30, 2005	\$ 12.25	\$ 13.94	(12.12)%	210,356
December 31, 2005	\$ 11.87	\$ 13.46	(11.81)%	245,378

^A Ratings shown are expressed as a percentage of the portfolio. Standard & Poor's Ratings Services provides capital markets with credit ratings for the evaluation and assessment of credit risk.

^B Expressed as a percentage of the portfolio.

Annual Report to Shareholders

PORTFOLIO OF INVESTMENTS

December 31, 2005

(Amounts in Thousands)

Western Asset/Claymore U.S. Treasury Inflation Protected Securities Fund 2

	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
Long-Term Securities	150.0%				
U.S. Government and Agency Obligations	121.4%				
United States Treasury Inflation-Protected Security		0.875%	4/15/10	\$ 65,104	\$ 61,892 _A
United States Treasury Inflation-Protected Security		3.500%	1/15/11	81,463	87,063 _{A,B}
United States Treasury Inflation-Protected Security		3.000%	7/15/12	150,000	158,602 _{A,B}
United States Treasury Inflation-Protected Security		2.000%	1/15/14	85,130	84,648 _{A,C}
United States Treasury Inflation-Protected Security		1.625%	1/15/15	143,716	138,456 _A
United States Treasury Inflation-Protected Security		1.875%	7/15/15	476,849	468,951 _A
Total U.S. Government and Agency Obligations (Identified Cost \$1,009,585)					999,612
Corporate Bonds and Notes	4.4%				
<i>Automotive</i>	<i>1.3%</i>				
Ford Motor Company		7.450%	7/16/31	10,000	6,800
General Motors Corporation		8.375%	7/15/33	6,000	3,960
					<u>10,760</u>
<i>Electric</i>	<i>0.6%</i>				
The AES Corporation		8.875%	2/15/11	5,000	5,406
<i>Gas and Pipeline Utilities</i>	<i>1.3%</i>				
Dynegy Holdings Inc.		8.750%	2/15/12	5,000	5,400
The Williams Companies, Inc.		7.500%	1/15/31	5,000	5,175
					<u>10,575</u>
<i>Health Care</i>	<i>0.6%</i>				
Tenet Healthcare Corporation		7.375%	2/1/13	5,000	4,613

<i>Oil and Gas</i>	<i>0.6%</i>				
El Paso Corporation		7.750%	1/15/32	5,000	<u>5,012</u>
Total Corporate Bonds and Notes					
(Identified Cost \$36,944)					36,366
Asset-Backed Securities	0.1%				
Mutual Fund Fee Trust XIII Series 2000-3		9.070%	7/1/08	4,913	<u>872_{D,E}</u>
Total Asset-Backed Securities					
(Identified Cost \$1,001)					

Annual Report to Shareholders

PORTFOLIO OF INVESTMENTS Continued

Western Asset/Claymore U.S. Treasury Inflation Protected Securities Fund 2 Continued

	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
U.S. Government Agency Mortgage-Backed Securities	3.0%				
Fannie Mae		5.500%	10/1/35	\$ 24,283	\$ 24,050
Total U.S. Government Agency Mortgage-Backed Securities (Identified Cost \$23,881)					
Yankee Bonds^F	21.1%				
<i>Electric</i>	<i>0.6%</i>				
Empresa Nacional de Electricidad S.A.		7.875%	2/1/27	4,300	4,754
<i>Foreign Governments</i>	<i>18.6%</i>				
Federative Republic of Brazil		14.500%	10/15/09	10,210	13,094
Federative Republic of Brazil		8.875%	4/15/24	3,430	3,824
Federative Republic of Brazil		12.250%	3/6/30	4,560	6,578
Federative Republic of Brazil		11.000%	8/17/40	23,065	29,731
Republic of Colombia		11.750%	2/25/20	12,380	17,115
Republic of Ecuador		9.000%	8/15/30	2,770	2,535 ^G
Republic of El Salvador		8.250%	4/10/32	4,330	4,774 ^H
Republic of Panama		9.375%	1/16/23		