



THE MCCLATCHY COMPANY

Since 1857

2008 Annual Report

THE McCLATCHY COMPANY is the third largest newspaper company in the United States, with 30 daily newspapers, approximately 50 non-dailies, and direct marketing and direct mail operations. McClatchy also operates leading local websites in each of its markets which extend its audience reach. The websites offer users comprehensive news and information, advertising, e-commerce and other services. Together with its newspapers and direct marketing products, these interactive operations make McClatchy the leading local media company in each of its premium high growth markets. McClatchy-owned newspapers include *The Miami Herald*, *The Sacramento Bee*, the *Fort Worth Star-Telegram*, *The Kansas City Star*, *The Charlotte Observer* and *The News & Observer* (Raleigh).

McClatchy also owns a portfolio of premium digital assets, including 14.4% of *CareerBuilder*, the nation's largest online job site, and 25.6% of *Classified Ventures*, a newspaper industry partnership that offers two of the nation's premier classified websites: the auto website, *cars.com*, and the rental site, *apartments.com*.

McClatchy is listed on the New York Stock Exchange under the symbol MNI.

Financial Highlights

in thousands except per share amounts	2008	2007	% change
For the Year			
Net revenues	\$1,900,457	\$2,260,363	-15.9%
Operating expenses	1,738,854	4,826,315	-64.0%
Income (loss) from continuing operations	2,807	(2,726,609)	NM
Income (loss) from continuing operations per share	0.03	(33.26)	NM
Operating cash flow from continuing operations*	409,053	574,653	-28.8%
At Year End			
Total assets	\$3,522,206	\$4,137,919	-14.9%
Long-term debt	2,037,777	2,471,827	-17.6%
Stockholders' equity	52,429	425,540	-87.7%
Shares outstanding:			
Class A shares	57,515	57,105	0.7%
Class B shares	25,051	25,051	0.0%

* Operating cash flow from continuing operations represents operating income /loss (\$161,602,000 income in 2008 and \$2,565,952,000 loss in 2007) plus depreciation and amortization (\$142,948,000 in 2008 and \$148,559,000 in 2007), plus impairment charges (\$59,799,000 in 2008 and \$2,992,046,000 in 2007), plus severance charges of \$44,704,000 in 2008. The company believes operating cash flow is commonly used as a measure of performance for newspaper companies, however, it does not purport to represent cash provided by operating activities as shown in the company's statement of cash flows, nor is it meant as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

NM = Not Meaningful



GARY B. PRUITT, *Chairman, President and Chief Executive Officer*

Letter to Shareholders

This is a time of painful economic contraction and unprecedented transformation in the news industry, so it is understandable that everybody involved with McClatchy – shareholders, management and employees – is focused on how the company is doing and how it plans to succeed in the future. I'd like to summarize our results and discuss the successful business model we're creating for our hybrid print and online news and advertising company.

We are engaged in a continuing reengineering of our company that has been years in the making. While today's dismal economy has masked many of the advances, we have made good progress and see better days ahead. Consider this: in the midst of the worst economic conditions in generations, when legendary national banks and manufacturers are failing, McClatchy operates solidly profitable multimedia publishing companies in 29 cities from Miami to Anchorage. Our operating cash flow margin excluding unusual charges in 2008 was a healthy 21.5%. When the economy improves, we believe our performance will likewise benefit. We do not underestimate the challenges ahead, but we feel good about our prospects.

Financial Results

Our results in 2008 were impacted by an economy in recession and an industry in transformation. Our net revenues were down 15.9%, with advertising revenues down 17.9%. We recognize that part of our advertising

decline is permanent – reflecting the secular shift to the internet. Another part is temporary – reflecting the cyclical nature of our business in a recession.

For McClatchy this story began with the housing crash in California and Florida, home to two of our largest newspapers, and was exacerbated by the credit crunch that worsened dramatically as 2008 unfolded. It has become one of the most severe recessions we have endured as a nation. Consequently, the economic malaise that was centered in only a few states spread to the rest of the country, and it is reflected in our operating results.

Because of declining revenues and the related impact on our stock price, we recorded pre-tax non-cash impairment charges of \$59.6 million in 2008. The company's 2008 after-tax income from continuing operations was \$2.8 million, or three cents per share including the effect of non-cash after-tax impairment charges. Still we generated \$409.1 million in operating cash flow in 2008 which was primarily used to reduce debt.

Our Strategy

Let me outline for you what we are doing to combat the challenge to our top line and to realign our business model. We are responding with a broad, disciplined

strategy focused on permanent changes in how we do business while our overarching goals remain unchanged:

We will continue to combine the mass reach of our newspaper readership with the power of each market's leading local internet business, and to supplement that broad reach with targeted direct mail and niche publications. As a result, we operate the leading local media company in each of our premium, long-term growth markets.

We are implementing this enduring strategy by focusing on five key initiatives now and throughout 2009

First, working to improve revenue performance, with a particular emphasis on internet advertising.

Second, growing total audience based on the unduplicated reach of our print and online products.

Third, providing and expanding our range of high quality public service journalism, in all channels, print and digital.

Fourth, permanently reducing our cost structure.

And fifth, continuing to pay down debt and improving our financial position.

Improving Revenues

We are working hard to improve revenue results. Our efforts include:

- Offering compelling products and services.
- Reallocating sales staff, particularly to online sales.
- Adding a corporate advertising department to create value for advertisers and drive revenue from our largest customers.
- Implementing new sales incentive plans focused on online sales and extending training aimed at changing the culture and approach to selling.

- Improving our sub-zip zoning and other targeting capabilities to address customers' needs.
- And partnering with technology companies and other newspaper companies in both online and print advertising programs.

Even in early stages, these programs are showing promising results. Our online advertising revenues were up 10.6% in 2008 compared to 2007. Excluding employment advertising, which has declined nationally both online and in print, our online advertising grew 51.6% in 2008.

We were also pleased to note that an increasing amount of our digital advertising revenue came from ads placed only online; that is, they were not tied to a joint print buy. And online only advertising is growing quickly – up 41.4% in 2008. We believe this independent revenue stream bodes well for the future of our digital business and is evidence of its importance as a resource for advertisers.

We are an industry leader in online advertising, which now represents 11.6% of total advertising revenues compared to 8.6% in 2007.

Growing Audiences

Our success online is built on growing audiences. Average monthly unique visitors to our websites were up 33.5% in 2008, reflecting our strategic initiative to expand total audiences in print and online. So while we reported a mid-single digit decline in circulation, we continue to extend our reach in our local markets. The Audit Bureau of Circulations certifies audience reach where surveys are available – generally in larger markets. At McClatchy those numbers show that on average we deliver unduplicated reach of print and online readers of more than 71% in our local markets. In nine of our top 13 markets, the ABC measurements showed audience growth between March and September of 2008.

We believe that audience growth is the best predictor of future success for any media company, and we are encouraged by our growing readership.

Providing Quality Journalism

That future is based on audiences attracted by high-quality, value-added information they can't get anywhere else. We enhance information through selection, verification and presentation to make it a unique and valuable community resource.

In the realm of civic and local information, no one is remotely as well equipped as we to discover, produce and distribute premium quality content. We can do so in ways that leverage our size and tap technology to find efficiencies in news gathering and distribution never available to us before. We can now share news resources among our newspapers and industry peers, gaining efficiencies and greater coverage. We have never had better tools to report the events in our markets.

Permanently Reducing Our Cost Structure

The same digital technology that brings us new competition for audiences and ad sales also empowers us to redistribute work, centralize many functions and operate far more efficiently. We have been taking decisive action to reshape our company and permanently reduce our cost structure.

We announced two restructuring plans in 2008 that reduced staff by about 20%, and included other cost saving initiatives to save an estimated \$200 million annually. Earlier this year we announced more restructuring designed to save additional expenses during 2009. It's important to recognize these moves are a part of a continuing, strategic plan for successful future operations, not just a response to today's adverse conditions. And we believe they are working.

In 2008 cash expenses were down 11.5% excluding severance related to our restructuring plans, despite higher newsprint prices. We have consolidated or outsourced operations in areas such as production,

information technology, accounting, customer service centers, and ad production. Two of our newspapers, Bradenton, FL and Modesto, CA, are now printed at other facilities. Two others in the Northwest are under contract to be printed by nearby papers in 2009, with more to come. We are sharing distribution costs at various newspapers with Tribune Company, Belo and others. And our newsrooms are working together in collaborative efforts not possible before. Technology has unleashed scores of ways for us to be more efficient, and the more we explore these options, the more possibilities we see. I can assure you that the savings from our cost initiatives are building.

This focus on costs is now a way of life at McClatchy because we are operating under a new business model—one that dictates that hybrid print and online, news and advertising companies must be smaller and more efficient than the old vertically-integrated, print-only model.

Repaying Debt

This broad range of initiatives has helped preserve cash flows, and coupled with asset sales, have allowed us to continue paying down debt. In addition we received a \$185 million tax refund related to our 2007 sale of the (Minneapolis) *Star Tribune* newspaper. We used these proceeds to reduce debt and further solidify our financial position. In 2008 we reduced debt by \$433 million, and total debt at year end was \$2.038 billion.

In the third quarter we entered into an amendment to our credit agreement with our banks because we realized that the credit crisis may result in a longer economic downturn than initially anticipated. The willingness of our bank group to agree to this amendment demonstrates the confidence they have in the company. We believe this agreement gives us the flexibility we need to work through the current recession and make the changes needed to our business model to remain a

successful local media company. We will continue to focus on reducing debt in 2009 and further improving our financial position.

Looking Forward

We approach 2009 with a strong sense of resolve.

On the revenue side, the picture is decidedly mixed. The economy remains mired in recession. On the other hand, we expect by the second half of 2009 that the recession may have bottomed; perhaps the economy could even begin to grow. But even if a recovery does not begin in 2009 we expect to see results from the initiatives we've taken to improve revenue performance. We will be working hard to narrow the rate of revenue decline. That is our most important goal for 2009.

On the expense side, we have several advantages working for us. In the coming months you will see the full effect of our restructuring actions and we will continue to streamline operations in 2009. While newsprint prices currently compare unfavorably to the prior year, we believe they have peaked, and we expect them to continue to fall as 2009 unfolds. Building momentum in reducing costs is our second most important goal for 2009.

Putting it all together, 2009 has started ugly – like 2008 ended – but we expect trends to improve later in the year. Let me assure you that we at McClatchy are up for this fight.

Leadership Changes

We'd like to express our deepest appreciation to Bill Coblenz, who is retiring from our Board of Directors this spring after 30 years of service. McClatchy has benefited greatly from Bill's guidance and wisdom as the company transformed itself over that time from publishing three California newspapers to becoming the third largest newspaper publisher in the nation with

operations coast to coast. We thank Bill for his leadership and dedication. He will be missed.

We also want to extend our gratitude to Howard Weaver, our former vice president of news who retired at the end of 2008. Howard was an extremely important executive, and we can't thank him enough for all his leadership and distinguished service. Howard twice led the *Anchorage Daily News* to Pulitzer Prize gold medals for public service, and in his role as vice president he wholeheartedly embraced the digital age and saw an important place in it for McClatchy journalism, McClatchy values and McClatchy's public service mission.

It is this type of commitment and innovative thinking from our employees that is the foundation of our success and we thank each of them for their efforts. Despite the difficult measures we have taken in cost cutting, our employees have continued to be exemplary in their dedication and performance. We also appreciate the stockholders who have been loyal through this difficult period. We look forward to brighter days ahead as we work to increase the value of McClatchy to our communities, our employees and our stockholders.



Gary B. Pruitt
Chairman, President and CEO
March 1, 2009

Stockholder Information

General Office

The McClatchy Company
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Sacramento, CA 95816
(916) 321-1846

Transfer Agent and Registrar

Wells Fargo Shareowner Services
PO Box 64874
St. Paul, MN 55164-0874
www.shareowneronline.com
(800) 718-2377

Independent Auditor

Deloitte & Touche LLP
400 Capitol Mall
Sacramento, CA 95814

Form 10-K

Upon request, the Company will provide, without charge, a copy of its report on Form 10-K filed with the Securities and Exchange Commission. Requests should be made in writing to:

The McClatchy Company
Attention: Treasurer
P. O. Box 15779
Sacramento, CA 95852

Annual Meeting

The annual meeting of stockholders will be held at the Hyatt Regency Sacramento located at 1209 L Street, Sacramento, CA 95814, on Wednesday, May 20, 2009 at 9:00 a.m. Pacific Time.

Certifications of Officers

The company submitted its Annual CEO Certification for 2008 to the New York Stock Exchange on June 12, 2008. The company has filed with the Securities and Exchange Commission as Exhibits 31.3 and 31.2 to its Annual Report on Form 10-K for the fiscal year ended December 28, 2008, the Certifications of its Chief Executive Officer and Chief Financial Officer required in connection with that report by rules 13a-14(a) and 15-d-14(a) under the Securities Exchange Act.

Directors and Officers

Directors

Elizabeth A. Ballantine
President, EBA Associates

Leroy T. Barnes, Jr.
Former Vice President and
Treasurer, PG&E Corporation

William K. Coblentz
Senior Partner, Coblentz, Patch,
Duffy & Bass

Molly Maloney Evangelisti
Former Special Projects Coordinator,
The Sacramento Bee

Dr. Kathleen Foley Feldstein
President, Economics Studies, Inc.

Larry Jinks
Former Newspaper Executive,
Knight-Ridder, Inc.

Joan F. Lane
Special Assistant to the Board of
Trustees, Stanford University

Brown McClatchy Maloney
Owner and Publisher, Olympic View
Publishing and Owner, Radio Pacific

Kevin S. McClatchy
Former Managing General Partner
and Chief Executive Officer,
Pittsburgh Pirates

William B. McClatchy
Entrepreneur, Journalist and
Co-founder of Index Investing, LLC

Theodore R. Mitchell
President and Chief Executive Officer,
New Schools Venture Fund

Gary B. Pruitt
Chairman, President and
Chief Executive Officer,
The McClatchy Company

S. Donley Ritchey, Jr.
Former Chairman and
Chief Executive Officer,
Lucky Stores, Inc.

Frederick R. Ruiz
Chairman and CEO,
Ruiz Food Products, Inc.

Officers

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Chairman, President and
Chief Executive Officer

Lynn Dickerson
Vice President, Operations

Heather Fagundes
Vice President, Human Resources

Christian A. Hendricks
Vice President, Interactive Media

Karole Morgan-Prager
Vice President, General Counsel
and Corporate Secretary

Patrick J. Talamantes
Vice President, Finance and
Chief Financial Officer

Robert J. Weil
Vice President, Operations

Frank R. J. Whittaker
Vice President Operations

R. Elaine Lintecum
Treasurer

Hai V. Nguyen
Controller



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