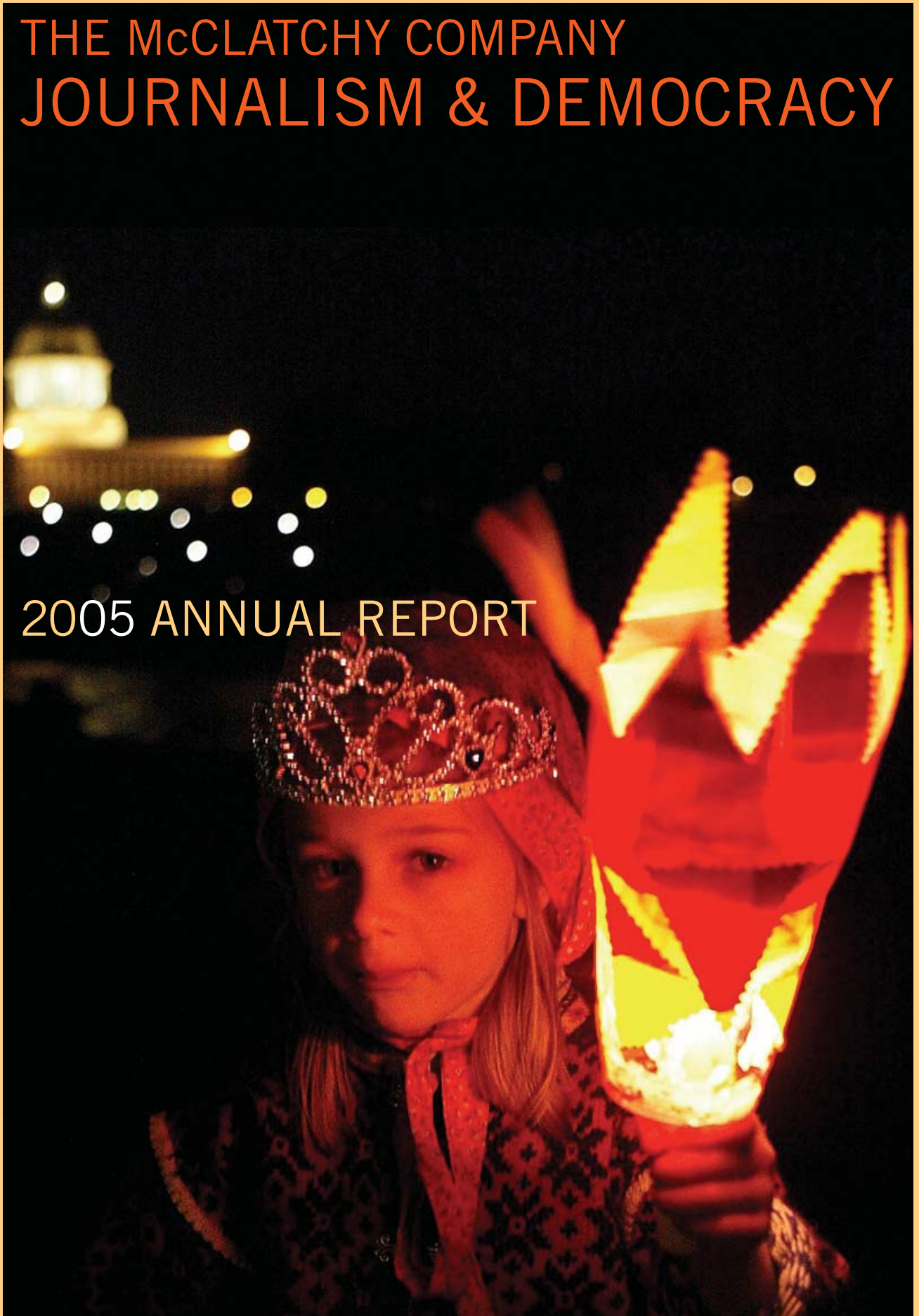


THE McCLATCHY COMPANY JOURNALISM & DEMOCRACY

2005 ANNUAL REPORT



CONGRESS SHALL MAKE NO LAW RESPECTING AN ESTABLISHMENT OF RELIGION, OR

FROM EARLY DAYS, NEWSPAPERS HAVE BEEN INDISPENSABLE IN CREATING SELF-GOVERNMENT IN THE UNITED STATES. DEMOCRACY AND JOURNALISM HAVE BEEN MORE THAN NEIGHBORS; THEY'VE BEEN PARTNERS.

PROHIBITING THE FREE EXERCISE THEREOF; OR ABRIDGING THE FREEDOM OF SPEECH,

ASKED TO DESCRIBE NEWSPAPERS' JOURNALISTIC MISSION, ONE EXECUTIVE SAID, "WE BUILD CITIZENS." INDEED, EMPOWERING READERS WITH THE INFORMATION AND OPPORTUNITY TO HOLD GOVERNMENT ACCOUNTABLE RESTS AT THE VERY CENTER OF WHAT WE DO.

OR OF THE PRESS; OR THE RIGHT OF THE PEOPLE PEACEABLY TO ASSEMBLE,

NO COMMUNITY CAN EXIST WITHOUT COHESION, WITHOUT A CONTINUING CIVIC CONVERSATION. OUR NEWSPAPERS SUPPLY THE VOCABULARY FOR THAT ESSENTIAL EXCHANGE, AND IN DOING SO WE MEET OUR FIRST AMENDMENT RESPONSIBILITIES, EVERY DAY.

AND TO PETITION THE GOVERNMENT FOR A REDRESS OF GRIEVANCES.



NEWS





DUTY AND





SERVICE





FREEDOM OF





EXPRESSION





CULTURE AND







SPIRIT AND





CELEBRATION





On any platform
McClatchy delivers news
in a variety of formats

DELIVERY



Last mass medium
Newspapers remain a vital
center for their communities

McCLATCHY AT A GLANCE



DAILY CIRCULATION SUNDAY CIRCULATION TOTAL REVENUES

MINNESOTA

Star Tribune www.startribune.com (Minneapolis)			
2005	379,900	639,000	\$ 378,635,000
2004	380,400	671,800	\$ 380,103,000

CALIFORNIA

The Sacramento Bee www.sacbee.com			
2005	293,400	334,200	\$ 259,741,000
2004	298,900	346,200	\$ 249,866,000

The Fresno Bee www.fresnobee.com			
2005	160,800	186,500	\$ 105,440,000
2004	163,400	192,500	\$ 101,017,000

The Modesto Bee www.modbee.com			
2005	83,900	88,900	\$ 63,861,000
2004	84,900	91,200	\$ 61,993,000

Merced Sun-Star www.mercedsun-star.com			
2005	16,400	NA	\$ 11,515,000
2004	17,500	NA	\$ 10,657,000

CAROLINAS

The News & Observer www.newsobserver.com (Raleigh, NC)			
2005	171,800	211,500	\$ 136,843,000
2004	171,100	211,000	\$ 136,778,000

The Herald www.heraldonline.com			
The Beaufort Gazette www.beaufortgazette.com			
and The Island Packet www.islandpacket.com (South Carolina)			
2005	64,000	64,900	\$ 38,830,000
2004	63,000	64,000	\$ 37,386,000

NORTHWEST

The News Tribune www.tribnet.com (Tacoma, WA)			
2005	125,100	139,700	\$ 79,712,000
2004	129,100	143,800	\$ 79,274,000

Anchorage Daily News www.adn.com			
2005	67,700	78,100	\$ 59,241,000
2004	69,000	81,300	\$ 57,574,000

Tri-City Herald www.tri-cityherald.com (Washington)			
2005	42,000	44,800	\$ 26,376,000
2004	42,100	45,300	\$ 24,932,000

INTERNET		TOTAL PAGE VIEWS AT ALL SITES	TOTAL REVENUES*
2005		1,390,381,000	\$ 58,082,000
2004		1,289,775,000	\$ 42,850,000

*Largely included in individual newspapers revenues reported elsewhere in this section.

FINANCIAL HIGHLIGHTS

in thousands except per share amounts	2005	2004	% change
FOR THE YEAR			
Net revenues	\$1,186,115	\$1,163,376	2.0%
Operating expenses	916,114	894,067	2.5%
Net income	160,519	155,876	3.0%
Net income per share – diluted	3.42	3.33	2.7%
Operating cash flow*	335,773	335,841	0.0%
AT YEAR END			
Total assets	\$2,086,487	\$2,049,400	1.8%
Long-term debt	154,200	267,200	-42.3%
Stockholders' equity	1,565,591	1,423,004	10.0%
Shares outstanding:			
Class A shares	20,526	20,200	1.6%
Class B shares	26,224	26,264	-0.2%

* Operating cash flow represents operating income (\$270,001,000 in 2005 and \$269,309,000 in 2004) plus depreciation and amortization (\$65,769,000 in 2005 and \$66,532,000 in 2004). 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.

CORPORATE PROFILE

THE McCLATCHY COMPANY dates from the California Gold Rush era, when James McClatchy was a founding editor of its first newspaper, *The Sacramento Bee*. Headquartered in Sacramento, California, McClatchy is a leading newspaper and internet publisher. It publishes 12 daily and 17 non-daily newspapers located in western coastal states, North and South Carolina, and the Twin Cities of Minneapolis/St. Paul. McClatchy has daily circulation of 1.4 million and Sunday circulation of 1.8 million. McClatchy's newspapers include, among others, the *Star Tribune* in Minneapolis, *The Sacramento Bee*, *The Fresno Bee* and *The Modesto Bee* in California, *The News & Observer* (Raleigh, NC), *The News Tribune* (Tacoma, WA) and the *Anchorage Daily News*.

McClatchy also operates leading local websites in each of its daily newspaper markets, offering readers information, comprehensive news, advertising, e-commerce and other services, and owns and operates McClatchy Interactive, an interactive operation that provides websites with content, publishing tools and software development.

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

TO OUR SHAREHOLDERS

BUILDING A 21ST CENTURY NEWS COMPANY

THERE WERE MANY REASONS TO CELEBRATE AT McCLATCHY IN 2005, A YEAR HIGHLIGHTED BY INDUSTRY-LEADING RESULTS RANGING FROM FINANCIAL SUCCESS AND AUDIENCE GROWTH TO NEWS REPORTING AND PUBLIC SERVICE.

BY OTHER MEASURES IT WAS A YEAR OF INCREASING CHALLENGE FOR OUR INDUSTRY. AUDIENCES AND ADVERTISERS HAVE MORE CHOICES TODAY THAN EVER BEFORE, AND SOME OBSERVERS ARE PESSIMISTIC ABOUT THE ABILITY OF NEWSPAPER COMPANIES TO PROSPER IN THAT ENVIRONMENT.



But this is hardly the first time that Wall Street and others have been gloomy about our future. The latest round of predictions – of death-by-internet – subsided a bit when the dot-com bubble burst, but they are clearly in vogue once again.

Our successes in 2005 and recent years bolster our confidence in our company and in the news industry. Unlike some, we are optimistic about the role newspapers will play in the media future and we're proud of how our papers perform. A look at the extraordinary photojournalism on display in this report will illustrate why.

We are not simply engaged in harvesting the fruits of yesterday's endeavors; we are actively involved in creating our future as a 21st century news and information company. We do so with confidence grounded in several fundamental truths.

Tomorrow's appetite for real news will not be less than today's; the value of timely, reliable information is not diminishing. The role of trusted guides in navigating a thickening fog of information will only grow. And while we know that these needs will be met on different platforms and by new means in the future, we also

recognize that our success in doing so will be built on the solid foundation of our past accomplishments.

By focusing our energies on producing quality newspapers in our growth markets, we can continue to outperform in readership, circulation, advertising and online leadership. If we do this right, we will continue to operate the leading local media companies in some of the best markets in the country, and it is from that strong platform we are busily extending our reach to new audiences, in ways ranging from email alerts to online video, from community blogs to podcasts. While the final shape of the 21st century news company has yet to be precisely defined, we know where the goal is located and how to get there from here.

FINANCIAL RESULTS

In 2005 total revenues increased 2.0%, and advertising revenues were up 2.8%. This represents the fifth consecutive year McClatchy has outpaced industry averages in the rate of advertising growth. Once again we enjoyed record earnings. Net income was \$160.5 million or \$3.42 per share.

Achieving strong financial results isn't a one-time event at McClatchy. Since the downturn of 2001, our revenues and operating cash flows have continued to grow each year, and our cash flow margins are among the highest in the industry.

This financial success is based on producing quality newspapers that meet the needs of our readers and advertisers more efficiently each year.

Each paper is charged with "continuous improvement," a mandate that directs each to get better every year. And they are. Unlike many newspapers, our papers will operate in 2006 with record-high levels of news staff and news space. They are employing those resources

the *Star Tribune* of Minneapolis. This effort incorporates a new look and organization in the printed paper, carefully engineered to meet the needs of young people and time-starved occasional readers while sustaining the depth traditional readers expect. And it extends far beyond that; paired with a concurrent redesign of *startribune.com*, the total package embraces a new relationship with readers no matter how they come to the *Star Tribune* – whether as online news consumers or as newspaper readers.

In April 2005 *The Sacramento Bee's* Tom Philp was awarded the 2005 Pulitzer Prize for Editorial Writing for a series that advocated restoration of the Hetch Hetchy Valley in Yosemite National Park. Another

DISCOVERING IMPORTANT INFORMATION, PRESENTING IT CLEARLY AND SORTING OUT WHAT MATTERS MOST: THESE REPORTING AND EDITING TASKS WILL ALWAYS BE AT THE HEART OF WHAT WE DO.

TALENTED SALESPEOPLE WHO BUILD STRONG RELATIONSHIPS WITH ADVERTISERS ARE THE ENGINE BEHIND MUCH OF OUR REVENUE GENERATION, AND WE MAKE SURE WE HAVE PLENTY OF WELL-EQUIPPED REPRESENTATIVES TO ACCOMPLISH THESE GOALS.



strategically as they learn to extend their news and public service mission into a changing future. And our sales force is growing as well.

But we certainly are not adding fat. Adapting to changing conditions is a continuous process of structural reform at McClatchy. We're an athletic company; focused on lean, fit operations. We apply that discipline throughout the company, and as a result we've been able to achieve impressive savings and efficiencies without the drag of costly and demoralizing across-the-board layoffs. Since 1999, we have reduced head count 11.5% by managing attrition. We will continue to refine our operations and maximize productivity by smart use of technology, consolidation and outsourcing where appropriate. A disciplined athlete gets up and goes to the gym every morning, not every once in a while. An athletic company, likewise, needs to apply these lessons consistently and persistently. We have, and we will.

QUALITY JOURNALISM

There is no better example of continuous improvement and successful adaptation than that demonstrated by the recent redesign initiative at our largest newspaper,

prize-winning McClatchy editorial considered the same subject and came to the opposite conclusion. *The Modesto Bee's* editorial board decided local irrigation and water needs were better served by leaving the reservoir intact, and their advocacy was named the best editorial in a 13-state "Best of The West" competition. Diversity of viewpoint and local autonomy for decision-making – traditions at McClatchy – have rarely been better demonstrated.

GROWING AUDIENCES

Our constant focus on readers allows us to enjoy the industry's best circulation record, and that gives us greater freedom in setting advertising rates. While we continue to outperform in circulation, our record streak of 20 consecutive years of daily growth ended this year. Of course we're sorry the streak is over, but our performance remains strong and our efforts proportional. We refuse to exploit gimmicks or trash our income statement for the sake of keeping a streak alive.

In 2005 our daily circulation declined 1.2% and Sunday was down 3.2%. In our September 2005 FAS-FAX report our daily circulation was down 1.0%.

According to Newspaper Association of America the industry reported a daily decline of 2.6% for the same period.

Certainly our connection with readers embraces circulation, but it doesn't end there. While paid circulation remains an important metric, it doesn't begin to encompass the full reach of newspapers.

Readership – which counts everyone who reads the paper and not just those who purchased it – is a comprehensive measurement more analogous to broadcast metrics. This apples-to-apples comparison shows that while fragmentation and demographic shifts have affected newspapers as well as broadcasters,

DIRECT MARKETING

While our vigorous newspapers serve as the primary mass medium for advertisers in our markets, other products allow us to provide reach targeted to more specific households. Among the most successful of emerging new revenue producers are sophisticated direct mail and niche publishing programs that allow advertisers to supplement the mass reach of the daily newspaper by targeting households that do not subscribe.

Revenues and incremental cash flows from direct marketing have been steadily increasing at McClatchy. Direct marketing revenues reached \$57.6 million in 2005, a 9.4% increase over 2004.

NEWSPAPERS OFFER MANY ADVANTAGES TO READERS WITH A NEED-TO-KNOW: THEY'RE PORTABLE, READILY AVAILABLE, AND INEXPENSIVE. WE MAKE SURE SINGLE-COPY CUSTOMERS CAN FIND ATTRACTIVE NEWSPAPERS FOR SALE AT THOUSANDS OF LOCATIONS IN OUR MARKETS.

CLASSIFIED ADS ARE A TRADITIONAL NEWSPAPER ADVANTAGE, AND McCLATCHY PAPERS ARE TRANSLATING THAT STRENGTH INTO ONLINE SUCCESS, AS WELL. WHETHER COMBINED WITH PRINTED ADS OR STANDING ALONE AS INTERACTIVE MESSAGES, CLASSIFIEDS ARE A MAINSTAY.

PRE-PAID HOME DELIVERED NEWSPAPERS ARE THE GOLD STANDARD OF READERSHIP, AND THIS CATEGORY IS A PARTICULAR STRENGTH AT McCLATCHY, WHERE WE ENJOY THE BEST CIRCULATION RECORD IN OUR INDUSTRY.



our industry's decline has been much less dramatic. In fact, once our online reach is included, our audiences are actually growing.

By way of example, let's look at our two largest markets.

The Minneapolis *Star Tribune's* website, startribune.com is the clear market leader among all local sites in the Twin Cities. Based on Media Audit calculations, when *Star Tribune's* unduplicated online audience is added to the newspaper's readership, it pushes reach from 45% of the market up to 62%.

The same pattern holds true at our second largest newspaper, *The Sacramento Bee*. Sacbee.com easily outpaces other local websites, and if all three of *The Bee's* affiliated websites (sacbee.com, sacticket.com and sacramento.com) are combined, that lead grows even larger. When Media Audit combined *Bee* readership with the unduplicated additional reach of these websites, the newspaper's market reach of 57% grew to a total unduplicated reach of 68%.

This is certainly not the profile of a failing industry.

ONLINE LEADERSHIP

Most newspaper websites are among the leading local sites in each market – and that is certainly true in McClatchy's case. No arena is more crucial to our future than online, and we are focused on expanding these audiences, leveraging them to greater profitability.

In 2005, our online advertising revenues were up 38.3% to \$55.7 million, and over the last six years, online revenues have grown on average 29.4% annually – with faster growth in recent years. Online advertising plays an increasingly important role at McClatchy. In 2005 it represented 5.6% of our advertising revenues, compared to 4.1% last year.

While many initiatives drive interactive success, none has been more important than classifieds – in particular, employment, automotive and real estate advertising. At McClatchy, we've crafted a classified ad strategy that offers a combination of print-only, print-and-online and online-only products. Combined with our longstanding relationships with customers and value-added service, these offer advantages our competitors simply cannot match.

Everybody who buys classified ads is aware of the many free services, including Craigslist and Google Base. But is free better than functional? For some purposes, of course it is. If you want to get rid of a used sofa and can wait to sell it, a free ad makes a lot of sense. Those ads attract a certain kind of traffic, which can be helpful, and we offer some free ads ourselves to compete for that.

For other kinds of classified advertising, functional trumps free. Advertisers who need to fill critical job openings or ensure timely sales realize that free isn't always worth the price.

Our paid and branded classifieds add great value, including marketing expertise, ad creation, a more

\$59.10, a decline of 17.7% compared to our peers whose stock declined 20.0% on average. Over the last five years our stock return, including dividends, has grown at an annual rate of 7.4% while our peer group averaged 0.5%.

In September we announced a share repurchase program, the first in the company's history. Our preferred use for excess cash is to acquire newspapers in growth markets and apply our successful strategy in running them. We have a strong track record of returning value to shareholders by doing so, but we pursue only compelling opportunities that meet our strict criteria – and there aren't many that do. As a result, we now look to other uses for cash, and a good one for McClatchy is

TODAY'S NEWSROOMS MUST SERVE A FAR MORE DIVERSE AUDIENCE THAN EVER BEFORE, AND McCLATCHY IS PROUD ITS NEWSROOMS ARE WELL AHEAD OF MOST IN EMPLOYEE DIVERSITY AND CAN SERVE THEIR READERS BETTER.

ONLINE JOURNALISM – ONCE SEEN AS A THREAT TO NEWSPAPERS – HAS INSTEAD BECOME AN OPPORTUNITY FOR INNOVATION AND EXTENSION OF OUR TRADITIONAL JOURNALISM, BROADENING ITS REACH AND INCREASING AUDIENCES.



selected audience, a constrained and more relevant inventory of ads, reduced fraud, and assistance in managing complicated transactions. Advertisers understand that, and as a result, our effective classified packages fueled online classified advertising revenue growth of 41.2% in 2005, pushing total print and online classified revenues up 5.9% to \$422.0 million.

But classified advertising isn't our only focus online. We are moving forward aggressively on another important online initiative at McClatchy: local online search. We believe there's a sizeable opportunity in providing paid-search solutions for the small and mid-sized local merchants with whom we have close, long-standing relationships, as well as small businesses that have previously not been able to afford to reach their customers with paid advertisements. As consumers rely more and more on web searches when looking for local business and service information, we expect ad dollars will quickly follow. We're gaining traction here as well. Online retail revenues grew 18.4% in 2005.

SHAREHOLDER VALUE

2005 was a difficult year for newspaper companies in the stock market. Our stock price closed at

investing in the high quality, growth market newspapers we already own by buying back shares.

Finally, let me acknowledge that none of these noteworthy accomplishments would be possible without our talented employees. McClatchy attracts the best and the brightest, and their ranks reflect their communities better today than at any time in our history. The efficiencies we have found in our operations, the quality journalism and public service our newspapers provide, the innovative sales programs that drive financial success – all depend upon employees who share the goal of being the best in the industry at what we do, every day. I want to thank each of the nearly 9,000 people who contribute to McClatchy's success. We could not do it without them.

Gary B. Pruitt
Chairman, President and CEO
March 1, 2006

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

Larry Jinks
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Knight Ridder

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
Managing General Partner and
Chief Executive Officer,
Pittsburgh Pirates

William B. McClatchy
Entrepreneur, Journalist and
Cofounder 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 Chief Executive Officer,
Ruiz Food Products, Inc.

Maggie Wilderotter
Chairman and Chief Executive Officer,
Citizens Communications

OFFICERS

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Executive Officer

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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

Howard Weaver
Vice President, News

Robert J. Weil
Vice President, Operations

Frank R. J. Whittaker
Vice President, Operations

R. Elaine Lintecum
Treasurer

Lawrence D. Edgar
Controller

STOCKHOLDER INFORMATION

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www.melloninvestor.com

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, California 95852

ANNUAL MEETING

The annual meeting of stockholders will be held at the Vizcaya Pavilion, 2019 21st Street, Sacramento, California, on Wednesday, May 17, 2006 at 9:00 a.m. Pacific Time.



THE MCCLATCHY COMPANY
Since 1857

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