Dear Shareholders:

The theme of this year's letter to our shareholders is *Leading the Way* in value creation. This phrase reflects our performance during the past year and the philosophy of how we run our business. We focus on the details and strive to be the best at what we do: profitably finding and producing large amounts of natural gas, principally in the U.S. Mid-Continent region. We believe superior results are achieved by focused effort from talented professionals working on high quality natural gas assets - attributes that Chesapeake has in abundance.

Chesapeake's performance in 2001 was consistent with our goal of *Leading the Way* for the second consecutive year, our company established new records for production, proved reserves, ebitda, cash flow and recurring net income. Chesapeake's superior performance in 2001 resulted from a series of important management decisions made during the past several years that highlight our contrarian attitudes about how to best achieve success in this highly competitive and mature industry.

Our decisions included:

- *Product strategy* - we favored domestic natural gas over oil because we believe natural gas is the superior fuel for the future and has greater price upside;
- *Geographic strategy* - we concentrated in our own backyard, the Mid-Continent region of the U.S., where our economies of scale provide high returns on investment and where our deep gas exploration and production expertise enables us to locate large new reserves of natural gas;
- *Business strategy* - we continue to be equally adept at both drilling and acquiring, investing over $1.1 billion last year to add 919 bcfe of new natural gas reserves and delivering one of the best finding cost records in the industry;
- *Investment strategy* - we reduced our drilling activity last summer when drilling costs reached their peak and have since responded counter-cyclically by increasing our drilling activity as costs have fallen sharply from last summer; and
- *Risk-management strategy* - we recognized that oil and natural gas prices were unusually high in early 2001 and we captured much of this premium through hedging transactions, thereby locking in high profit margins for 2001-03.

Leading the Way in Value Creation

The impact of these decisions is reflected both in our exceptional 2001 performance and in our outstanding three-year results from year-end 1998 through year-end 2001. During this period:

- Production increased from 130 bcfe to 161 bcfe, a compounded annual growth rate (CAGR) of 7%;
- Proved reserves increased from 1,091 bcfe to 1,780 bcfe, a CAGR of 18%;
- Production replacement was 261% while finding and development costs averaged only $1.05 per mcfe for the 1,536 bcfe of new reserves added through acquisitions and drilling;
- Ebitda increased from $183 million to $620 million and cash flow grew from $115 million to $522 million, CAGR's of 50% and 66%, respectively;
- Net income available to common shareholders totaled $686 million and shareholders' equity increased by $1.02 billion;
- Net long-term debt per mcfe of proved reserves declined 18% from $0.83 to $0.68; and,
- Our stock price increased from $0.75 per share to $6.61, a CAGR of 107%. This was the best performance in the industry and in the top 10 among all publicly-traded stocks during this period.

As a result of this exceptional performance, Chesapeake has become the second largest producer of natural gas in the Mid-Continent region, among the largest independent gas producers in the U.S. and one of the most profitable producers of natural gas in the industry.

Chesapeake's Contrarian Spirit and Natural Gas Price Volatility

None of these accomplishments occurred because Chesapeake's management ran with the pack. Instead, the company's success has been the result of a well-defined and well-executed business strategy that focuses on one product (gas), in one area (the Mid-Continent) and on one consistent thesis: we believe natural gas prices will continue to stay strong in the years ahead because of the difficulty in finding new reserves of natural gas in North America and the highly favorable environmental benefits of using this fuel.

However, these strong natural gas prices will likely be accompanied by volatility unmatched among other publicly traded commodities. Rather than complain about this volatility or advocate intrusive governmental regulations in an attempt to artificially reduce it, we will simply deal with this issue as we do other business risks that confront us everyday. Successfully managing this volatility will enable us to further enhance shareholder value and continue expanding the company's operating margins. Therefore, we have focused on understanding, anticipating and acting decisively during natural gas pricing cycles, which we believe are likely to occur more frequently and with greater amplitude in the years ahead.

Accordingly, you should not be surprised when Chesapeake's management team takes actions that may seem occasionally out of sync with the rest of the industry. As contrarians, we are comfortable "zigging" when others "zag". Observing twenty years of volatility and the "boom and bust" nature of our industry has taught us the value of hedging our oil and gas production during the up cycles. While we may occasionally give up some revenue in the boom portion of the cycle, in return we will have more buying power than our competitors in the bust portion of the cycle.

As a result of these cycles, our industry suffers from a historic paradox: most producers have too much capital in the peak cycles (when returns from investing are low) and too little capital in the down cycles (when returns from investing are high). This results in an industry average of a 10-15% ROI while we instead seek to consistently generate a 25-30% ROI. If we can solve this paradox and achieve our targeted returns over several cycles, Chesapeake's stock price should reflect a premium valuation for the successful execution of our business strategy.

Leading the Way in 2002 - Extending Our Track Record

We are excited about Chesapeake's prospects for 2002 and have set three major goals that will help us extend our strong performance of the past three years. First, we will continue addressing a weakness that some investors still associate with our company - a very volatile stock price from our IPO date in 1993 through early 1999. During that six-year period, our stock began trading at $1.33 per share (split-adjusted), decreased to $0.44 per share in 1994, increased to $34.44 in 1996, then declined to $0.63 per share early in 1999. From that low point, our stock rebounded impressively to $11.06 per share in 2001.

This past stock price volatility resulted from a completely different asset base, business strategy and shareholder base than we have today. While our track record of value creation during the past nine years (as measured by comparing our IPO stock price to today's stock price) is still the best among all large and midcap independent producers, we recognize our early stock price volatility may still create concern for some prospective investors. We believe the passage of time and continued excellent performance will eliminate this concern and will enable us to achieve our first goal for 2002: making sure the market's valuation of Chesapeake more accurately reflects our company's strong record of value creation and our impressive growth potential.

Leading the Way in 2002 - Continuing to Reduce Our Debt

Our second goal for 2002 is to continue reducing the company's debt, which has decreased by 18% per mcfe of proved reserves during the past three years. In addition to reducing our debt over time, we have also structured Chesapeake's debt very attractively – the average maturity is more than eight years and the average interest rate is fixed at only 8.1%. In addition, our debt is not reserve-based (unlike bank debt), which further insulates the company from the potentially harmful effects of oil and natural gas pricing volatility.

We expect that Chesapeake will generally carry more debt than the majority of our competitors. This reflects our view that over time we can consistently earn returns on our invested capital significantly in excess of its cost. By keeping our costs low and profits high and by continuing to grow our natural gas reserves, Chesapeake's debt per mcfe of proved reserves should continue to decrease. We believe this will result in higher trading multiples for our stock in the years ahead.

Leading the way in 2002 - Delivering Significant Exploration Upside

Our final goal for 2002 is to dispel the misconception that the Mid-Continent region is "played out" and that consequently Chesapeake is not capable of delivering significant exploration upside. We believe this view results from a lack of awareness about our excellent exploration record of locating large new reserves of natural gas in the target-rich environment of the Anadarko and Arkoma Basins of the Mid-Continent.

Chesapeake's core competency has always been growing through the drillbit. While most investors understand that we can hit singles and doubles as well as anyone in the industry, many do not realize that Chesapeake has built an unrivalled Mid-Continent lease and 3-D seismic inventory that enables us to hit home runs as well. Presently we have 19 rigs drilling, of which 10 are targeting depths below 15,000' and six are working toward objectives below 19,000'. We believe this may be the deepest drilling campaign underway in the industry today and reflects our view that very substantial gas reserves remain undiscovered at these great depths.

We have recently drilled one of the deepest wells in the U.S., the Cat Creek 1-19 located in the Deep Anadarko Basin of western Oklahoma. Anticipated to begin producing in the second quarter, the Cat Creek 1-19 and the other deep tests we have underway should make investors increasingly aware of the upside potential of Chesapeake's extensive prospect inventory. We believe this upside exceeds 1.1 trillion cubic feet of natural gas equivalent (tcfe) and can significantly increase our proved reserves beyond their present size of 1.8 tcfe.

Looking Forward

As we close the books on our record-breaking year in 2001 and look ahead to another great year in 2002, we believe it is worth repeating the conclusion from our 1999 letter to shareholders: "As this decade unfolds, we believe investors will increasingly envision the 21st century as the age of natural gas. Just as great wealth was created during the 20th century in the age of oil and during the 19th century in the age of coal, we believe investors can greatly profit from embracing the tremendous potential of the natural gas industry in the century ahead." Two years later, we still feel the same way and believe that many more investors will share this view in the future.

Although exceptionally proud of Chesapeake's accomplishments of 2001, we believe 2002 may hold even greater promise. The combination of the outlook for natural gas and our focused geographic strategy, value added risk management policies, balanced and successful drilling and acquisition programs, high quality assets, low operating costs and high profit margins should enable Chesapeake to continue creating industry-leading shareholder value. We look forward to updating you as the year unfolds on our progress in meeting the company's goals for 2002.

Best regards,

Aubrey K. McClendon

Tom L. Ward

March 31, 2002
