Chesapeake

Letter to Shareholders - First Quarter 2003

Dear Fellow Shareholders:

Chesapeake's recently completed 2003 first quarter was a memorable one for the company and its shareholders. Not only did Chesapeake celebrate its 10th anniversary as a public company, but the company also reported its best ever quarterly financial and operating performance.

Ten years ago this quarter, Chesapeake became a public company at the split-adjusted stock price of $1.33 per share. The company was little more than a start-up then, with annual production of just 4 billion cubic feet of natural gas equivalent (bcfe) and proved oil and gas reserves of only 137 bcfe. Ten years later, Chesapeake's stock price has increased over 600% (the #2 performance in the sector during that time) and the company has now become the eighth largest public independent natural gas producer in the U.S.

We expect Chesapeake will continue its rapid growth in 2003. We are currently projecting that 2003's oil and natural gas production will increase by at least 33% from 2002's levels to 240 bcfe. In addition, we estimate that Chesapeake's proved reserves will increase from year-end 2002 by approximately 36% to 3.0 trillion cubic feet of natural gas equivalent (tcfe) by year-end 2003. Given the continuing strength we are anticipating in oil and natural gas prices in the coming months, we believe 2003 will be another terrific year for creating shareholder value at Chesapeake.

Operating and Financial Highlights

During the 2003 first quarter, the company jumped out to a great start for the year, establishing numerous quarterly operating and financial benchmarks:

* Oil and gas production reached a record level of 57 bcfe, up 35% from the 2002 first quarter;
* Oil and gas proved reserves increased to a record level of 2.8 tcfe, up 51% from the 2002 first quarter;
* Total revenue reached a record of $374 million, up 317% from the 2002 first quarter;
* Net income available to common shareholders soared to $70 million;
* Operating cash flow (defined as cash flow from operating activities before changes in assets and liabilities) reached a record of $168 million, an increase of 95% from the 2002 first quarter.

In addition, Chesapeake completed three important securities transactions that were used to partially finance $830 million of acquisitions during the quarter, the most notable of which were from ONEOK, Inc. and El Paso Corporation. The financings included $400 million in preferred and common equity and $300 million in 7.5% senior notes due in 2013. As a consequence of these transactions and the first quarter's net income, Chesapeake's debt to total capitalization ratio fell to its lowest level in six years.

We expect our balance sheet to continue improving in 2003 and the years ahead.

Oil and Gas Production Establishes Seventh Consecutive Record

During the 2003 first quarter, Chesapeake extended its streak of consecutive quarterly increases in oil and natural gas production to seven. This is a very impressive performance in an industry where production levels continue to fall quarter after quarter. The company's superior growth profile is being driven by the combination of strong drilling results and the successful acquisition of first-class Mid-Continent natural gas assets.

In the first quarter, Chesapeake's acquisition efforts were primarily focused on the ONEOK and El Paso transactions. These companies owned premier Mid-Continent natural gas positions that we had admired for many years. We take pride in Chesapeake's strong relationships in the industry and we expect to remain at the forefront in further consolidating the Mid-Continent gas industry in 2003 and beyond.

Building Unique Economies of Scale in the Mid-Continent

The first quarter's acquisitions have increased Chesapeake's Oklahoma-leading gas production market share to more than 14%. In addition, the company is now operating 25% of all the new wells being drilled in Oklahoma and is a non-operator in an additional 25% of wells being drilled by others. This unparalleled operational scale in the Mid-Continent provides Chesapeake with substantially lower operating costs and higher operating margins than its competitors.

Another feature of Chesapeake's Mid-Continent scale is the enormous backlog of drilling opportunities that we have assembled during the past five years. The company now owns 9,000 square miles of 3-D seismic and 2.2 million net acres of leasehold, on which we have identified over 2,000 prospective drillsites, a five-year backlog at present drilling rates. Chesapeake continues to build one of the premier onshore gas producing franchises in the U.S. and the company's ability to grow production, reserves, cash flow and earnings at double-digit levels increasingly distinguishes Chesapeake from its competitors.

Chesapeake's Deep Mid-Continent Exploration Program

The foundation of Chesapeake's organic growth effort is centered on the company's committed focus and expertise in exploring for gas reservoirs located between 15,000-25,000 feet. We are convinced that it is only at these great depths that large new reserves of natural gas can be found in the U.S. Chesapeake's deep drilling success is a result of the company's unique commitment to leading-edge geoscience and to building an inventory of leasehold that is second to none in the Mid-Continent. In addition to spending $500 million on drilling in 2003, Chesapeake will continue preparing for future growth by committing over $100 million to new leasehold and 3-D seismic acquisition and evaluation.

As evidence of the company's rich backlog of drilling opportunities, Chesapeake is currently conducting the third most active drilling program in the U.S. and is drilling the deepest wells in the country on average. We are confident this deep drilling program will result in substantial additional value creation for Chesapeake's shareholders in the years ahead.

Management's Outlook

Chesapeake's strong first quarter 2003 earnings and exceptional growth in proved reserves and production is being driven by the company's distinctive Mid-Continent focus on advanced-technology deep gas exploration and on small to medium-sized acquisitions. Chesapeake's low operating costs and high wellhead realizations are generating the company's highest operating margins ever. With the company's increasing economies of scale in the Mid-Continent, Chesapeake's margins should remain among the best in the industry.

Furthermore, the company will continue to look for opportunities to make value-added Mid-Continent gas acquisitions in the months and years ahead. We believe this is a particularly opportunistic time both to drill for new reserves and to acquire existing reserves of natural gas. We have found that our twin programs of drilling and acquiring work in tandem to create value: acquisition success creates drilling ideas and drilling success creates acquisition ideas. Chesapeake's ten-year track record demonstrates that its excellence both with the drillbit and in acquisitions should enable the company to continue generating significant increases in shareholder value during the remainder of 2003 and in the years ahead.

Best regards,

Aubrey K. McClendon
Chairman and Chief Executive Officer

Tom L. Ward
President and Chief Operating Officer

May 15, 2003

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