Chesapeake

Letter to Shareholders - Second Quarter 2003

Dear Fellow Shareholders:

Chesapeake's exceptionally strong 2003 second quarter results are further evidence that our company is very well-positioned to prosper in today's energy markets. For the quarter, we established company records for oil and natural gas production, proved reserves, net income to common shareholders and operating cash flow.

As a result of Chesapeake's drillbit and acquisition successes during the past few years, the company is now the nation's fifth largest independent natural gas producer, trailing only Devon, Anadarko, Burlington and Apache. This is a remarkable achievement for a company that was barely more than a start-up ten years ago. We are also pleased to note this growth has added significant value and our stock price reflects it – Chesapeake's common stock has been the industry's best performer during the past five years and the second best performer during the past ten years.

Operating and Financial Highlights

During the 2003 second quarter, Chesapeake:

* Increased oil and gas production to a record level of 67 billion cubic feet of natural gas equivalent (bcfe), up 55% from the 2002 second quarter;
* Increased oil and gas proved reserves to a record level of 3.0 trillion cubic feet of natural gas equivalent (tcfe), up 48% from the 2002 second quarter;
* Increased total revenue to a record $430 million, up 122% from the 2002 second quarter;
* Increased operating cash flow (defined as cash flow from operating activities before changes in assets and liabilities) to a record $226 million, an increase of 134% from the 2002 second quarter;
* Increased net income available to common shareholders to $76 million, up 239% from the 2002 second quarter.

Growth Through the Drillbit Continues

At a time when the U.S. desperately needs large new deposits of natural gas, Chesapeake is one of the few companies prepared to meet the challenge. We are now the country's most active driller of new wells and the leader in deep onshore natural gas exploration, with 16 of our 45 operated rigs currently drilling to geological targets below 15,000 feet. We believe the vast majority of undiscovered reserves of natural gas in the U.S. will be found at these levels, depths at which Chesapeake has built an industry-leading deep drilling and geological expertise.

Chesapeake's drilling activity level and focus on deep gas exploration, combined with our prospect inventory of more than 2,500 undrilled locations, 10,000 square miles of 3-D seismic and 2.2 million net acres of leasehold, should provide the company with a strong platform to continue increasing our gas production volumes and delivering value to shareholders.

Because of the operational successes of our second quarter, we have raised our production forecast for 2003 for the third time this year. We now believe Chesapeake's production will range between 258-262 bcfe, an increase of 40% compared to the 181 bcfe Chesapeake produced in 2002 and an increase of 35% over our initial 2003 production forecast. Given the continuing strength in oil and natural gas prices and the company's attractive hedges for the next six quarters, we remain optimistic that the second half of 2003 and all of 2004 will be exceptional periods of value creation for Chesapeake's shareholders.

Production and Proved Reserves Reach New Records

Chesapeake's second quarter operational performance enabled the company to extend to eight its streak of consecutive quarterly increases in natural gas equivalent production. During the quarter, Chesapeake's production increased 55% over the 2002 second quarter and even more remarkably, 19% from the 2003 first quarter. Of this 19% sequential growth, roughly half came from acquisitions and half came through the drillbit.

We believe that Chesapeake's organic growth during the quarter was the best in the industry and reflects very favorably on the strength of the company's drilling programs. Chesapeake's performance is even more remarkable when contrasted against the performance of the overall industry. During the past two years when Chesapeake's production more than doubled, the industry's U.S. gas production declined by 5%.

Proved oil and natural gas reserves, the foundation of our company's future growth in production and profitability, rose to their highest level ever at the end of the 2003 second quarter. These proved reserves now total approximately 3.0 tcfe, of which 90% are natural gas and 74% are proved developed. In addition, these reserves are geographically focused, with 90% located in the Mid-Continent region.

Economies of Scale Lead to High Margins

Chesapeake's unique focus in its Mid-Continent stronghold continues to translate into reduced unit expenses, higher operating margins and greater profitability. During the second quarter, the company was able to reduce its already low operating cost structure even further because of the economies of scale we have built in the Mid-Continent region.

In the Mid-Continent, the third largest gas supply region of the U.S., Chesapeake now accounts for an estimated 13% of all gas produced in the region and 25% of all drilling. With the company also participating as a non-operator in 33% of the wells being drilled by others, Chesapeake is now receiving 50% of all drilling and geographical information being developed in the Mid-Continent. This informational advantage and our economies of scale should help Chesapeake to continue outperforming our industry in the years ahead.

With 50 company geoscientists generating new geological ideas and over 250 landmen buying new natural gas leases and converting them into drillable prospects every day, Chesapeake's vast prospect inventory continues to grow. In fact, in 2003 the company will dedicate over $100 million of its $650 million capital expenditure budget to continue building our already very large 3-D seismic and leasehold inventories - an unusually high percentage of capital expenditures devoted to the identification and acquisition of future drilling locations. Chesapeake's historical commitment to science and technology continues to be a very important distinguishing characteristic of our company.

Balance Sheet Improvement Continues

Shortly after the end of the second quarter, Standard & Poor's Rating Services raised Chesapeake's corporate credit rating to BB-. At the same time, S & P assigned its BBB-rating to Chesapeake's recently amended $350 million secured revolving credit facility, which is due 2007. This is the first time Chesapeake has received an investment grade rating on any of our outstanding debt and evidences management's ongoing commitment to strengthening Chesapeake's balance sheet.

Management's Outlook

Five years ago, in anticipation of a time when North American natural gas would be in short supply, we embarked on a process to transform Chesapeake into what it has become today – a uniquely focused, highly profitable, large U.S. natural gas producer. Along the way, we have grown from approximately the 40th largest independent U.S. natural gas producer to the 5th largest today and have led the industry in shareholder return during that time.

Chesapeake's value-creating financial and operating results have been generated from our company's distinctive Mid-Continent focus on deep-gas exploration and on finding, completing and quickly integrating small and medium-sized acquisitions. Because of the company's unique scale in the Mid-Continent, our technological advantages in deep gas exploration and our unrivaled Mid-Continent 3-D seismic and leasehold inventories, we believe Chesapeake's production and reserve growth trends are sustainable and should enable the company to continue generating significant increases in shareholder value in the years ahead.

Best regards,

Aubrey K. McClendon
Chairman and Chief Executive Officer

Tom L. Ward
President and Chief Operating Officer

August 25, 2003
