

Chesapeake



Letter to Shareholders - First Quarter 2005

Dear Fellow Investors:

For the fifteenth consecutive quarter, Chesapeake is proud to deliver yet another report of sequential production growth and strong operational and financial performance. As reflected in previous reports to you, we believe the consistency of our performance continues to define Chesapeake's leadership role in the independent exploration and production industry. With strong prices reflecting ongoing favorable fundamentals in the markets for North American gas and for worldwide oil, we are excited about our prospects for continuing to deliver significant increases in value to you through the successful execution of our business strategy.

Beginning in 1998, Chesapeake was an early believer that oil and natural gas prices were headed to sustainably higher levels. We invested accordingly and are now distinctively positioned to continue delivering top-tier performance for years to come. In addition to the \$5.6 billion of acquisitions of proved oil and natural gas reserves made since the beginning of 1998, Chesapeake has invested \$4.9 billion in its drilling, leasehold acquisition and 3-D seismic programs during the same time. These investments have built a strong springboard for Chesapeake's ongoing efforts to create value for shareholders.

With approximately 75 company-operated drilling rigs and another 65 non-operated drilling rigs in daily use, Chesapeake is currently executing the nation's most active drilling program. This drilling program should deliver significant production and proved reserve growth from an inventory of more than 7,000 drillsites, representing a seven-year backlog of drilling opportunities. We believe the upside associated with this inventory could be more than four trillion cubic feet of natural gas equivalent (tcf) of reserves that represents significant value in addition to our existing inventory of 5.4 tcf of proved reserves.

OPERATING AND FINANCIAL HIGHLIGHTS

The following comparisons highlight the strength of our operational and financial performance during the 2005 first quarter as compared to the 2004 first quarter:

- * Oil and gas production reached a record level of 104.6 billion cubic feet of natural gas equivalent (bcfe), or 1,162 million cubic feet of natural gas equivalent (mmcf) per day, up 34%;
- * Proved oil and gas reserves increased to the record of 5.4 tcf, up 57%;
- * Total revenue climbed to the record level of \$783 million up 39%;
- * Operating cash flow* reached the record level of \$505 million, up 52%, and;
- * Net income available to common shareholders increased to \$120 million, up 14%.

In addition, the company continues to focus on tight control of its operating costs. The controllable operating costs of our business - general and administrative costs, production expense, and interest expense - totaled only \$1.19 per mcfe this quarter vs. \$1.15 for the 2004 first quarter, while our oil and natural gas sales revenue (excluding unrealized gains and losses on our oil and natural gas hedges) increased by \$0.77 per mcfe to \$6.27 per mcfe. Ongoing profit margin expansion remains a key aspect of the company's strategy in the quarters ahead.

During the quarter, Chesapeake replaced 105 bcfe of production with an internally estimated 637 bcfe of new proved reserves, resulting in an exceptionally strong reserve replacement rate of 609% at the very attractive drilling and acquisition cost of \$1.20 per mcfe. While we cannot promise a repeat of this impressive performance in quarters to come, we do believe our large operating scale in the southwestern U.S. gives us considerable negotiating power with service and equipment providers and therefore enables our company to keep its costs lower than they otherwise would be. This is an important competitive advantage for Chesapeake and should increase our chances of continuing to outperform the industry in the years ahead.

RECORD PRODUCTION GENERATED BY DRILLING AND ACQUISITION SUCCESS

Chesapeake's production for the 2005 first quarter was 104.6 bcfe, an increase of 25.7 bcfe, or 33%, over the 78.9 bcfe produced in the 2004 first quarter and an increase of 1.7 bcfe, or 2%, over the 102.9 bcfe produced in the 2004 fourth quarter (which had two more days in the quarter). The 25.7 bcfe increase in this year's first quarter production over 2004's first quarter production consisted of 60% generated from organic drillbit growth and 40% generated from acquisitions. After achieving organic growth rates of 9% in 2001, 6% in 2002, 18% in 2003 and 20% in 2004, the company believes its organic growth rates in 2005 and 2006 should once again exceed 10%. In addition, after generating total production growth rates of 25% in 2001, 19% in 2002, 48% in 2003 and 35% in 2004, Chesapeake believes its overall production growth rate (including acquisitions) in 2005 and 2006 should again exceed 20%.

The 2005 first quarter was Chesapeake's 15th consecutive quarter of sequential production growth. During these 15 quarters, Chesapeake's U.S. production has increased 190%, for an average compounded quarterly growth rate of 7.4% and an average compounded annual growth rate of 33%. We believe this is the best operating performance in the industry during this period.

OPERATIONAL OUTLOOK FOR 2005 LOOKS STRONG

Chesapeake's exploratory and development drilling programs and production enhancement operations continue to produce operational results that exceed the company's forecasts. During the 2005 first quarter, Chesapeake drilled 189 gross (143 net) operated wells and participated in another 209 gross (26 net) wells operated by other companies. The company's drilling success rate was 98% for company-operated wells and 97% for non-operated wells.

During the quarter, Chesapeake invested \$302 million in operated wells (using an average of 69 operated rigs), \$75 million in non-operated wells (using an average of 64 non-operated rigs) and \$66 million in acquiring new 3-D seismic data and new leases (excluding leases acquired through acquisitions). Chesapeake believes it has now amassed the largest onshore U.S. leasehold and 3-D seismic inventories in the industry (more than 3.5 million and 10 million net acres, respectively).

In addition to our ongoing investments in the company's existing core leasehold positions in the Anadarko and Arkoma Basins, South Texas, Texas Gulf Coast and Permian Basin projects, Chesapeake has also been aggressively building significant leasehold positions through acquisitions and leasing

activities in the following gas resource plays: Sahara in the northwestern Anadarko Basin (approximately 600,000 net acres), the Mountain Front Deep Springer play in the western and southern Anadarko Basin (approximately 100,000 net acres), the Granite Wash and Cherokee/Atoka Wash plays in the western Anadarko Basin (approximately 200,000 net acres), the Hartshorne Coal and the Caney and Woodford Shale plays of the eastern Arkoma Basin (approximately 50,000 acres acquired to date), the Barnett Shale play in North Texas (approximately 30,000 net acres, mainly in northern Johnson County), the Cotton Valley play in Northern Louisiana's Sligo Field (25,000 net acres) and, most recently, the Haley Deep and Fayetteville shale plays in West Texas and western Arkansas, respectively, with more than 100,000 net acres acquired to date in each play.

MANAGEMENT OUTLOOK

The 2005 first quarter was another in a long series of impressive performances by Chesapeake for its investors. We believe the ingredients for continued success in the future are reflected by the following:

- * Since 2000, Chesapeake has delivered excellent financial returns to its investors, quarter-after-quarter and year-after-year;
- * Chesapeake's production growth profile is among the very best in the industry, yet the company does not trade with a top of the market multiple, thereby creating a potentially attractive investment opportunity for investors, and;
- * In anticipation of today's strong oil and gas prices during the past seven years Chesapeake made large investments in leasehold, science and people that should position the company to continue generating top-tier operational and financial results for years to come.

With the combination of our focused product and geographic strategies, value-added risk management strategy, balanced acquisition and drilling programs, high quality assets, low operating costs and strong margins, Chesapeake expects to deliver one of the industry's best performances in value creation, year after year. We appreciate the confidence our investors have demonstrated in our company and we look forward to our next communication with you.

Best regards,

Aubrey K. McClendon
Chairman and Chief Executive Officer

Tom L. Ward
President and Chief Operating Officer

May 2, 2005

* Operating cash flow is a non-GAAP measure that represents net cash provided by operating activities before changes in assets and liabilities.