Chesapeake

Letter to Shareholders - Second Quarter 2005

Dear Fellow Investors:

On behalf of the 2,200 employees of Chesapeake, we are proud to deliver the company’s 16th consecutive quarter of sequential production growth and yet another strong quarter of operational and financial performance. We believe the consistency of Chesapeake’s performance continues to demonstrate the success of our strategy.

Beginning in 1998, Chesapeake was a contrarian believer that oil and natural gas prices were headed to substantially higher levels. Since then, we have created one of the largest U.S. natural gas resource bases through executing a simple, yet highly effective, business strategy consisting of: 1) balanced growth through acquisitions and drilling, 2) regional consolidation in the southwestern U.S. and 3) a concentration on finding, acquiring and producing onshore natural gas.

To build our large resource base, since January 1, 1998 Chesapeake has invested $5.4 billion in acquisitions of proved oil and natural gas reserves (excluding amounts for non-cash tax-basis step-up) and $5.7 billion on drilling, leasehold and 3-D seismic programs. These investments have proven to be prescient and our company is now especially well-positioned to prosper in today’s energy environment and to create significant value for investors in the years ahead.

Chesapeake’s inventory of 14,100 drillsites represents a nine-year backlog of drilling opportunities that should continue to provide significant reserve and production growth. We believe the upside associated with this inventory is more than 5.0 trillion cubic feet of natural gas equivalent (tcfe) of reserves and nicely complements our existing inventory of 5.9 tcfe of proved reserves. We are aggressively working to convert this inventory into production, cash flow and net income by executing the nation's most ambitious drilling program, which utilized an average of 73 company-operated drilling rigs and 65 non-operated drilling rigs during the 2005 second quarter.

OPERATING AND FINANCIAL HIGHLIGHTS

The following comparisons highlight the strength of our operational and financial performance during the 2005 second quarter as compared to the 2004 second quarter:
* Oil and gas production increased 31% to a record level of 113.2 billion cubic feet of natural gas equivalent bcfe), or 1,244 million cubic feet of natural gas equivalent (mmcfe) per day;
* Proved oil and gas reserves increased 54% to a record of 5.9 tcfe;
* Total revenue climbed 82% to the record level of $1.05billion;
* Operating cash flow* grew 67% to a record of $513million;
* Net income available to common shareholders increased 109% to $179 million, and;

* Net income per share available to common shareholders increased 73% to $0.52.

In addition, delivering ongoing profit margin expansion remains an important outcome of the company's business strategy. The controllable operating costs of our business – general and administrative costs, production expense, and interest expense – increased by only $0.10 per thousand cubic feet of natural gas equivalent (mcfe) from a year ago and totaled $1.20 per mcfe this quarter, while our oil and natural gas sales revenue (excluding unrealized gains and losses on our oil and natural gas hedges) increased by $1.23 per mcfe to $6.08 per mcfe from a year ago.

RECORD PRODUCTION GENERATED BY DRILLING AND ACQUISITION SUCCESS

Chesapeake's production for the 2005 second quarter was 113.2 bcfe, an increase of 26.7 bcfe, or 31%, over the 86.5 bcfe produced in the 2004 second quarter and an increase of 8.6 bcfe, or 7.1%, over the 104.6 bcfe produced in the 2005 first quarter. Of the 7.1% increase in sequential quarterly production, organic drillbit growth accounted for 37% and acquisition growth generated 63%.

After achieving exceptionally strong 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% and will be at or near the top of our industry. 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 (which includes acquisitions) should exceed 25% in 2005 and 12% in 2006.

During these past four years, Chesapeake's U.S. production increased 214%, 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 among mid and large-cap companies in the industry during this period and helps explains why the companies stock continues to be a strong performer in our peer group.

OPERATIONAL RESULTS REMAIN 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 second quarter, Chesapeake drilled 224 gross (162 net) operated wells and participated in another 296 gross (34 net) wells operated by other companies. The company's drilling success rate was 97% for company-operated wells and 98% for non-operated wells.

During the quarter, Chesapeake invested $400 million in operated wells, $77 million in non-operated wells and $52 million in acquiring new 3-D seismic data and new leases (excluding leases acquired through acquisitions) and $778 million on acquisitions (excluding amounts for non-cash tax-basis step-up). Chesapeake replaced its 113 bcfe of production with an internally estimated 529 bcfe of new proved reserves, resulting in an exceptionally strong reserve replacement rate of 468% at the attractive drilling and acquisition cost of $1.84 per mcfe.

NEW ACQUISITIONS ANNOUNCED

Subsequent to the end of the second quarter, Chesapeake agreed to acquire $410 million of natural gas assets in the Barnett Shale, Ark-La-Tex and Permian Basin regions in transactions with four private companies. Through these transactions, the company will acquire 33 mmcfe per day of current production, 113 bcfe of proved reserves and 181 bcfe of probable and possible reserves. After allocating $15 million of the purchase price to gas gathering and compression assets and after including $368 million of future development costs, Chesapeake's estimated all-in acquisition cost for the 294 bcfe of 3P reserves will be $2.60 per mcfe.

UPSIDE INVENTORY CONTINUES TO GROW

During the past five years, Chesapeake has invested $1.9 billion to build what we believe are the largest inventories of onshore U.S. leasehold (4.1 million acres) and 3-D seismic (10.8 million acres) in the industry. On this leasehold, the company has identified a nine-year inventory of 14,100 drillsites on which it believes it can develop approximately 2.2 tcfe of proved undeveloped reserves and more than 5.0 tcfe of non-proven reserves.

Chesapeake characterizes its drilling activity by one of three play types: conventional, unconventional gas resource and emerging gas resource. The company's approximate leasehold and proved undeveloped and non-proven reserve totals are set forth below:
* 2.6 million net acres in its conventional areas (i.e., much of the Mid-Continent, Permian, Gulf Coast and South Texas areas) on which it has identified 3,200 drillsites, 1.0 tcfe of proved undeveloped reserves and more than 1.4 tcfe of non-proven reserves;
* 0.9 million net acres in its unconventional gas resource areas (i.e., Sahara, Granite/Cherokee/Atoka Washes, Hartshorne CBM, Barnett Shale and Ark-La-Tex tight sands) on which it has identified 10,000 drillsites, 1.1 tcfe of proved undeveloped reserves and more than 2.8 tcfe of non-proven reserves; and,
* 0.6 million net acres in its emerging gas resource areas (i.e., Fayetteville Shale, Caney/Woodford Shales, Haley Deep and others) on which it has identified 900 drillsites, less than 0.1 tcfe of proved undeveloped reserves and more than 0.8 tcfe of non-proven reserves.

The company continues to actively acquire leases in all three play types with more than 500,000 net acres acquired in the 2005 second quarter through a continuation of its aggressive land acquisition programs.

MANAGEMENT OUTLOOK

The 2005 second quarter was another significant performance by Chesapeake for its investors. Through the combination of a focused strategy, consistent growth through balanced acquisition and drilling programs, high quality assets, low operating costs and expanding 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 the company and we look forward to delivering significant value to shareholders for years to come.

Best regards,

Aubrey K. McClendon
Chairman and Chief Executive Officer

Tom L. Ward
President and Chief Operating Officer

August 5, 2005

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