

Chesapeake



Letter to Shareholders - First Quarter 2007

Dear Fellow Investors:

I am pleased to report that Chesapeake's 2007 first quarter operational and financial results were excellent as the company continues to efficiently execute its strategy in an environment of strong oil and natural gas fundamentals.

For the quarter, Chesapeake generated net income available to common shareholders of \$232 million (\$0.50 per fully diluted common share), operating cash flow⁽¹⁾ of \$1.124 billion and ebitda of \$924 million⁽²⁾ on revenue of \$1.580 billion and production of 154 billion cubic feet of natural gas equivalent (bcfe).

The company's 2007 first quarter net income available to common shareholders and ebitda include an unrealized after-tax mark-to-market loss of \$193 million resulting from the company's oil and natural gas and interest rate hedging programs. This type of item is typically not included in published estimates of the company's financial results by certain securities analysts. Excluding this item, Chesapeake generated adjusted net income to common shareholders⁽³⁾ in the 2007 first quarter of \$425 million (\$0.87 per fully diluted common share) and adjusted ebitda⁽⁴⁾ of \$1.234 billion. It is also important to note that during the quarter, realized gains from oil and natural gas hedging were \$433 million and our realized gains during the past 15 months were approximately \$1.7 billion.

Drilling Program Continues at Industry-Leading Pace

During the 2007 first quarter, Chesapeake continued the industry's most active drilling program and drilled 476 gross (404 net) operated wells and participated in another 394 gross (57 net) wells operated by other companies. The company's drilling success rate was 99% for company operated wells and 98% for non-operated wells. During the quarter, Chesapeake invested \$906 million in operated wells (using an average of 129 operated rigs), \$160 million in non-operated wells (using an average of 94 non-operated rigs), \$148 million to acquire new leasehold (exclusive of \$258 million in unproved leasehold obtained through corporate and asset acquisitions) and \$50 million to acquire seismic data.

Production Sets New Quarterly Record

The 2007 first quarter was Chesapeake's 23rd consecutive quarter of sequential U.S. production growth. Over these 23 quarters, Chesapeake's U.S. production has increased 326%, for an average compound quarterly growth rate of 6.5% and an average compound annual growth rate of 29%. Chesapeake's daily production during the 2007 first quarter averaged 1.707 bcfe, an increase of 188 million cubic feet of natural gas equivalent (mmcfe), or 12%, over the 1.519 bcfe of daily production in the 2006 first quarter and an increase of 54 mmcfe, or 3%, over the 1.653 bcfe produced per day in the 2006 fourth quarter. Chesapeake's rate of production has recently exceeded 1.8 bcfe per day and based on projected drilling levels and anticipated results, Chesapeake forecasts total production growth of 14-18% for 2007 and 10-14% for 2008.

Proved Reserves Also Set New Record

In addition to generating strong production growth, the company has also increased its proved reserves to a record level. Chesapeake began 2007 with estimated proved reserves of 8.956 trillion cubic feet of natural gas equivalent (tcf) and ended the quarter with 9.431 tcf, an increase of 475 bcfe, or 5.3%. During the quarter, Chesapeake replaced its 154 bcfe of production with an estimated 629 bcfe of new proved reserves for a reserve replacement rate of 410%. Reserve replacement through the drillbit was 535 bcfe, or 349% of production (including 205 bcfe of positive performance revisions and 135 bcfe of positive revisions resulting from oil and natural gas price increases between December 31, 2006 and March 31, 2007) and 85% of the total increase. Reserve replacement through the acquisition of proved reserves was 94 bcfe, or 61% of production and 15% of the total increase.

Hedging Activities Continue to Create Value and Mitigate Risk

During the 2007 first quarter, Chesapeake generated a realized hedging gain of \$433 million, or \$2.82 per thousand cubic feet of natural gas equivalent (mcfe). Realized gains from oil and natural gas hedging activities during the quarter generated an

\$8.33 gain per bbl and a \$2.95 gain per thousand cubic feet (mcf). Average prices realized during the 2007 first quarter (including realized gains or losses from oil and natural gas derivatives, but excluding unrealized gains or losses on such derivatives) were \$61.13 per bbl and \$9.26 per mcf, for a realized natural gas equivalent price of \$9.33 per mcfe.

Drilling Inventory Further Expands

Since 2000, Chesapeake has invested \$7.1 billion in new leasehold and 3-D seismic acquisitions and now owns one of the largest inventories of onshore leasehold (11.2 million net acres) and 3-D seismic (16.7 million acres) in the U.S. On this leasehold, the company has approximately 26,500 net drilling locations, representing an approximate 10-year inventory of drilling projects. On these locations we believe Chesapeake can develop an estimated 3.5 tcf of proved undeveloped reserves and approximately 18.3 tcf of risked, unproved reserves (73 tcf of unrisked, unproved reserves). The company's 9.4 tcf of proved reserves and its 18.3 tcf of risked, unproved reserves total approximately 27.7 tcf.

Fort Worth Barnett Shale Drives Near-Term Production Growth

The Fort Worth Barnett Shale is the largest and most prolific unconventional gas resource play in the U.S. In this play, Chesapeake is the fourth-largest producer of natural gas, the most active driller and the largest leasehold owner in the core area of Tarrant, Johnson and western Dallas counties. Chesapeake's current production of approximately 200 mmcfe net per day from the Fort Worth Barnett Shale is nearly double the level of a year ago and is expected to exceed 300 mmcfe net per day by year-end 2007. The company is currently using 28 operated rigs to further develop its 200,000 net acres of leasehold, of which 160,000 net acres are located in the core area. By midyear, Chesapeake expects to be using 30-35 operated rigs in the play and to be completing, on average, one new Barnett Shale well every day. Chesapeake's proved reserves in the Fort Worth Barnett Shale are an estimated 1.3 tcf and its risked, unproved reserves are approximately 3.6 tcf after applying a 15% risk factor and assuming an additional 2,500 net wells are drilled in the years ahead.

Fayetteville Shale and Deep Haley Plays Upgraded

As a result of extensive analysis and successful drilling results over the last year by Chesapeake and others, the company has upgraded its Fayetteville Shale and Deep Haley plays from its emerging unconventional gas resource play category.

The Fayetteville Shale play in Arkansas is quickly becoming an important area for Chesapeake. The company is producing approximately 15 mmcfe net per day from the Fayetteville Shale and is now more confident of the economic merits of the play. In the past two months, Chesapeake has increased its drilling activity levels more than three-fold to 10 operated rigs and will increase its drilling activity level to 12 operated rigs by midyear 2007 to further develop its 370,000 net acres of leasehold in the core area of the play. Chesapeake's proved reserves in the Fayetteville Shale are an estimated 89 bcfe and its risked, unproved reserves are approximately 3.0 tcf after applying a 50% risk factor to its core area acreage and assuming an additional 2,300 net wells are drilled in the years ahead. Chesapeake is the largest leasehold owner in the Fayetteville Shale play and the second-largest in the core area.

Recent favorable drilling results have tripled the company's production from the Deep Haley area in west Texas since the beginning of the year to approximately 50 mmcfe net per day and the company is currently using seven operated rigs to further develop its 260,000 net acres of leasehold. Chesapeake's proved reserves in Deep Haley are an estimated 121 bcfe and its risked, unproved reserves are approximately 800 bcfe after applying a 75% risk factor and assuming an additional 200 net wells are drilled in the years ahead. In the Deep Haley play, Chesapeake is the second-largest leasehold owner and the second most active driller.

Management Outlook

In the 2007 first quarter, Chesapeake delivered very attractive production and reserve growth and impressive profit margins. The company's focused business strategy, value-added growth, tremendous inventory of undrilled locations and risk mitigation results clearly differentiate Chesapeake in the industry.

We are pleased to again be recognized by Fortune magazine this year as one of the fastest growing and most profitable companies among the country's 500 largest corporations. In the magazine's recent Fortune 500 survey, we were ranked #325 by revenues (up from #451 last year – the third-largest ranking increase in the survey), #96 by net income, #25 by earnings per share growth over the last 10 years and #14 by profits as a percentage of revenues. Additionally, Chesapeake was recognized in this year's Forbes magazine's Global 2000 listing as one of the 500 largest companies in the world based on sales, profits, assets and market value.

We look forward to another successful year in 2007 as our shift in focus from resource inventory capture to resource inventory conversion continues to generate impressive results and create substantial shareholder value. Through the industry's most active drilling program, we plan to increase our average daily production rate by 14-18% in 2007 and we expect to exceed 10 tcf of proved reserves by year-end 2007. The Fort Worth Barnett Shale play will be the largest contributor to the company's 2007 success and we are also pleased with our recent progress in the Fayetteville Shale and Deep Haley plays. Furthermore, the combination of attractive natural gas prices with decreasing oilfield service costs should make 2007 a terrific year of value creation for Chesapeake.

Looking forward, as the debate in America intensifies about how to become more energy independent in an increasingly

dangerous world and at the same time reduce greenhouse gas emissions in a growing economy, natural gas is emerging as the most practical solution to the challenge at hand. The vast majority of greenhouse gas emissions are caused by transportation vehicles burning gasoline and diesel and by power plants and factories burning coal. Today, we see policymakers promoting alternative fuels such as wind, solar, biofuels and nuclear. These may all be legitimate alternatives (although some much less so than others), yet none can offer energy in great abundance at a reasonable price anytime soon. However, burning natural gas instead of gasoline, diesel or coal reduces greenhouse gas emissions by approximately 50%. We believe the evidence clearly demonstrates that natural gas is by far the most practical solution to the problem – it is abundant, affordable, reliable, clean burning and domestically produced.

For many years, natural gas has been valued at a BTU discount to oil. We believe the opportunity is now at hand for the climate change debate to lead to an increased appreciation of natural gas and a higher valuation for the superior fuel we produce. We intend to do good for our shareholders by doing good for our country and our world.

Best regards,

Aubrey K. McClendon

Chairman and Chief Executive Officer

May 4, 2007

(1) Operating cash flow is net cash provided by operating activities before changes in assets and liabilities.

(2) Ebitda is net income before income tax expense, interest expense, and depreciation, depletion and amortization expense.

(3) Adjusted earnings is net income available to common shareholders excluding, on an after-tax basis, unrealized (gains) losses on derivatives.

(4) Adjusted ebitda is net income before income tax expense, interest expense, and depreciation, depletion and amortization expense, adjusted to exclude unrealized (gains) losses on oil and natural gas derivatives.