Dear Fellow Shareholders:

In thinking back on the past year, I have found no more appropriate words to describe 2008 than those at the left, written by Charles Dickens 150 years ago.

On the one hand, 2008 started as the best of times. Our stock price soared in the first six months of the year from $39 to $65 per share. In March, we announced our discovery of the Haynesville Shale, a reservoir that likely will become the nation's largest natural gas producer by 2015 and perhaps one of the five largest natural gas fields in the world over time. In the second quarter, we began negotiating three of the most innovative and profitable joint venture partnerships in our industry's recent history. By year end, we had closed those joint ventures by selling minority interests in three of our Big 4 shale plays for consideration totaling $8.6 billion on a cost basis of $1.2 billion.

On the other hand, the second half of 2008 became the worst of times for our stock price, which momentarily declined to just under $10 per share in early December. Our many significant financial and operational achievements during the year were overshadowed by plummeting natural gas and oil prices and an accelerating global economic crisis.

Although other E&P stocks declined more than ours did, Chesapeake's stock price decline was especially surprising given our attractive natural gas hedges and the strong competitive position and firm financial foundation we had constructed in order to grow and prosper even during rough times in the industry.

Our stock price decline was also surprising given our strong financial and operating results for 2008 highlighted below:

- Average daily natural gas and oil production increased 18% from 1.96 billion cubic feet of natural gas equivalent (bcfe) in 2007 to 2.30 bcfe in 2008;
- Proved natural gas and oil reserves increased 11% from 10.9 trillion cubic feet of natural gas equivalent (tcfe) to 12.1 tcfe;
- Reserve replacement for the year reached 239% at a drilling and net acquisition cost of only $1.61 per thousand cubic feet of natural gas equivalent (mcfe)(1);
- Revenues rose 49% from $7.8 billion to $11.6 billion;
- Adjusted ebitda(2) increased 12% from $5.0 billion to $5.6 billion;
- Operating cash flow(3) grew 12% from $4.6 billion to $5.2 billion; and
- Adjusted earnings per fully diluted share(4) increased 11% from $3.21 to $3.55.

Unfortunately, these results and our extraordinarily profitable asset sales were lost in the free fall of the U.S. financial markets in the second half of 2008. We have seen this disconnect between perception and reality at other times in our industry's and company's history, and we will likely see it again. Nevertheless, while it may take longer than we would like, we are confident the marketplace will ultimately recognize and reflect the tremendous value and formidable strength of the Chesapeake natural gas franchise.

When I look into the next 10 years, I see Chesapeake continuing to grow and lead the nation in natural gas production. I am confident this growth will lead to an even stronger balance sheet and an asset base several times larger than we have today. I also see our company continuing as an industry leader in innovation and technology, underpinned by a work force and asset base second to none. It is a very exciting and bright future and the upside for our shareholders is equally exciting. It's all just a matter of time and execution – we have plenty of the former and we do the latter every day.

Outside our company's likely achievements over the next decade, I also envision a country and a world with evergrowing energy needs, especially the need for more clean energy. These needs intersect perfectly with Chesapeake's rapidly growing ability to increase its production of natural gas from the Big 4 U.S. shale gas reservoirs: the Barnett, Fayetteville, Haynesville and Marcellus.

Powerful Assets

We chose Powerful Assets as this year's Annual Report theme because there is no better way to describe our people and our natural gas resources. Over the past decade, we have taken extraordinary steps to ensure that Chesapeake is the epitome of Powerful Assets. We have assembled a dedicated and talented group of industry professionals who have repeatedly shown they are a step ahead of our competitors and we have also built the industry's best U.S. natural gas asset base.

Our People

Without great people, value cannot be created in this industry. From our beginning 20 years ago with 10 employees in Oklahoma, Chesapeake today employs more than 7,600 people in 15 states. We believe our approach to motivating employees is very different from that of most other energy companies. Talk to Chesapeake employees and I believe you will sense genuine pride and enthusiasm about the company and the vital role they play in delivering our high-quality product to consumers across the country. In addition, our employees understand the enormous value that the discovery and production of natural gas create for our shareholders and our nation.

You will also find that Chesapeake employees are distinctive in other ways as well. They are much younger than the industry average. In fact, of our almost 3,000 Oklahoma City-based headquarters employees, 50% are younger than 33. Their enthusiasm and willingness to learn create vitality and a buzz at Chesapeake, important ingredients of our unique culture. Moreover, you will find great camaraderie between our younger employees and our veteran employees. It is the teamwork, mentoring, and collaboration between the experienced professionals and the youthful newcomers that contribute to the energy and can-do attitude of a Chesapeake workplace.

These attributes, along with a very attractive corporate headquarters campus, low levels of bureaucracy and a well-crafted and well-executed corporate strategy, have combined to create a corporate culture of success and innovation. This has prompted extremely positive outside feedback as Chesapeake was again recognized this year in Fortune's "100 Best Companies to Work For" list(5) and we routinely receive more than 10,000 job applications per month. We are also honored to be the recipient of the 2009 Oklahoma

Business Ethics Consortium’s Compass Award, which recognizes integrity in the workplace and encourages companies to share insights, events and processes that instill strong, ethical business values.

I hope someday you will visit our headquarters in Oklahoma City. We would be happy to show you around and expect you would leave feeling the same pride in our campus and employees that we do.

Our Big 4 Shale Plays

We believe the Barnett, Fayetteville, Haynesville and Marcellus shales are the best natural gas assets in the U.S. In fact, they have transformed the E&P industry in just the past few years. Gone are the days when almost every E&P company owned assets of similar quality. Years of increased density drilling to accelerate the production of already discovered natural gas reserves from legacy fields have lowered the quality of further incremental drilling in those fields. At the same time, technological advances have enabled the industry to decrease drilling costs and increase estimated ultimate reserve recoveries in the Big 4 shale plays. We view this as a critical dynamic to understand – that the newly discovered and very best shale assets in the industry are steadily improving while the over-drilled and least productive assets are steadily deteriorating in per-well quality.

Because the Big 4 shale plays are dominated by only about 10 public independent companies, we believe this group of shale pioneers will emerge as the industry’s biggest stock market winners in the years ahead. And because of Chesapeake’s Top 2 position in each of the Big 4 shale plays (with no other company having more than one Top 2 position), we believe that Chesapeake will emerge in the years to come as the biggest winner from the Big 4 shale land rush.

Barnett Shale

The Barnett Shale of North Texas kicked off the rush to natural gas shales in the early part of this decade. Discovered by Mitchell Energy Corporation in the 1990s and advanced by Devon Energy Corporation after its acquisition of Mitchell in 2002, the Barnett emerged slowly as technological progress was challenging and low natural gas prices inhibited the natural expansion of the field. Chesapeake acquired its first asset in the Barnett in 2001, but we did not really begin to appreciate the potential significance of the play until early 2004. However, by year-end 2004, we had made our first two property acquisitions in Johnson County and began to set our sights on what we called the “doughnut hole” – Tarrant County, the home of Fort Worth and more than 60 other municipalities.

The industry knew Tarrant County lay above the best Barnett rock in the entire play. What was unclear was how to develop it under a metropolitan area of 1.7 million people. After analyzing the challenges and opportunities of urban and suburban drilling, we concluded that while most of our competitors would not want to deal with these complexities, Chesapeake’s operational and land acquisition skills would be especially well suited for successful urban Barnett development.

Consequently, we began leasing in Tarrant County in earnest in 2005, and today we own more than 180,000 leases encompassing almost 150,000 net acres in Tarrant County alone. In the entire Barnett play, we own 310,000 net acres, on which we anticipate drilling approximately 2,800 future net wells in addition to the 1,300 net wells we have drilled to date. From these already drilled wells, our gross operated production is now approximately 1.0 bcf per day, or about 1.6% of our nation’s natural gas supply. None of this work has been easy (especially drilling 111 wells on the grounds of the DFW International Airport!), but we have been rewarded with some of the very best wells in the entire Barnett play by focusing on drilling in the most promising geological areas.

Because of lower natural gas prices in the fourth quarter of 2008 and first quarter of 2009, we have substantially reduced our drilling activities in the Barnett, from 43 rigs in August 2008 to around 20 today. We intend to maintain this lower pace of drilling until natural gas prices recover to more attractive levels. With a 20-rig program, we project that 2009 gas production levels for Chesapeake in the Barnett will increase slightly while we believe most other operators will see their production levels fall in the Barnett during 2009. This decline will be an important factor in natural gas prices rebounding to higher levels, which we believe will occur in late 2009 or early 2010.

Fayetteville Shale

The Fayetteville Shale of Arkansas emerged as the second important U.S. shale play in early 2005 with the announcement of its discovery by Southwestern Energy Company. Chesapeake had already developed a presence in the Woodford Shale of southeastern Oklahoma in 2004, so when we learned in 2005 of Southwestern's success we jumped over the state line into Arkansas very aggressively, ending up with approximately 550,000 net acres of prime Fayetteville acreage by midyear 2008. Our drilling success came quickly in the Fayetteville as our knowledge of shale development from the Barnett and Woodford plays helped establish Chesapeake as the second-largest player in the Fayetteville.

A key to Chesapeake's Fayetteville success was entering into a joint venture with BP in September 2008. In this joint venture, we sold 25% of our assets in the Fayetteville to BP for $1.9 billion in cash and future drilling carries. Our cost basis in the 25% interest was only about $325 million, making this a highly profitable transaction, and it placed us in a partnership with one of the world's most successful and progressive major energy companies. Earlier in 2008, we had also sold to BP all of our Woodford assets in the Arkoma Basin for $1.7 billion, generating approximately $1.3 billion in excess of our costs. Our view of the Woodford was simply that it would not provide returns as strong as those we could generate from the Big 4 shale plays.

Going forward in the Fayetteville, we plan to maintain our present level of 20 drilling rigs throughout the majority of 2009 and 2010 and expect to see our gross operated production in the Fayetteville increase from our year-end 2008 level of 250 million cubic feet of natural gas equivalent (mmcfe) per day by more than 50% in 2009 and a further 20% in 2010. As part of our joint venture, BP has agreed to pay 100% of Chesapeake's drilling costs through much of 2009.

To date, we have drilled more than 250 net wells in the Fayetteville and have identified more than 4,000 net future wells we plan to drill in the years ahead. In time, we believe the Fayetteville will ultimately produce as much as 75 tcfe to equal the level of production the industry should ultimately achieve from the Barnett. The Barnett and Fayetteville are truly world-class fields. They formed the foundation of our knowledge about natural gas shale discovery and production, which set the stage for even bigger plays in the Haynesville and Marcellus shales.

Haynesville Shale

The Haynesville Shale is the shale play of which we are most proud because it was discovered by Chesapeake's own geoscientists and engineers – right in the East Texas and northern Louisiana backyard of some of the largest and most capable natural gas producers in the industry. We began our geoscientific investigation of the Haynesville in 2005-2006, tested our theories by drilling in 2007, began to acquire acreage in earnest in 2007 and 2008 and in July 2008, formed an innovative joint venture with our well-respected industry partner, Plains Exploration & Production Company.

We have known Plains' very capable leadership team for more than 15 years and knew they were looking for a shale play to enter. We began our conversations with them in May 2008 and negotiations moved quickly. In early July, we announced the joint venture that would provide the template for future use with BP in the Fayetteville and StatoilHydro in the Marcellus. In our Plains joint venture, we sold 20% of our 550,000 net acres for $3.3 billion in cash and future drilling carries, which was approximately $2.8 billion more than our investment. The joint venture is off to a great start and we have already completed over 40 wells producing more than 200 mmcfe per day.

Chesapeake is now drilling with 24 rigs in the Haynesville, and we plan to continue adding rigs almost every month until we reach approximately 35 by midyear 2010. Thereafter, we plan to maintain that level of drilling indefinitely. As part of our joint venture, Plains has agreed to pay 50% of Chesapeake's drilling costs over a time frame that is estimated to extend through 2012. The Haynesville is so expansive (more than twice the size of the Barnett core areas) and so overpressured (holding more gas in place per square mile than the Barnett) that we believe it will likely surpass the Barnett by 2015 to become the largest natural gas producing field in the U.S. We believe ultimate reserve recoveries from the Haynesville could exceed 250 tcfe, potentially making it one of the five largest natural gas fields in the world.

It is absolutely remarkable that in the U.S., the most extensively explored and drilled country in the world, Chesapeake geoscientists and engineers were able to discover this enormous new reservoir of natural gas. Ironically, it was the announcement of our joint venture with Plains on July 1, 2008, and the discussion of the potential size of the Haynesville natural gas discovery that marked the high-water mark for natural gas prices ($13.58 per mcf) and Chesapeake's stock price ($74.00 per share) in 2008. Clearly, this is a great example of the old adage that "no good deed goes unpunished!" In time, however, we anticipate that the value and scale of the Haynesville discovery and Chesapeake's #1 position in it will be amply rewarded by the marketplace once the current natural gas supply/demand imbalance fixes itself.

Marcellus Shale

The Marcellus Shale was another very significant scientific and commercial bright spot for Chesapeake in 2008. We first became aware of the presence of the Marcellus in 2005 when we were negotiating our $2.2 billion acquisition of Columbia Natural Resources, LLC (CNR). Although CNR was not actively developing the Marcellus at the time of our CNR acquisition, Chesapeake's geoscientists recognized that CNR's industry-leading leasehold position in Appalachia would overlay a significant portion of the Marcellus.

In 2007, we aggressively accelerated our Marcellus leasehold acquisition activity in Pennsylvania, West Virginia and New York and began to prepare for our first drilling activities in 2008. By early 2008, we had determined that the Marcellus would likely be highly prospective over an area of approximately 15 million net acres (approximately five times larger than the prospective Haynesville core area and ten times larger than the Barnett core area).

After acquiring 1.8 million net acres, Chesapeake began looking for its third shale joint venture partner. This search culminated in a $3.375 billion transaction with StatoilHydro, one of the most innovative, well-respected and largest of the European international energy companies. This transaction, in which we sold a 32.5% interest in our Marcellus assets, was completed in November 2008. StatoilHydro had been seeking an entry point into a big U.S. shale play and had independently arrived at the conclusion that the Marcellus was the best shale play in which to invest. StatoilHydro approached us in May 2008, and over the next six months the deal took many twists and turns against a backdrop of steadily worsening global economic conditions and continually weakening natural gas and oil prices.

Among all our transactions during 2008, we are most proud of the StatoilHydro transaction because almost nothing was going right in the world around us as we negotiated the deal. Nevertheless, the joint venture came together because StatoilHydro was astute enough to recognize that the Marcellus will likely generate very favorable returns for at least the next 50 years and should in time surpass the Haynesville to become the largest U.S. natural gas field and one of the five largest in the world.

Today, Chesapeake is drilling with 10 rigs in the Marcellus. We plan to end 2009 with at least 20 rigs drilling and project 30 rigs drilling by year-end 2010 and 40 rigs drilling by year-end 2011. The initial wells in the joint venture have been very successful and the eastern U.S. natural gas market continues to offer producers the best profit margins in the nation. In addition, we also are engaged with StatoilHydro in searching for additional shale gas plays around the world in a 50/50 partnership. We are intrigued and excited by the opportunity to extend our natural gas shale expertise from the U.S. to other parts of the world through this joint venture with StatoilHydro.

2008 Joint Ventures

In total, during 2008 we sold assets with a cost basis of $1.2 billion for $8.6 billion in cash and drilling carries in our three joint ventures. This would be a remarkable achievement in any economy, but we believe it was particularly impressive in an economy that steadily worsened throughout the second half of 2008. We have announced that we would like to enter into a Barnett joint venture in 2009, and we also have a few other large attractive plays in which we may consider bringing in joint venture partners.

The three 2008 joint ventures, along with our extremely valuable natural gas hedges and low-cost, high-quality asset base, will enable Chesapeake to continue drilling aggressively in an environment very conducive to value creation through the drillbit in 2009 and 2010. This will occur because drilling costs should decline by at least 25% during 2009, allowing Chesapeake to extend the value of its drilling carries and find new reserves of natural gas during some of the most challenging times our industry has seen in the past 30 years – just the right time for Chesapeake to take full advantage of our significant competitive strengths.

Natural Gas

Chesapeake's final Powerful Asset to highlight is natural gas. The Big 4 shale plays have quite simply changed the game of how to solve our nation's energy and environmental challenges in the years ahead. There has never really been any debate about whether natural gas is a good fuel – its carbon-light molecular structure guarantees that. The issue has been whether there is enough of it to begin moving our electrical generation system more aggressively away from carbon-heavy fuels such as coal and oil to carbon-light natural gas and whether it is the right time to begin moving our transportation system away from carbon-heavy oil, much of which we import from unstable or unfriendly areas.

With the enormity of the Big 4 shale plays now more fully understood, it should become increasingly clear that the U.S. has a huge competitive advantage when it comes to addressing economic, environmental and energy issues. On the economic side, U.S. natural gas prices are the lowest in the industrialized world. They are likely to remain so indefinitely, for the simple reason that including the 12% or so of U.S. natural gas supply imported from Canada, the U.S. is entirely capable of self-sufficiency in natural gas supply.

On the environmental side, the U.S. can regain its rightful place as the leader of the worldwide environmental movement because burning clean natural gas instead of carbonheavy coal could allow our nation to become the leader in reducing CO_2 emissions. And finally, natural gas will allow the U.S. to begin transitioning its transportation system away from carbon-heavy gasoline and diesel towards carbon-light, American natural gas.

To capture these revolutionary advantages the Big 4 shale plays can provide, our nation's challenge is to recognize that the age of natural gas abundance is upon us and that it will remain with us for decades. However, maximizing its value will require all of the nation's political and commercial willpower to make the transition from carbon-heavy coal and oil to carbon-light natural gas. A better, brighter and more prosperous future awaits us all if we pursue the full potential of natural gas.

Just as Chesapeake has become a major player in discovering and developing the Big 4 shale plays, we have also become a leader in investing in educational opportunities to make sure that policymakers and the public understand the potential and reality of clean, abundant, affordable American natural gas. We will continue that leadership in 2009 and beyond as we move into the new Age of Natural Gas.

We have secured Powerful Assets and positioned Chesapeake to prosper in the Age of Natural Gas. We look forward to providing powerful returns and capitalizing on our timely and distinctive investments in the years ahead.

Best regards,

Aubrey K. McClendon
Chairman and Chief Executive Officer
March 31, 2009

(1) Reserve replacement is calculated by dividing the sum of reserve additions from all sources by actual production for the corresponding period. We calculate drilling and net acquisition cost per mcfe by dividing total costs incurred during the year, less certain costs primarily related to unproved property net acquisitions, geological and geophysical costs and deferred taxes related to corporate acquisitions by total proved reserve additions excluding price-related revisions.
(2) Adjusted ebitda is net income before interest expense, income tax expense, and depreciation, depletion and amortization expense, excluding certain items that management believes affect the comparability of operating results.
(3) Operating cash flow is net cash provided by operating activities before changes in assets and liabilities.
(4) Adjusted earnings per fully diluted share is net income per share available to common, assuming dilution, as adjusted to remove the effects of certain items that management believes affect the comparability of operating results.
(5) FORTUNE 100 Best Companies to Work For® listed in the magazine's February 2, 2009 issue.