



**Dear Fellow Shareholders,**

Marking the 20th anniversary since our founding, 2009 was a very successful year for Chesapeake, even though average natural gas prices fell 56% in 2009 compared to 2008:

- Average daily natural gas and oil production increased 8% from 2.3 billion cubic feet of natural gas equivalent (bcfe) in 2008 to 2.5 bcfe in 2009;
- Proved natural gas and oil reserves increased 18% in 2009, from 12.1 trillion cubic feet of natural gas equivalent (tcfe) to 14.3 tcfe;
- Reserve replacement for the year reached 343% at a drilling and net acquisition cost of only \$0.74 per thousand cubic feet of natural gas equivalent (mcfe)<sup>(1)</sup>;
- Cash hedging gains were \$2.3 billion;
- Our stock price increased 60% in 2009, from \$16.17 to \$25.88;
- Revenues totaled \$7.7 billion;
- Adjusted ebitda<sup>(2)</sup> was \$4.4 billion;
- Operating cash flow<sup>(2)</sup> totaled \$4.3 billion; and
- Adjusted earnings per fully diluted share<sup>(2)</sup> were \$2.55.

### **The Past as Prologue**

In May 1989, I co-founded Chesapeake to take advantage of a newly developed technology called horizontal drilling. At the time, my business partner Tom Ward and I were two self-employed landmen working together to develop prospects for other companies to drill. These prospects were located in southern Oklahoma and in South Texas where we assembled large land positions that were underlain by fractured carbonates — reservoirs which were not at the time considered economic to develop using conventional vertical drilling technologies.

Convinced the conventional wisdom about these formations was wrong, we started developing the prospects ourselves using horizontal drilling. We didn't know it then, but those prospects today would be called unconventional reservoirs (so-called because they are generally nonproductive without the implementation of advanced horizontal drilling and fracture stimulation technologies). To us, it was simply a very logical way to combine a new technology with our land acquisition skills to crack the code for economically developing large scale projects that could be company-makers.

Ironically, that is precisely what Chesapeake does today — uses its cutting-edge technological capabilities and industry-leading land acquisition skills to develop new unconventional reservoirs that have recently become some of the largest, most active and most highly valued natural gas development projects in the world.

While I am proud of our humble beginnings, I am also proud that during its 20-year existence, Chesapeake has built an unparalleled asset portfolio, an industry-leading technological position and a deep sense of environmental stewardship to become the nation's second-largest natural gas producer, most active driller of new wells and most vocal proponent of natural gas as the best way to fuel America's clean energy future.

### **Our Powerful Assets**

What will drive Chesapeake's strong growth in the future? It will be our industry-leading position in the "Big 6" major natural gas shale plays in the U.S. — the Barnett, Fayetteville, Haynesville, Marcellus, Bossier and Eagle Ford shales — plus our emerging unconventional oil plays. The Big 6 shale plays form

the foundation of the American natural gas shale revolution and they will create substantial value for Chesapeake's shareholders for decades to come. And because those key shale plays are dominated by only 15 or so public companies, we believe this group of shale pioneers will emerge as the industry's biggest winners in the years ahead. Chesapeake's Top 2 position in five of the Big 6 shale plays (with no other company having more than one Top 2 position) should ensure that Chesapeake will emerge as the biggest winner of all from the Big 6 shale land rush.

### **Barnett Shale**

Discovered in the 1990s, the Barnett is the granddaddy of all shale plays. Chesapeake acquired its first assets in the Barnett in 2001, but did not fully appreciate the potential significance of the play until early 2004. We then made our first two property acquisitions in Johnson County and set our sights on what we called the "doughnut hole" — Tarrant County, the home of Fort Worth and more than 60 other municipalities.

Most in the industry knew Tarrant County lay above the best Barnett rock in the entire play. What was unclear was how to develop it beneath a metropolitan area of almost two 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 development in the Barnett.

Consequently, in 2005 we began leasing in earnest in Tarrant County, and today we own approximately 200,000 leases, on which we estimate we could drill up to 2,400 future net wells in addition to our 1,100 net wells currently producing.

Our most exciting development in the Barnett Shale during 2009 was the signing of our fourth natural gas shale joint venture agreement. This agreement closed in January 2010 and involved Chesapeake selling 25% of its assets in the Barnett to Paris-based Total, S.A., the world's fifth-largest oil company. Total paid \$2.25 billion in cash and drilling carries for its 25% stake in the Barnett and we are extremely proud to welcome Total as one of our four highly valued joint venture partners.

### **Fayetteville Shale**

The Fayetteville Shale of central Arkansas emerged as the second important U.S. shale play in early 2005. Chesapeake had already developed a presence in the Woodford Shale of southeastern Oklahoma in 2004, so when we learned in 2005 of initial success in the Fayetteville, we aggressively jumped into Arkansas, acquiring approximately 550,000 net acres of prime Fayetteville acreage by mid-year 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 has been our September 2008 joint venture with London-based BP, the world's second-largest oil company. In this joint venture, we sold 25% of our assets in the Fayetteville to BP for \$1.9 billion in cash and drilling carries. Today, we are producing from more than 500 net wells in the Fayetteville on our 460,000 net acres and estimate we could drill up to 5,200 additional net wells in the years ahead.

### **Haynesville Shale**

The Haynesville Shale in Northwest Louisiana and East Texas is the shale play of which we are most proud because it was discovered by Chesapeake's own geoscientists and engineers. We began our geoscientific investigation of the Haynesville in 2005–06 and tested our theories through drilling in 2007. In 2008, we formed an innovative joint venture with our well-respected industry partner, Houston-based Plains Exploration & Production Company, to which we sold 20% of our Haynesville assets for \$3.2 billion in cash and drilling carries.

The Haynesville Shale is now the nation's second-largest producing shale play. It is so large (more than twice the size of the Barnett core area) and so over pressured (holding more gas in place per square mile than the Barnett) that we believe it will likely surpass the Barnett by 2014 to become the largest natural

gas producing field in the U.S. Ultimate recoveries from the Haynesville could exceed 250 tcf, making it potentially one of the five largest natural gas fields in the world. Today, we are producing from more than 200 net wells in the Haynesville on our 520,000 net leasehold acres and estimate we could drill up to 6,500 additional net wells in the years ahead.

### **Marcellus Shale**

We first became aware of the Marcellus in 2005 when we were negotiating our \$2.2 billion acquisition of Appalachia's second-largest natural gas producer, Columbia Natural Resources, LLC (CNR). Although CNR was not actively developing the Marcellus at the time of our acquisition, Chesapeake's geoscientists recognized that CNR's industry-leading leasehold position in Appalachia would overlay a significant portion of the Marcellus in northwestern West Virginia and southern New York (CNR had unfortunately previously sold its Pennsylvania assets). In 2007, we aggressively accelerated our Marcellus leasehold acquisition efforts in Pennsylvania and began to prepare for our first drilling activities. By early 2008, we had determined the Marcellus could be prospective over an area of approximately 15 million net acres (approximately five times larger than the prospective Haynesville core area and 10 times larger than the Barnett core area).

After acquiring 1.8 million net acres, we entered into a joint venture in late 2008 with Oslo, Norway-based Statoil, one of the largest and most respected

European energy companies. In this transaction, we sold Statoil 32.5% of our Marcellus assets for \$3.375 billion in cash and drilling carries. In addition, we have joined with Statoil in the search for other shale plays around the world in a 50/50 partnership. We are excited by the opportunity to extend our natural gas shale expertise from the U.S. to other parts of the world through our Statoil joint venture. Today, we are producing from more than 150 net wells in the Marcellus on our 1.6 million net acres and estimate we could drill up to 20,000 additional net wells in the years ahead.

### **Bossier Shale**

The Bossier Shale is one of the two new shale plays that expanded our "Big 4" shale plays from 2008 into the "Big 6" of 2009. The Bossier overlays a portion of the Haynesville Shale and is perhaps the "sleeper" of the Big 6 shale plays. The reason is that in Louisiana, leases often restrict the lessee (i.e., the producer) to only holding future drilling rights down through the deepest formation drilled. Because the Bossier lies above the Haynesville, horizontal wells drilled just to the Bossier may not always hold Haynesville rights. Therefore, Chesapeake and other producers are drilling aggressively to hold all rights through the Haynesville before the typical three-year-term initial leases expire, so not much Bossier drilling is yet underway. However, once our leases are HBP (held by production) by Haynesville drilling, we will begin developing the Bossier Shale more aggressively in 2013. In the Bossier play, we own 180,000 net acres on which we estimate we could drill up to 2,250 net wells in the years ahead.

### **Eagle Ford Shale**

The Eagle Ford Shale of South Texas was the second addition to our Big 6 inventory in 2009. The Eagle Ford is different from the other Big 6 shale plays because it has three distinct elements: a dry gas play, an oil play and a wet gas play. Chesapeake has acquired approximately 300,000 net acres to date, all of which are in the oil and wet gas portions of the play. Given that oil and natural gas liquids are valued much more highly than natural gas, we are focusing all of our Eagle Ford leasing efforts in the oil and wet gas portions of the play. Our first three wells have been successful, and we expect to accelerate our drilling in the Eagle Ford in 2010 and beyond. Our leasehold position could support the drilling of up to 2,000 additional net wells.

### **Looking for more Oil**

In addition to further developing our Big 6 natural gas shale plays, another important goal of the company in 2010 is to find more oil. Oil comprised only 8% of Chesapeake's 2009 production, and with oil prices more than 3.5 times higher today than natural gas prices on an energy equivalent basis, it makes powerful economic sense to increase our efforts toward finding, leasing and developing large scale unconventional oil projects using the skills we have developed in unconventional natural gas projects.

This challenge is especially difficult because oil molecules and wet natural gas molecules are larger than dry natural gas molecules and therefore much more difficult to produce from ultra-tight unconventional reservoirs.

We kicked off this “gas to oil” initiative two years ago, and to date, have already had initial success in 10 new oil plays. We also are working on additional oil play concepts. If these plays and concepts prove commercial on a large scale, then we believe Chesapeake owns more than four billion barrels of unrecognized oil resources that will substantially increase the company’s value as they are developed.

Because early drilling results need to remain confidential as we acquire more leasehold in these new oil plays, we are being guarded with our oil drilling results disclosures. As 2010 progresses, however, we look forward to revealing more about the potential of Chesapeake’s oil upside. I believe these oil discoveries could prove to be the most significant value creation uplift for the company since our gas shale discoveries of the past few years.

### **Granite Wash Plays**

The Colony and Texas Panhandle Granite Wash plays provide insight into what could happen if Chesapeake is successful in finding new unconventional oil plays. As good as the per-well Big 6 gas shale economics are, the economics are even better in the Colony Wash and Texas Panhandle Granite Wash plays because they possess the best of both worlds: high volume natural gas production as in the Big 6 gas shale plays, along with significant volumes of oil and natural gas liquids that dramatically increase investment returns. For example, while our per-well economics for Big 6 shale wells generally provide returns of 20–60%, wells drilled in these two Granite Wash plays provide returns of 100–150% and generally reach payout in less than a year.

We are already producing from approximately 100 net Granite Wash wells and estimate we could drill up to 1,200 additional net wells on our 190,000 net acres of leasehold in the years ahead. Based on current NYMEX futures prices for natural gas and oil, each Granite Wash well should generate approximately \$8–11 million of present value per well (or \$10–13 billion for all 1,200 wells), making it obvious that finding, leasing and developing more oil plays with Granite Wash-type returns will be Chesapeake’s number one priority for 2010.

### **Our People**

Great assets would not and cannot exist without great people, so we take great pride in hiring, training, motivating, rewarding and retaining great people. From our beginning 20 years ago with 10 employees in Oklahoma to employing 8,600 people in 16 states today, Chesapeake has always focused on building a first class human resource team within a distinctive corporate culture. Talk to Chesapeake employees and you will sense genuine pride and great enthusiasm about the company and the vital role we play in delivering our high-quality product to consumers across the country.

Chesapeake employees are distinctive in other ways as well. They are much younger than the industry average, with 50% of our 3,300 Oklahoma City-based headquarters employees 34 years old or younger. Their enthusiasm and willingness to learn create an atmosphere of vitality and energy at Chesapeake, important ingredients of our unique culture. These attributes, along with a very attractive corporate headquarters campus, low levels of bureaucracy and a well-executed corporate strategy, have combined to create our culture of success and innovation.

This has generated extremely positive external feedback as Chesapeake was recently recognized for the third consecutive year as one of the FORTUNE 100 Best Companies to Work For<sup>(3)</sup>. In addition, we were honored in December 2009 at the 11th Annual Platts Global Energy Awards as the Energy Producer of the Year. We also received the Industry Leadership Award and were a finalist for CEO of the Year, Deal of the Year and Community Development Program of the Year. Chesapeake was one of only two companies to receive multiple awards this year and one of only three companies selected as a finalist in five or more categories. This was the second time in three years that Platts has named Chesapeake Producer of the Year. Chesapeake was also recognized in 2009 with Oil and Gas Investor magazine’s Best Corporate Citizen Award.

## **Fueling America's Clean Energy Future**

Because of a series of insights into the future, followed by good decisions and hard work, Chesapeake has grown from a small startup company 20 years ago into an industry leader today. Along the way, we have built the industry's highest quality asset base in the Big 6 natural gas shale plays. These shale plays have dramatically changed how we can solve our nation's most important energy and environmental challenges in the years ahead, while also creating millions of truly green jobs that pay well and do not need taxpayer or ratepayer subsidies. They also can improve America's national security by reducing our dependence on foreign oil.

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 always been whether there is enough of it to begin moving our electrical generation system more aggressively away from dirty coal and whether it is the right time to begin moving our transportation system away from expensive foreign oil. With the enormity of the Big 6 natural gas shale plays now more fully understood, it should become increasingly clear that the U.S. has a huge competitive advantage in the world.

On the economic front, U.S. natural gas prices are among the lowest in the industrialized world and are likely to remain so for an extended period because of the discovery of the Big 6 shale natural gas resources. On the environmental front, the U.S. can regain its leadership in environmental best practices by burning more clean natural gas and less dirty coal to make our electricity. And finally, natural gas can enable the U.S. to transition its transportation system away from dangerous and expensive foreign oil to cheaper and cleaner American natural gas.

To capture the important advantages the Big 6 shale plays can provide, U.S. leaders must recognize the "Age of Natural Gas" has arrived and that it will remain with us for decades to come. A better, brighter and more prosperous future awaits us if we pursue the full potential of natural gas for Fueling America's Future.

Best regards,  
Aubrey K. McClendon  
Chairman and Chief Executive Officer  
March 31, 2010

(1) Reserve replacement is calculated by dividing net reserve additions from all sources by actual production for the corresponding period. We calculate drilling and net acquisition cost per mcfe by dividing total drilling and net proved property acquisition costs incurred during the year (excludes certain costs primarily related to net unproved property acquisitions, geological and geophysical costs and deferred taxes related to corporate acquisitions) by total proved reserve additions excluding price-related revisions.

(2) A non-GAAP financial measure, as defined below. Please refer to the Investors section of our website at [www.chk.com](http://www.chk.com) for reconciliations of non-GAAP financial measures to comparable financial measures calculated in accordance with generally accepted accounting principles.

- Adjusted ebitda is net income (loss) before interest expense, income tax expense (benefit), and depreciation, depletion and amortization expense, as adjusted to remove the effects of certain items that management believes affect the comparability of operating results.
- Operating cash flow is cash provided by operating activities before changes in assets and liabilities.
- Adjusted earnings per fully diluted share is net income (loss) per share available to Chesapeake common stockholders, assuming dilution, as adjusted to remove the effects of certain items that management believes affect the comparability of operating results.

(3) FORTUNE 100 Best Companies to Work For® listed in the magazine's February 8, 2010 issue.