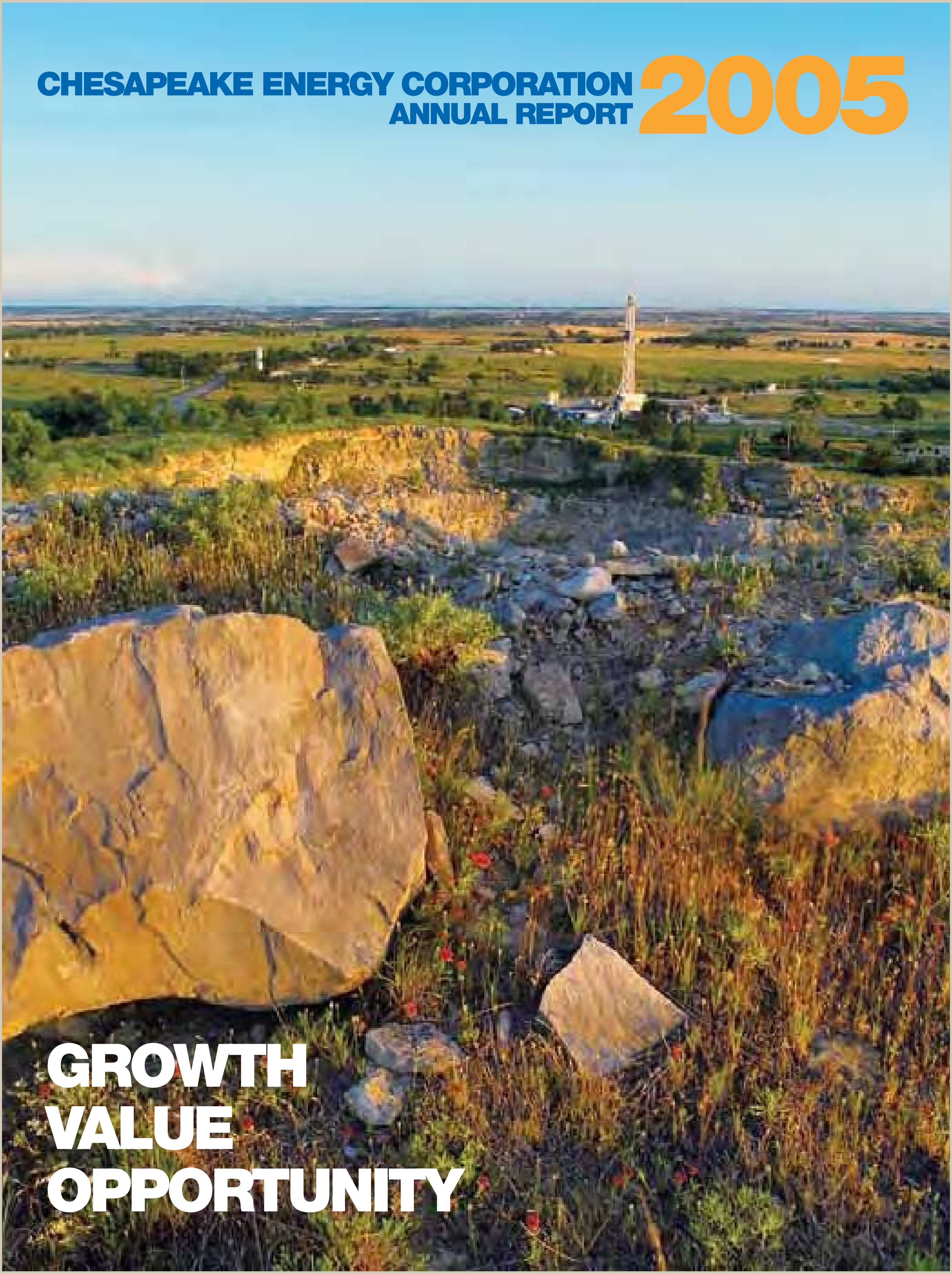
CHESAPEAKE ENERGY CORPORATION ANNUAL REPORT 2005



GROWTH
VALUE
OPPORTUNITY

TABLE OF CONTENTS

AT A GLANCE

CHESAPEAKE ENERGY CORPORATION is the second largest independent producer of natural gas in the U.S. Headquartered in Oklahoma City, the company's operations are focused on exploratory and developmental drilling and corporate and property acquisitions in the Mid-Continent, Permian Basin, South Texas, Texas Gulf Coast, Barnett Shale, Ark-La-Tex and Appalachian Basin regions of the United States. At year-end 2005, Chesapeake owned an interest in approximately 30,000 producing wells and proved reserves of 7.5 trillion cubic feet equivalent, of which 92% were natural gas and 65% were proved developed.

ON THE COVER* *THE NOMAC #3 RIG ON THE MARPLE 1-36 LOCATED FOUR MILES NORTH OF CYRIL, OKLAHOMA IN CADDO COUNTY.

Chesapeake

Natural Gas.
Natural Advantages.

FINANCIAL REVIEW ($ IN THOUSANDS, EXCEPT PER SHARE DATA)

YEARS ENDED DEC. 31

FINANCIAL AND OPERATING DATA	2005	2004	2003	2002	2001
Revenues					
Oil and gas sales	**$ 3,272,585**	$ 1,936,176	$ 1,296,822	$ 568,187	$ 820,31
Oil and gas marketing sales and service operations	**1,392,705**	773,092	420,610	170,315	148,73
Total revenues	**4,665,290**	2,709,268	1,717,432	738,502	969,05
Operating Costs					
Production expenses	**316,956**	204,821	137,583	98,191	75,37
Production taxes	**207,898**	103,931	77,893	30,101	33,01
General and administrative expenses	**64,272**	37,045	23,753	17,618	14,44
Oil and gas marketing and service operation expenses	**1,358,003**	755,314	410,288	165,736	144,37
Depreciation, depletion and amortization	**945,001**	611,322	386,258	235,198	181,56
Impairments and other	**–**	4,500	6,402	–	–
Total operating costs	**2,892,130**	1,716,933	1,042,177	546,844	448,77
Income (loss) from operations	**1,773,160**	992,335	675,255	191,658	520,28
Interest and other income	**10,452**	4,476	2,827	7,340	2,87
Interest expense	**(219,800)**	(167,328)	(154,356)	(112,031)	(98,32
Miscellaneous gains/(losses)	**(70,419)**	(24,557)	(22,774)	(19,827)	(63,13
Total other income (expense)	**(279,767)**	(187,409)	(174,303)	(124,518)	(158,58
Income (loss) before income taxes and cumulative effect of accounting change	**1,493,393**	804,926	500,952	67,140	361,69
Income tax expense (benefit):					
Current	**–**	–	5,000	(1,822)	3,56
Deferred	**545,091**	289,771	185,360	28,676	140,72
Net income (loss) before cumulative effect of accounting change, net of tax	**948,302**	515,155	310,592	40,286	217,40
Cumulative effect of accounting change, net of tax	**–**	–	2,389	–	–
Net income (loss)	**948,302**	515,155	312,981	40,286	217,40
Preferred stock dividends	**(41,813)**	(39,506)	(22,469)	(10,117)	(2,05
Gain (loss) on redemption of preferred stock	**(26,874)**	(36,678)	–	–	–
Net income (loss) to common shareholders	**$ 879,615**	$ 438,971	$ 290,512	$ 30,169	$ 215,35
Earnings per common share – basic:					
Income (loss) before cumulative effect of accounting change	**$ 2.73**	$ 1.73	$ 1.36	$ 0.18	$ 1.3
Cumulative effect of accounting change	**–**	–	0.02	–	–
EPS – basic	**$ 2.73**	$ 1.73	$ 1.38	$ 0.18	$ 1.3
Earnings per common share – assuming dilution:					
Income (loss) before cumulative effect of accounting change	**$ 2.51**	$ 1.53	$ 1.20	$ 0.17	$ 1.2
Cumulative effect of accounting change	**–**	–	0.01	–	–
EPS – assuming dilution	**$ 2.51**	$ 1.53	$ 1.21	$ 0.17	$ 1.2
Cash provided by (used in) operating activities (GAAP)	**$ 2,406,888**	$ 1,432,274	$ 938,907	$ 428,797	$ 478,09
Operating cash flow (non-GAAP)*	**2,425,727**	1,402,522	897,234	408,783	442,92
BALANCE SHEET DATA (at end of period)					
Total assets	**$ 16,118,462**	$ 8,244,509	$ 4,572,291	$ 2,875,608	$ 2,286,76
Long-term debt, net of current maturities	**5,489,742**	3,075,109	2,057,713	1,651,198	1,329,45
Stockholders' equity (deficit)	**6,174,323**	3,162,883	1,732,810	907,875	767,40
OTHER OPERATING AND FINANCIAL DATA					
Proved reserves in natural gas equivalents (mmcfe)	**7,520,690**	4,901,751	3,168,575	2,205,125	1,779,94
Future net oil and natural gas revenues discounted at 10%*	**$ 22,933,594**	$ 10,504,390	$ 7,333,142	$ 3,717,645	$ 1,646,66
Natural gas price used in reserve report (per mcf)	**$ 8.76**	$ 5.65	$ 5.68	$ 4.28	$ 2.5
Oil price used in reserve report (per bbl)	**$ 56.41**	$ 39.91	$ 30.22	$ 30.18	$ 18.8
Natural gas production (mmcf)	**422,389**	322,009	240,366	160,682	144,17
Oil production (mbbls)	**7,698**	6,764	4,665	3,466	2,88
Production (mmcfe)	**468,577**	362,593	268,356	181,478	161,45
Sales price per mcfe**	**$ 6.90**	$ 5.23	$ 4.79	$ 3.61	$ 4.5
Production expense per mcfe	**$ 0.68**	$ 0.56	$ 0.51	$ 0.54	$ 0.4
Production taxes per mcfe	**$ 0.44**	$ 0.29	$ 0.29	$ 0.17	$ 0.2
General and administrative cost per mcfe	**$ 0.14**	$ 0.10	$ 0.09	$ 0.10	$ 0.0
Depreciation, depletion and amortization expense per mcfe	**$ 2.02**	$ 1.69	$ 1.44	$ 1.30	$ 1.1
Number of employees (full-time at end of period)	**2,885**	1,718	1,192	866	67
Cash dividends declared per common share	**$ 0.195**	$ 0.17	$ 0.135	$ 0.06	
Stock price (at end of period – split adjusted)	**$ 31.73**	$ 16.50	$ 13.58	$ 7.74	$ 6.6

** See page 11 for the definition of this non-GAAP measure.*

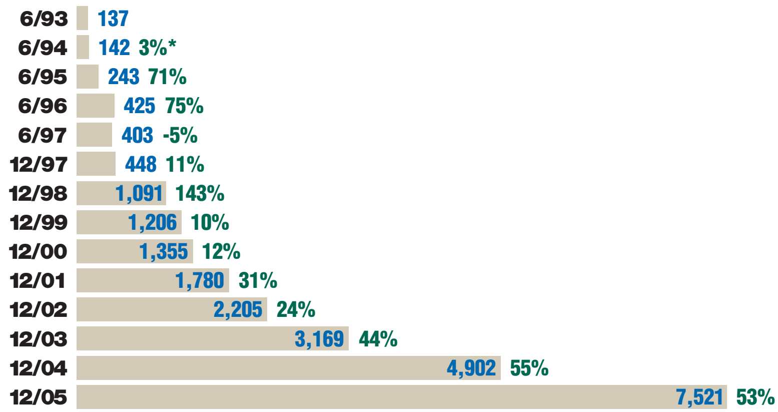
***Excludes unrealized gains (losses) on oil and gas hedging.*

			SIX MONTHS ENDED DEC. 31	YEARS ENDED JUNE 30				
2000	1999	1998	1997	1997	1996	1995	1994	1993
$ 470,170	$ 280,445	$ 256,887	$ 95,657	$ 192,920	$ 110,849	$ 56,983	$ 22,404	$ 11,602
157,782	74,501	121,059	58,241	76,172	34,742	8,836	6,439	5,526
627,952	354,946	377,946	153,898	269,092	145,591	65,819	28,843	17,128
50,085	46,298	51,202	7,560	11,445	6,340	3,379	2,141	2,890
24,840	13,264	8,295	2,534	3,662	1,963	877	1,506	–
13,177	13,477	19,918	5,847	8,802	4,828	3,578	3,135	3,620
152,309	71,533	119,008	58,227	75,140	32,347	7,747	5,199	3,653
108,772	102,854	154,720	62,822	107,046	54,056	27,175	10,012	4,741
–	–	881,000	110,000	236,000	–	–	–	1,286
349,183	247,426	1,234,143	246,990	442,095	99,534	42,756	21,993	16,190
278,769	107,520	(856,197)	(93,092)	(173,003)	46,057	23,063	6,850	938
3,649	8,562	3,926	78,966	11,223	3,831	1,524	981	880
(86,256)	(81,052)	(68,249)	(17,448)	(18,550)	(13,679)	(6,627)	(2,676)	(2,282)
–	–	(13,334)	–	(6,620)	–	–	–	–
(82,607)	(72,490)	(77,657)	61,518	(13,947)	(9,848)	(5,103)	(1,695)	(1,402)
196,162	35,030	(933,854)	(31,574)	(186,950)	36,209	17,960	5,155	(464)
–	–	–	–	–	–	–	–	–
(259,408)	1,764	–	–	(3,573)	12,854	6,299	1,250	(99)
455,570	33,266	(933,854)	(31,574)	(183,377)	23,355	11,661	3,905	(365)
–	–	–	–	–	–	–	–	–
455,570	33,266	(933,854)	(31,574)	(183,377)	23,355	11,661	3,905	(365)
(8,484)	(16,711)	(12,077)	–	–	–	–	–	(385)
6,574	–	–	–	–	–	–	–	–
$ 453,660	$ 16,555	$ (945,931)	$ (31,574)	$ (183,377)	$ 23,355	$ 11,661	$ 3,905	$ (750)
$ 3.52	$ 0.17	$ (9.97)	$ (0.45)	$ (2.79)	$ 0.43	$ 0.22	$ 0.08	$ (0.02)
–	–	–	–	–	–	–	–	–
$ 3.52	$ 0.17	$ (9.97)	$ (0.45)	$ (2.79)	$ 0.43	$ 0.22	$ 0.08	$ (0.02)
$ 3.01	$ 0.16	$ (9.97)	$ (0.45)	$ (2.79)	$ 0.40	$ 0.21	$ 0.08	$ (0.02)
–	–	–	–	–	–	–	–	–
$ 3.01	$ 0.16	$ (9.97)	$ (0.45)	$ (2.79)	$ 0.40	$ 0.21	$ 0.08	$ (0.02)
$ 314,640	$ 145,022	$ 94,639	$ 139,157	$ 84,089	$ 120,972	$ 54,731	$ 19,423	$ (1,499)
305,804	138,727	117,500	67,872	161,140	88,431	45,903	15,527	4,404
$ 1,440,426	$ 850,533	$ 812,615	$ 952,784	$ 949,068	$ 572,335	$ 276,693	$ 125,690	$ 78,707
944,845	964,097	919,076	508,992	508,950	268,431	145,754	47,878	14,051
313,232	(217,544)	(248,568)	280,206	286,889	177,767	44,975	31,260	31,432
1,354,813	1,205,595	1,091,348	448,474	403,004	424,775	242,505	141,992	137,495
$ 6,046,028	$ 1,089,496	$ 660,991	$ 466,509	$ 437,386	$ 547,016	$ 188,137	$ 141,249	$ 141,665
$ 10.12	$ 2.25	$ 1.68	$ 2.29	$ 2.12	$ 2.41	$ 1.60	$ 1.98	$ 2.43
$ 26.41	$ 24.72	$ 10.48	$ 17.62	$ 18.38	$ 20.90	$ 17.41	$ 18.27	$ 18.71
115,771	108,610	94,421	27,326	62,005	51,710	25,114	6,927	2,677
3,068	4,147	5,976	1,857	2,770	1,413	1,139	537	276
134,179	133,492	130,277	38,468	78,625	60,190	31,947	10,152	4,333
$ 3.50	$ 2.10	$ 1.97	$ 2.49	$ 2.45	$ 1.84	$ 1.78	$ 2.21	$ 2.68
$ 0.37	$ 0.35	$ 0.39	$ 0.20	$ 0.15	$ 0.11	$ 0.11	$ 0.21	$ 0.67
$ 0.19	$ 0.10	$ 0.06	$ 0.07	$ 0.05	$ 0.03	$ 0.03	$ 0.15	–
$ 0.10	$ 0.10	$ 0.15	$ 0.15	$ 0.11	$ 0.08	$ 0.11	$ 0.31	$ 0.84
$ 0.81	$ 0.77	$ 1.19	$ 1.63	$ 1.36	$ 0.90	$ 0.85	$ 0.99	$ 1.09
462	424	481	360	362	344	325	250	150
–	–	$ 0.04	$ 0.04	$ 0.02	–	–	–	–
$ 10.12	$ 2.38	$ 0.94	$ 7.50	$ 9.81	$ 29.52	$ 5.64	$ 0.85	$1.18

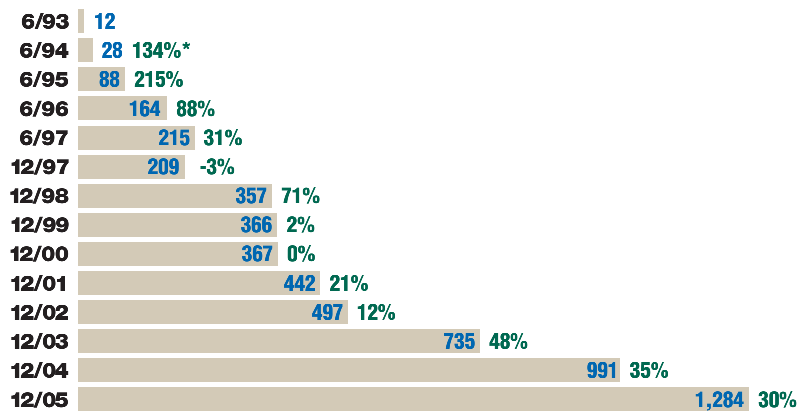
IN 2005, CHESAPEAKE:

- Was one of the top financial and operating performers among exploration and production companies;
- Increased average daily production 30% to 1,284 mmcfe and delivered 12% organic production growth;
- Increased proved reserves by 53% to 7.5 tcfe through both acquisitions and the drillbit;
- Replaced 659% of its production, with a drillbit finding and development cost of $1.74 per mcfe and a total reserve replacement cost of $2.40 per mcfe;
- Was the most active driller of new wells in the U.S., drilling 902 operated wells and participating in another 1,066 non-operated wells, utilizing an average rig count of 73 operated rigs and 66 non-operated rigs;
- Was one of the most active consolidators in the industry, investing $4.9 billion in acquisitions of oil and gas properties for the year and $10.3 billion since 1998;
- Increased its industry leading inventories of U.S. onshore acreage and 3-D seismic data to 7.9 million net acres and 11.6 million acres, respectively;
- More than doubled its market capitalization and enterprise value to $14 billion and $20 billion, respectively; and
- Generated a 94% total return to common shareholders and increased the total return to common shareholders since its IPO in 1993 to nearly 2,300%.

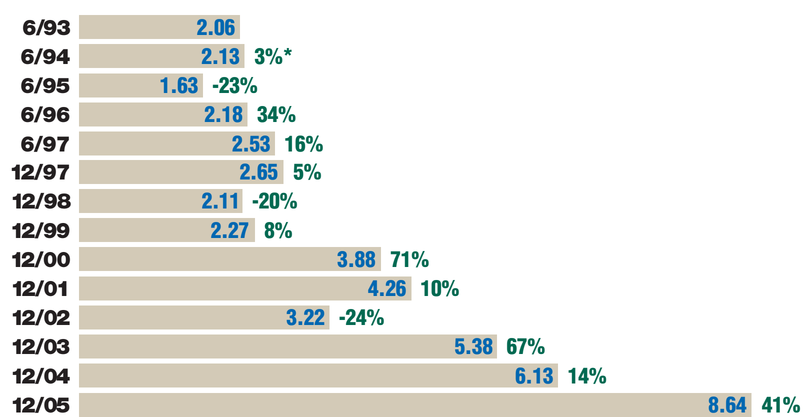
PROVED RESERVES GROWTH IN BCFE



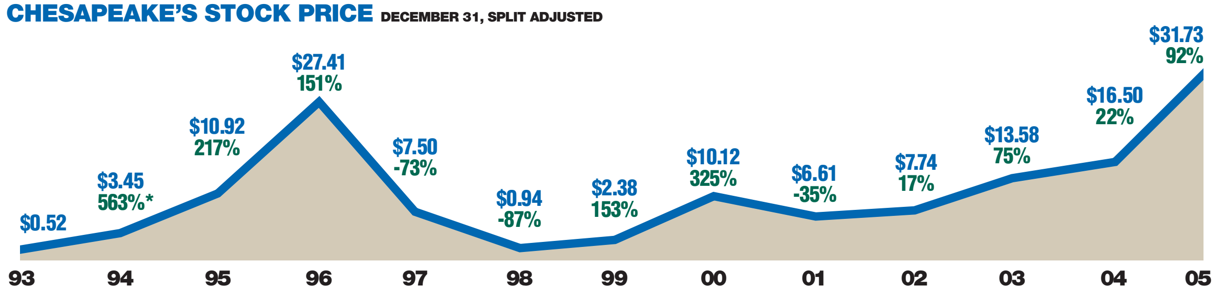
PRODUCTION GROWTH IN MMCFE PER DAY



AVERAGE NYMEX NATURAL GAS PRICES $ PER MMBTU

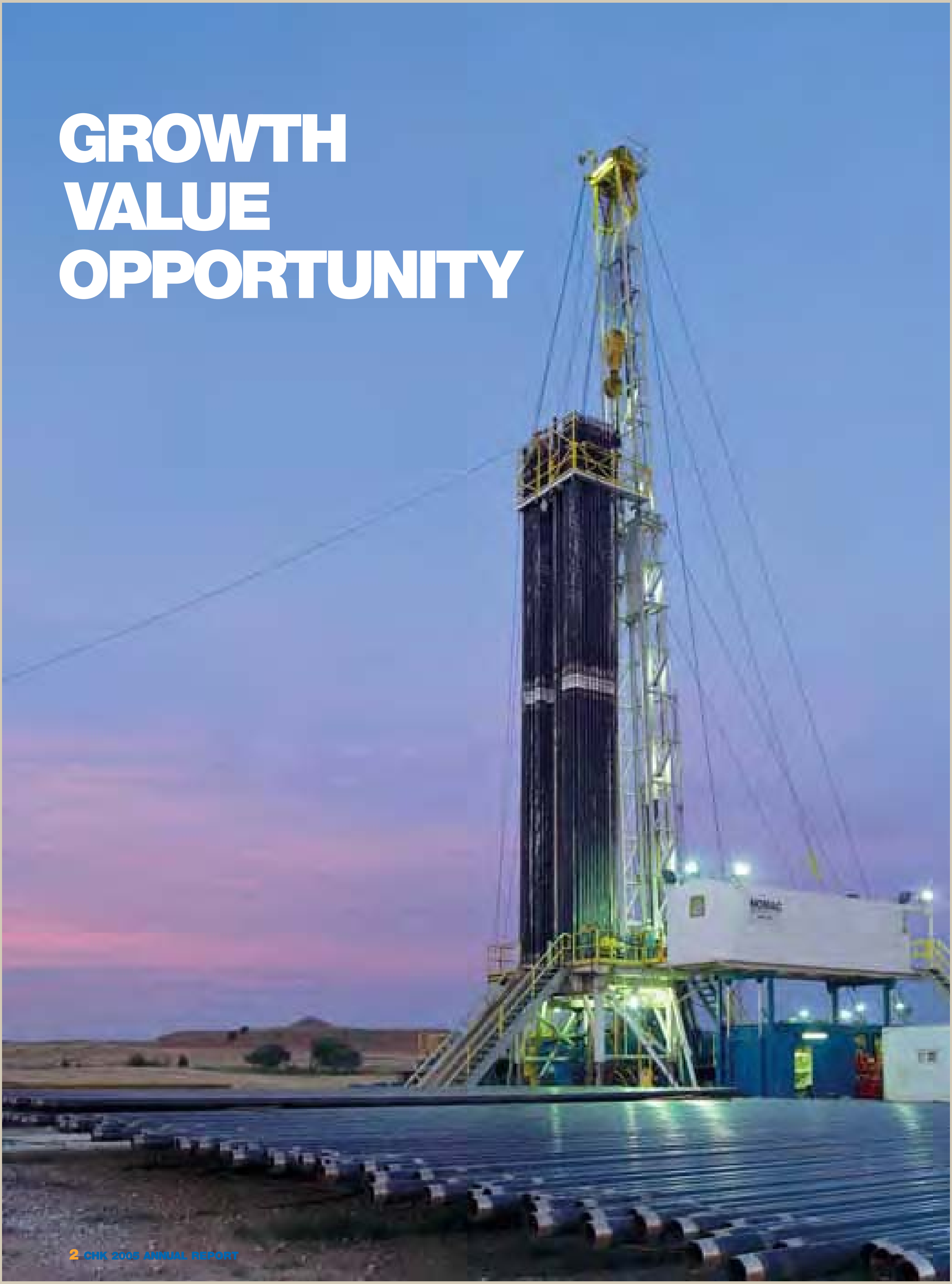


CHESAPEAKE'S STOCK PRICE DECEMBER 31, SPLIT ADJUSTED



** % change compared to prior period.*

GROWTH
VALUE
OPPORTUNITY



DEAR FELLOW SHAREHOLDERS:

GROWTH, VALUE AND OPPORTUNITY

The development of our annual report each year is guided by a theme that is unique for the year at hand and also articulates the consistent strategy we have successfully pursued during the past several years. This year, we have chosen to focus on three words – *growth, value and opportunity*. As this letter unfolds, I hope you will see why we believe these three words best describe Chesapeake in 2005 and should define our performance in 2006 and beyond.

2005 IN REVIEW Let me first provide some context for this year's discussion. Certainly 2005 was an extraordinary year for Chesapeake, as it was for energy producers and consumers across the globe. Hot summers, mild winters, multiple hurricanes, geopolitical events and peak oil theories were just a few of the topics that dominated the news in 2005. Each of these topics dramatically impacted the worldwide energy business and all touched Chesapeake and its shareholders as well.

Following a mild winter, U.S. natural gas prices began 2005 just below $6 per mmbtu and remained relatively stable through May. Natural gas prices then climbed steadily through the summer's heat and exceeded the $10 per mmbtu level by late August. In the aftermath of Hurricanes Katrina and Rita, natural gas prices skyrocketed to over $15 per mmbtu in December before slumping back to the $7 per mmbtu range in March 2006 after yet another record-breaking mild winter.

Oil prices were volatile as well. Continued resilient demand driven by strong global economic growth, war in Iraq, tribal unrest in Nigeria, political uncertainty in Venezuela, terrorism risks in many parts of the world, multiple hurricanes and limited excess global production and refining capacity all impacted oil prices. Furthermore, mounting concerns regarding whether world oil production can stay ahead of world oil consumption in the longer term have contributed to additional price volatility. From a beginning price of about $43 per bbl in January 2005, oil prices climbed to a high of nearly $70 per bbl after Hurricane Katrina and have since eased back into a trading range of $60 to $68 per bbl during the past six months.

Against this backdrop of instability and uncertainty, Chesapeake delivered consistently superior operational and financial results throughout the year and our stock price increased by 92%. We accomplished this through our simple and focused business strategy, the safe location of our assets onshore in the U.S. and the predictable base of production we generate every day from our 30,000 wells. These attributes enabled us to create substantial shareholder value from a business managed as an oasis of calm within the turmoil that defines today's global energy business.

A closer look at the company's achievements in 2005 reflects the following financial and operational highlights:

- Average daily oil and natural gas production increased 30% from 991 mmcfe to 1,284 mmcfe;
- Organic production growth reached 12%;
- Proved oil and natural gas reserves increased 53% from 4.9 tcfe to 7.5 tcfe;
- Reserve replacement for the year reached 659% at a drilling and acquisition cost of only $1.74 per mcfe;
- Revenues rose 72% from $2.7 billion to $4.7 billion;
- Ebitda[1] increased 69% from $1.6 billion to $2.7 billion;

"Against this backdrop of instability and uncertainty, Chesapeake delivered consistently superior operational and financial results throughout the year and our stock price increased by 92%."

"Chesapeake's business strategy is probably the easiest to understand among all large-cap public exploration and production companies. We grow onshore in the U.S. through a balance of drilling and acquisitions, we regionally consolidate to achieve economies of scale, we focus almost exclusively on finding and producing natural gas and we work proactively to mitigate risk."

- Operating cash flow[2] grew 73% from $1.4 billion to $2.4 billion;
- Net income per fully diluted common share increased 64% from $1.53 to $2.51; and
- Total return to common shareholders reached 94%, improving our total return to common shareholders to almost 2,300% for the 13 years since our IPO in 1993.

As a result of our achievements in 2005, Chesapeake became the second largest independent producer of U.S. natural gas and the sixth largest producer overall. We produce roughly 2.5% of the nation's natural gas from our 30,000 wells. Moreover, we led the nation in drilling activity last year, using an average of 73 operated rigs and 66 non-operated rigs, or 10% of the nation's drilling rig fleet, to drill almost 2,000 wells. In 2006, we again expect to lead the industry in drilling and also expect to increase our total production by approximately 25% through the drillbit and through acquisitions. In addition, we anticipate increasing the company's net asset value per share by a similar amount.

Chesapeake's industry-leading drilling activity and consistent annual production growth (typically exceeding 25%) require great geological prospects and great people – assets that Chesapeake fortunately has in abundance. In addition to more than doubling our drilling backlog to 28,000 locations since the beginning of 2005, we have also doubled our employee count to over 3,500. Most industries (and often ours in the past) report with pride on being able to reduce their employee head count each year. However, after 15 difficult years from 1985 to 2000, our industry is increasingly short on human capital, especially for employees younger than 40. We were early to recognize the importance of being a first mover in attracting the human resources necessary to create long-term shareholder value and we anticipate that we will continue hiring aggressively in 2006.

CHESAPEAKE'S BUSINESS STRATEGY AND NATURAL GAS FOCUS Chesapeake's business strategy is probably the easiest to understand among all large-cap public exploration and production (E&P) companies. We grow onshore in the U.S. through a balance of drilling and acquisitions, we regionally consolidate to achieve economies of scale, we focus almost exclusively on finding and producing natural gas and we work proactively to mitigate risk. By executing this strategy effectively, Chesapeake became America's top performing stock during the past seven years.[3]

In addition to the simplicity of our business strategy, our early recognition of evolving trends in natural gas markets and our willingness to seize opportunities have distinguished Chesapeake among its peers. Back in 1998 and early 1999, when natural gas was exceptionally cheap (frequently selling for less than $1.25 per mmbtu), most industry and government observers predicted that the U.S. natural gas market would increase from 22 tcf to 30 tcf per year by 2010 and that natural gas prices would remain low indefinitely.

After examining the fundamentals of the North American natural gas market, we arrived at a very different conclusion and began repositioning the company to pursue a contrarian strategy based on the following beliefs about the U.S. natural gas industry beyond the year 2000:

- production depletion rates would accelerate;
- finding, development and operating costs would increase;
- demand would gradually move away from more cost-sensitive

industrial demand to less cost-sensitive electrical power generation demand; and

- production would soon reach a peak from which there would be no recovery, regardless of higher prices or improved technology.

These trends became evident when we studied U.S. oil production history and then predicted that U.S. natural gas production would likely follow a similar bell-shaped curve of ramping up to a historic peak (1970 for oil, 2001 for natural gas) and then slowly but steadily declining thereafter. We also reasoned that the major oil companies would begin withdrawing from the search for increasingly scarce natural gas reserves in North America and refocus their natural gas strategies on building global natural gas franchises around more abundant worldwide natural gas reserves that could be transformed into liquefied natural gas (LNG).

As the majors began de-emphasizing their search for new natural gas reserves in U.S., we felt certain the 35% of U.S. natural gas production the majors represented would decline at a rate that would surprise many industry observers. In fact, over the past five years, the majors' U.S. natural gas production has declined by a stunning one-third. It also seemed clear to us that the smaller independent E&P companies would not be able to increase their own natural gas production enough to overcome the majors' production declines.

Accordingly, we decided that Chesapeake should position itself to be a first mover to take advantage of this opportunity. To that end, we adopted four objectives:

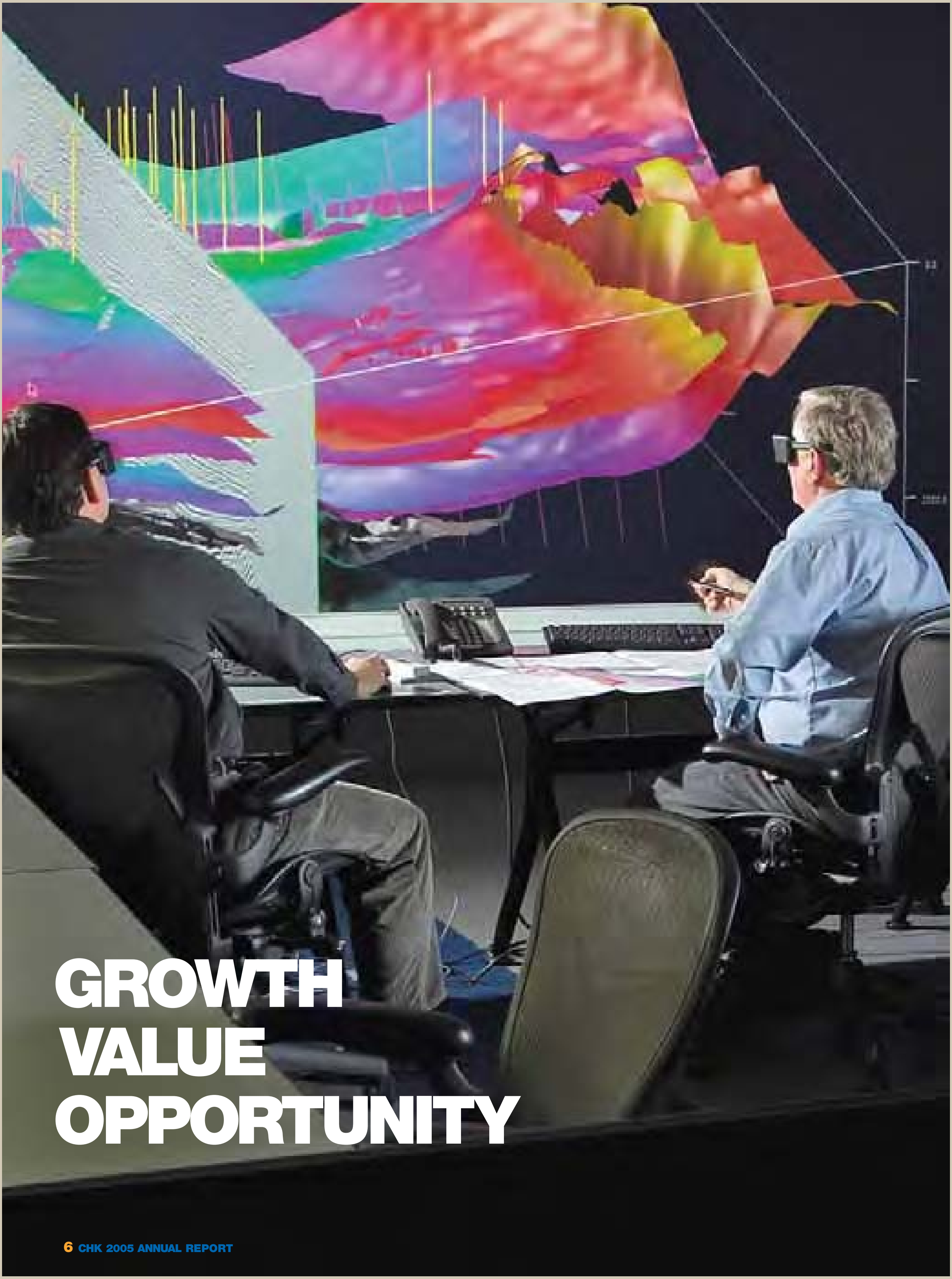
- acquire all of the existing natural gas production and reserves we could afford;
- lease all the potentially natural gas productive acreage we could identify;
- hire all of the talented landmen, geoscientists and engineers we could find; and
- focus exclusively onshore in the U.S., safely away from hurricanes and geopolitical unrest.

Over the past eight years, we have accomplished all of these objectives. Meanwhile, with the help of higher oil prices, natural gas prices have risen to levels 600-800% greater than they were in 1998 and early 1999. More importantly, assuming normal weather patterns, natural gas demand is likely to exceed supply and continued natural gas price strength is probable for years to come. As a result of anticipating these trends and getting ahead of our competition, Chesapeake is very well-positioned for success in the years ahead.

GROWTH, VALUE AND OPPORTUNITY With this context in mind, I now focus on the centerpiece of this letter – a discussion of why we believe Chesapeake offers the best combination of growth, value and opportunity in the industry.

GROWTH First and foremost, Chesapeake is a growth company. At the time of our IPO in 1993 when we only produced 10 mmcfe per day, we were clearly a growth through the drillbit company in an industry focused primarily on acquisitions. Even though our production is now 150 times larger, we remain a growth through the drillbit company. In 2005, our organic growth (that is, through the drillbit) was 12%, which is exactly what our five-year average organic growth rate has been and which we believe is the highest in the U.S. mid and large-cap E&P sector during that period.

"Natural gas price strength is probable for years to come. As a result of anticipating these trends and getting ahead of our competition, Chesapeake is very well-positioned for success in the years ahead."



GROWTH VALUE OPPORTUNITY

"We correctly determined in 1998 and early 1999 the future would reward companies that anticipated the impending U.S. natural gas production shortfall. We then prepared for the opportunity by hiring hundreds of the most talented landmen, geoscientists and engineers we could find and by making acquisitions of producing properties, companies and unproved leasehold."

Such an achievement is truly extraordinary considering the scale of our company today is five times larger than it was five years ago. Clearly the law of large numbers has not caught up with Chesapeake in the way many have predicted over the years. I would also note that Chesapeake's 2005 fourth quarter marked our 18th consecutive quarter of sequential U.S. production growth and our 16th consecutive year of production growth.

How did Chesapeake deliver top-tier organic growth in 2005? It was a combination of anticipation, preparation and execution. We correctly determined in 1998 and early 1999 the future would reward companies that anticipated the impending U.S. natural gas production shortfall. We then prepared for the opportunity by hiring hundreds of the most talented landmen, geoscientists and engineers we could find and by making acquisitions of producing properties, companies and unproved leasehold.

Our consistent approach has enabled us to build a 7.8 tcfe gas-focused reserve base (7.5 tcfe as of December 31, 2005) and a diverse portfolio of more than 28,000 drillsites on 8.4 million net acres onshore in the U.S. This represents more than a ten-year inventory of future drilling and growth opportunities.

It is important to note that our growth has not come at the expense of returns. In 2005 for example, we increased our reserves by 53%, our operating cash flow by 73% and our earnings per fully diluted share by 64%. In addition, our return on average common equity during the year was 25%. The market applauded those achievements and during 2005 our stock price increased by 92%, bringing our total return to shareholders since our IPO in 1993 to nearly 2,300%, or a compound annual stock price increase of 28%. We believe that is the second best performance in the industry during the past 13 years.

Looking forward, Chesapeake's remarkable record of growth should continue into 2006 and beyond. We plan to organically grow our production and proved reserves by 10% this year, and if the past is any indication, acquisitions are likely to add at least another 15% to our production growth. Although acquisitions are difficult to forecast, our track record as a value-added regional consolidator and our ability to secure solid returns through hedging would suggest there will be ample opportunities to make further accretive acquisitions to complement the $1 billion of acquisitions we have made to date in 2006.

VALUE I would next like to discuss the tremendous value that we believe is embedded in Chesapeake's stock. Using year-end 2005 NYMEX prices of $10.08 per mmbtu of gas and $61.11 per bbl of oil, Chesapeake's proved reserves have a PV-10[4] value of $23 billion. In addition, we have 8.4 million net acres of leasehold on which we have identified 28,000 locations that we believe contain unproved reserves of 8.8 tcfe. We believe these are worth somewhere between $5 and $10 billion. Furthermore, we believe our non-E&P assets have a value of nearly $2 billion.

Therefore using year-end oil and natural gas price assumptions, the asset value Chesapeake has built for investors equals $30-35 billion. When debt and other liabilities of about $7 billion are subtracted, the remaining shareholder value is $23-28 billion, or $50-60 per fully diluted share. Over the years, our stock price has generally moved in tandem with the net asset value (NAV) we create, so I have full confidence in the market's ability to keep up with the company's steadily increasing NAV per share.

No discussion about value would be complete without the topic of risk mitigation. My job, and the job of our senior management team, is to create and deliver the highest risk-adjusted returns possible to our investors. I often believe that many investors do not fully appreciate how much risk there is in this industry and how well we manage it at Chesapeake. For example, in 2006 when natural gas prices are widely expected to decline to below $6 per mmbtu by late summer because of this past winter's record warmth, we have hedged 71% of our 2006 natural gas production at $9.43 per mmbtu, 36% of our 2007 natural gas production at $9.85 per mmbtu and 22% of our 2008 natural gas production at $9.10 per mmbtu (excluding CNR hedges).

Additionally, we are the only E&P company that has significantly hedged its exposure to rising service costs by building drilling rigs and investing in related service industry providers. To date, these investments have appreciated in value by roughly $250 million. We now own 32 rigs outright and have an additional 25 on order, which should account for approximately 60% of the rigs we plan to operate a year from now. Rig ownership is proving to be an extremely valuable competitive advantage in both acquisitions and in operations.

Moreover, in a time of increasing geopolitical unrest around the world, the prospect of asset loss in many areas of the world to arbitrary tax and royalty changes or even outright contract cancellation by foreign governments is a serious concern faced by all major integrated oil companies and many large independent E&P companies. Except for occasional chatter about a windfall profits tax in the U.S., Chesapeake's assets are safe from such political risks.

I also emphasize that Chesapeake's assets are all high and dry onshore in the U.S. In a time of what appears to be a cycle of greater hurricane activity in the Gulf of Mexico, many investors may not fully appreciate the very high risks that Gulf of Mexico operators and investors may face in hurricane seasons to come.

Not having access to rigs to develop our assets or owning assets subject to confiscation by some foreign potentate or suffering damage from hurricanes are risks to which we have no exposure. That is why, dollar for dollar, we believe investors can achieve the very best risk-adjusted returns in the industry right here at CHK.

OPPORTUNITY Now let's talk about opportunity. Much earlier than most companies, in fact as far back as 1998 and 1999, Chesapeake's management team anticipated changing industry conditions and quickly recognized the trends that have driven remarkable increases in oil and natural gas prices during the past eight years. We also recognized the need to develop the building blocks of future value creation in the E&P business – people, land and science.

During the past eight years we have aggressively captured opportunities in each of these critical areas. For example, before talented people became scarce in this industry, we were hiring them by the hundreds. Before prospects and leases became scarce, we built a system of prospect generation and leasehold acquisition that is second to none in the industry. And finally, when others were reluctant to invest in science and new ideas, we aggressively entered into virtually every major natural gas resource play in the U.S. east of the Rockies.

Chesapeake has significantly strengthened its technical capabilities during the past eight years by dramatically increasing its land, geoscience and engineering staff to more than 600 employees. In

"Additionally, we are the only E&P company that has significantly hedged its exposure to rising service costs by building drilling rigs and investing in related service industry providers. To date, these investments have appreciated in value by roughly $250 million."

"The company continues to actively acquire more acreage throughout our operating areas with 1.4 million acres acquired in 2005, of which almost 500,000 acres was acquired in the 2005 fourth quarter alone through an aggressive land acquisition program that is currently utilizing more than 900 contract landmen in the field."

total, the company now has more than 3,500 employees, of which approximately 70% work in the company's E&P operations and 30% work in the company's oilfield service operations. These people are a highly valued (and much coveted) resource and we are proud they have chosen Chesapeake as their professional home.

During the past eight years, we have invested more than $3 billion in new leasehold and 3-D seismic data and now own the largest inventories in the U.S. of onshore leasehold (8.4 million net acres) and 3-D seismic data (11.6 million acres). As a result, we believe Chesapeake has unparalleled opportunities for future value creation.

As to future drilling opportunities, we organize Chesapeake's drilling inventory by one of four play types: conventional gas resource, unconventional gas resource, emerging gas resource and Appalachian Basin gas resource. The company's current leasehold and proved undeveloped and unproved reserve totals by play type are set forth below:

- 2.8 million net acres in our traditional conventional areas (i.e., much of the Mid-Continent, Permian, Gulf Coast, South Texas and other areas) on which we have identified approximately 2,700 drillsites, 1.0 tcfe of proved undeveloped reserves and approximately 1.0 tcfe of unproved reserves;
- 1.1 million net acres in our unconventional gas resource areas (i.e., Sahara, Granite/Cherokee/Atoka Washes, Hartshorne CBM, Barnett Shale and Ark-La-Tex tight sands) on which we have identified approximately 14,000 drillsites, 1.3 tcfe of proved undeveloped reserves and approximately 4.2 tcfe of unproved reserves;
- 1.2 million net acres in our emerging gas resource areas (i.e., Fayetteville Shale, Caney/Woodford Shales, Deep Haley, Deep Bossier and others) on which we have identified approximately 2,000 drillsites, 0.1 tcfe of proved undeveloped reserves and approximately 1.9 tcfe of unproved reserves; and
- 3.3 million net acres in the Appalachian Basin, where our play types range from conventional to unconventional to emerging gas resource. On the significant Appalachian Basin acreage base acquired from CNR in November 2005, we have identified approximately 9,200 drillsites, 0.4 tcfe of proved undeveloped reserves and more than 1.7 tcfe of unproved reserves.

The company continues to actively acquire more acreage throughout our operating areas with 1.4 million acres acquired in 2005, of which almost 500,000 acres were acquired in the 2005 fourth quarter alone through an aggressive land acquisition program that is currently utilizing more than 900 contract landmen in the field.

THE COLUMBIA NATURAL RESOURCES ACQUISITION At the end of the 2005 third quarter, we announced the largest transaction in the company's history – the acquisition of Appalachian natural gas producer Columbia Natural Resources (CNR). Through this transaction, Chesapeake acquired daily net production of 125 mmcfe, an extensive 6,500 mile network of natural gas gathering pipelines, and an internally estimated 3.0 tcfe of proved, probable and possible reserves, comprised of 1.3 tcfe of proved reserves and 1.7 tcfe of probable and possible reserves. The purchase price was $3 billion, which consisted of $2.2 billion in cash and $800 million in liabilities assumed at closing. The properties are principally located in West Virginia, Kentucky, Ohio, Pennsylvania and New York.

We first began evaluating the possible acquisition of CNR in 2002. When the opportunity finally became available last summer, we jumped on it for several reasons. First, we were enthusiastic about moving into the large and prolific Appalachian Basin. The basin covers over 185,000 square miles (almost three times the size of Oklahoma) and has produced more than 46 tcfe of natural gas from over 400,000 wells.

Second, much of the basin remains under-explored. Less than 1% of the 400,000 wells drilled to date have penetrated below 7,500 feet, leaving substantial deeper exploration opportunities available for Chesapeake to pursue. In addition, very few horizontal shale wells have been drilled and very few wells have been cored, leaving a great opportunity for Chesapeake to apply new scientific approaches to natural gas development in the region.

Third, we were attracted to the value proposition of producing natural gas for a premium price to NYMEX, rather than for the steep discount to NYMEX that natural gas sells for today in most other U.S. basins. Including an approximate 14% value upgrade for the rich BTU content of the natural gas, realized prices on Chesapeake's Appalachian natural gas production today are 20-30% per mcf higher than prices received in other U.S. basins.

Finally, we were eager to begin working in a large U.S. natural gas basin that shares many similarities to our stronghold in the Mid-Continent. As in the Mid-Continent area eight years ago, Appalachian Basin asset ownership today is very fragmented. In addition, we believe that Chesapeake's significant presence in the Barnett, Woodford, Caney and Fayetteville shale plays, our expertise in tight sand and horizontal coalbed methane drilling and our commitment to deep natural gas exploration make us uniquely positioned to transfer knowledge and achieve success in Appalachia.

TOM WARD For the first time in 13 years as the CEO of Chesapeake, I am writing this letter without the benefit of my 23-year partnership with Chesapeake's co-founder and former President and Chief Operating Officer, Tom Ward. In early February 2006, Tom announced his retirement from the company so that he could redirect his efforts away from Chesapeake towards other business and personal interests he has developed over the years.

Tom and I first met in April 1983 as 23-year-old competing independent landmen. After quickly sizing up each other's work ethic, land skills and (thin) wallets, we shook hands on an informal partnership arrangement that lasted until May 1989, when we formally incorporated Chesapeake. At that time, we invested $50,000 in our new company, hired our first employees and began drilling wells in southern Oklahoma.

Four years later, we had grown quickly enough to complete an initial public offering of Chesapeake's stock at a split-adjusted price of $1.33 per share. Subsequently, we were the worst performing IPO in the U.S. in 1993 (down 65%), only to become the best performing stock on all U.S. markets from 1994 to 1996 (up 7,200%). We then saw our stock fall 98% in 1998 and 1999, and finally have seen our stock rise 3,900% from $0.75 per share in 1999 to over $30.00 today.

We are now both 46, have spent half of our lives working together to build Chesapeake and we plan to remain good friends and partners in various business ventures outside of Chesapeake for years to come. Although the company and I will miss Tom's drive, vision and character, the ultimate tribute to him may be that he helped build a company that is capable of surviving the loss of his services. We believe your company remains in the very capable hands of a deep and experienced senior management team.

"In addition, we believe that Chesapeake's significant presence in the Barnett, Woodford, Caney and Fayetteville shale plays, our expertise in tight sand and horizontal coalbed methane drilling and our commitment to deep natural gas exploration make us uniquely positioned to transfer knowledge and achieve success in Appalachia."

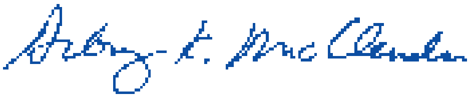
"These supply and demand imbalances cannot be quickly, easily or cheaply fixed, and as a result, we believe the stage is set for an extended period of strong (and volatile) oil and natural gas prices. In this environment, we believe Chesapeake can continue leading the way in delivering exceptional growth, value and opportunity to our shareholders in 2006 and beyond."

LOOKING FORWARD As I conclude this letter and reflect with a sense of accomplishment and gratitude on Chesapeake's performance during the past 13 years, I remain very optimistic about the continued success of the company and our ability to continue delivering value to our shareholders. We have the commitment and talents of over 3,500 top-notch employees, an engaged and insightful Board, a time-tested and successful business strategy, a value-added risk-management program, a steadily improving balance sheet and increasingly valuable onshore U.S. natural gas assets. Chesapeake also offers an entrepreneurial and experienced management team that has proven itself capable of creating industry-leading value through a full range of commodity cycle challenges in building a $20 billion enterprise from an initial $50,000 investment in just 16 years.

We are off to a great start in delivering another successful year of performance to our shareholders in 2006. In the first three months of the year, we have already closed or negotiated $1 billion of acquisitions, commenced drilling almost 500 operated and non-operated new wells, sold our stock in Pioneer Drilling Corporation for a $115 million pre-tax gain, established new production records of over 1.5 bcfe per day and reached the record level of 7.8 tcfe of proved reserves and 8.8 tcfe of risked unproved reserves. In addition, we were recently added to the S&P 500 Index and were also included in the Fortune 500 list for the first time.

While presently weak relative to oil prices, we believe U.S. natural gas prices should strengthen later this year because of tight supply and demand fundamentals in both U.S. natural gas and world oil markets. These supply and demand imbalances cannot be quickly, easily or cheaply fixed, and as a result, we believe the stage is set for an extended period of strong (and volatile) oil and natural gas prices. In this environment, we believe Chesapeake can continue leading the way in delivering exceptional growth, value and opportunity to our shareholders in 2006 and beyond.

Best regards,



Aubrey K. McClendon
Chairman and Chief Executive Officer

March 31, 2006

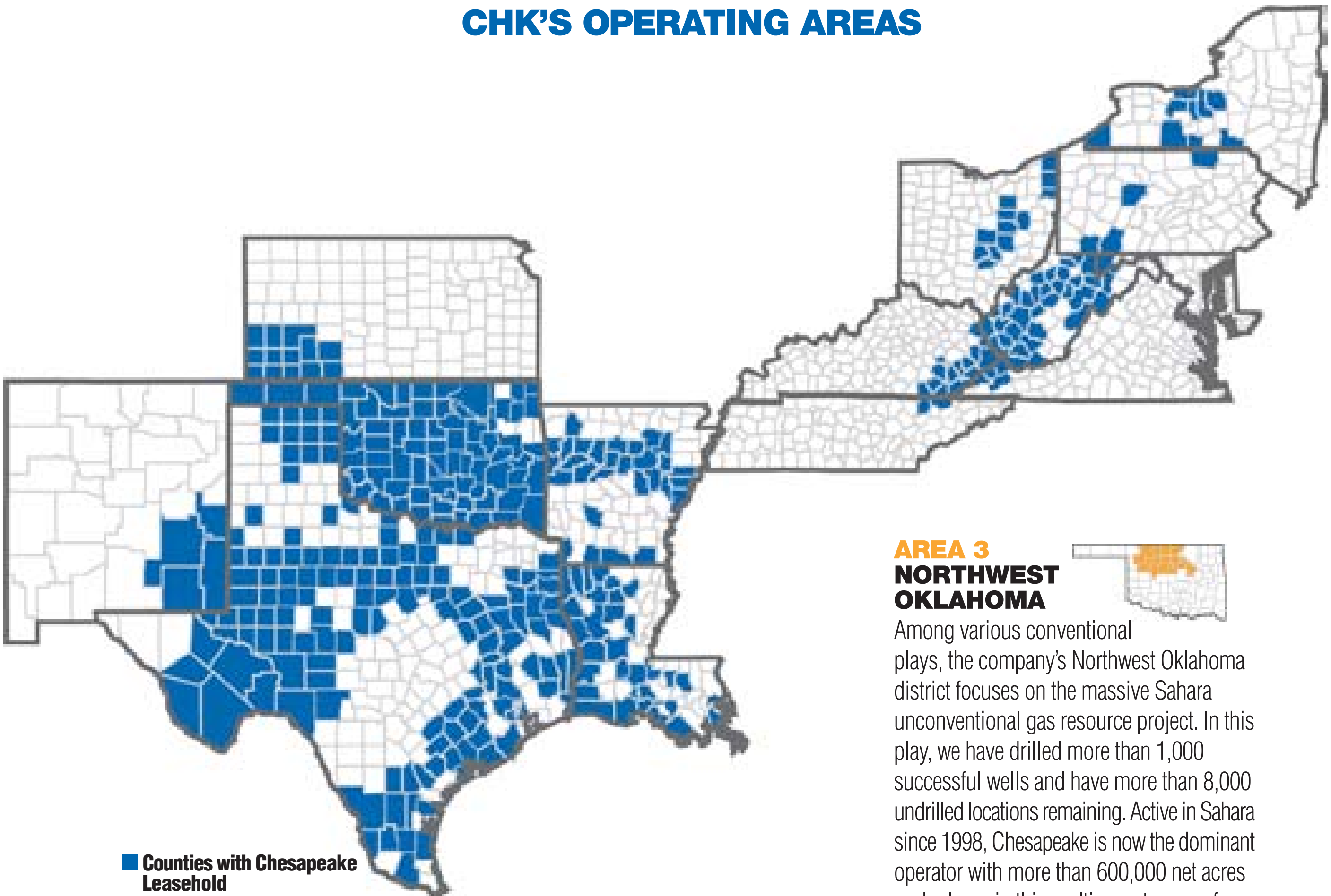
[1] *Ebitda is net income (loss) before cumulative effect of accounting change, income tax expense (benefit), interest expense, and depreciation, depletion and amortization expense.*

[2] *Operating cash flow is net cash provided by operating activities before changes in assets and liabilities.*

[3] *Ranking is according to Zack's Investment Research (Zack's) based on stock price performance from 12/31/98 to 12/31/05 of nearly 3,000 companies tracked by Zack's with market capitalizations over $50 million on 12/31/98.*

[4] *PV-10 is the present value (10% discount rate) of estimated future gross revenue to be generated from the production of proved reserves, net of production and future development costs, using assumed prices and costs. Please see page 11 of our Form 10-K for information on the standardized measure of future net cash flow pursuant to SFAS 69.*

CHK'S OPERATING AREAS

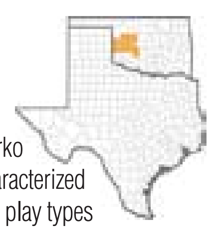


AREA 3 NORTHWEST OKLAHOMA

Among various conventional plays, the company's Northwest Oklahoma district focuses on the massive Sahara unconventional gas resource project. In this play, we have drilled more than 1,000 successful wells and have more than 8,000 undrilled locations remaining. Active in Sahara since 1998, Chesapeake is now the dominant operator with more than 600,000 net acres under lease in this multi-county area of excellent low-risk, shallow gas production.

2005 Total Production: 53 bcfe, +18%, 11%
12/31/05 Proved Reserves: 847 bcfe, +7%, 11%
12/31/05 Net Leasehold Acres: 890,000, +24%, 11%

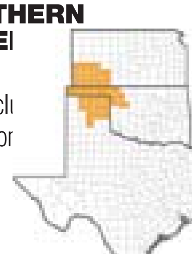
AREA 1 ANADARKO



Chesapeake's most productive district remains the Anadarko Basin, which is characterized by a wide variety of play types and depth ranges, including some of the most complex and prolific gas reservoirs in the U.S. In addition to our traditional Deep Morrow and Springer targets, prolific new plays in the area include the Atoka and Cherokee Washes.

2005 Total Production: 107 bcfe, +4%*, 23%**
12/31/05 Proved Reserves: 1,019 bcfe, -13%*, 14%**
12/31/05 Net Leasehold Acres: 605,000, +7%*, 8%**

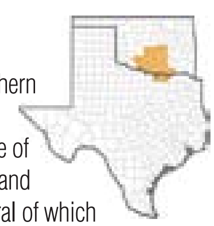
AREA 2 NORTHERN MID-CONTINEI



The Northern Mid-Continent district incl the Texas and Oklahor panhandles and southwest Kansas. In addition to the nation's two largest ga Panhandle and Hugoton, this area also includes several important new plays, the most significant of which is the development of the Granite Wash, a prolific unconventional natural gas reservoir.

2005 Total Production: 48 bcfe, +24%, 10%
12/31/05 Proved Reserves: 829 bcfe, + 96%, 11%
12/31/05 Net Leasehold Acres: 510,000, +4%, 6%

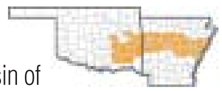
AREA 4 SOUTHERN OKLAHOMA



Chesapeake's Southern Oklahoma district encompasses some of Oklahoma's oldest and largest fields, several of which date back to discoveries in the early 1900's. This area is also home to Chesapeake's earliest drilling successes in the Golden Trend and Sholem Alechem fields. In addition, it is also home to some of the company's most currently active fields, such as Bray and Cement.

2005 Total Production: 59 bcfe, +6%, 13%
12/31/05 Proved Reserves: 749 bcfe, +7%, 10%
12/31/05 Net Leasehold Acres: 400,000, +10%, 5%

AREA 5 ARKOMA



The Arkoma Basin of eastern Oklahoma and Arkansas has long been an extremely prolific gas basin. Chesapeake is targeting a variety of complex overthrust geological targets in the southern portion of the basin, while also pursuing very large gas resource plays in the Caney and Woodford Shales and in the Hartshorne Coal in Oklahoma. Across the border in Arkansas, Chesapeake now owns the industry's largest acreage position in the Fayetteville Shale, an emerging high-potential unconventional gas resource play.

2005 Total Production: 34 Bcfe, +15%, 7%
12/31/05 Proved Reserves: 397 Bcfe, +0%, 5%
12/31/05 Net Leasehold Acres: 1,020,000, +127%, 13%

AREA 6 NORTH PERMIAN

What was once Chesapeake's largest district by area, the Permian Basin has now been divided into northern and southern districts because of our greatly increased drilling and acquisition activity in the area. In the north, Chesapeake focuses on discovering and developing various shallow to medium depth oil and gas plays. In addition, Chesapeake also operates a number of secondary recovery oil projects in this area.

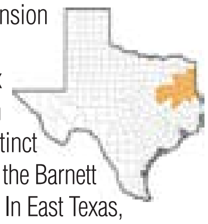
2005 Total Production: 28 bcfe, +27%, 5%
12/31/05 Proved Reserves: 444 bcfe, +44%, 6%
12/31/05 Net Leasehold Acres: 270,000, +29%, 3%

AREA 7 SOUTH PERMIAN

In the southern portion of the Permian Basin, Chesapeake focuses on developing various shallow gas plays in the Val Verde Basin and is also very active in the emerging Deep Haley play of the Deep Delaware Basin, which is centered in Loving County, Texas. In this play, Chesapeake is targeting the prolific and over-pressured Strawn, Atoka and Morrow formations that are located at depths of 15,000-18,000 feet.

2005 Total Production: 12 bcfe, +86%, 3%
12/31/05 Proved Reserves: 249 bcfe, +44%, 3%
12/31/05 Net Leasehold Acres: 305,000, +205%, 4%

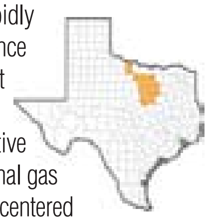
AREA 8 EAST TEXAS



Reflecting rapid expansion in this area in 2005, last year's Ark-La-Tex district has now been divided into three distinct districts: East Texas, the Barnett Shale and Louisiana. In East Texas, Chesapeake is focusing on medium to deep drilling prospects targeting such prolific formations as the Pettet, Travis Peak and Cotton Valley in addition to the Deep Bossier, another emerging high-potential unconventional gas resource play.

2005 Total Production: 9 bcfe, NM*, 2%**
12/31/05 Proved Reserves: 353 bcfe, NM, 5%
12/31/05 Net Leasehold Acres: 50,000, NM, 1%

AREA 9 BARNETT SHALE



During 2005, we rapidly expanded our presence in the prolific Barnett Shale play, which is the nation's most active area of unconventional gas development and is centered around Fort Worth, Texas. Chesapeake is currently the fourth largest Barnett Shale gas producer among public independents and has aggressive expansion plans for this area in 2006 and beyond.

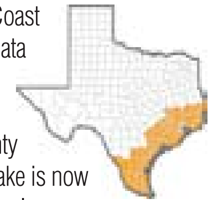
2005 Total Production: 17 bcfe, +1,366%, 4%
12/31/05 Proved Reserves: 319 bcfe, +96%, 4%
12/31/05 Net Leasehold Acres: 55,000, +175%, 1%

AREA 10 LOUISIANA

Another of the three new districts created out of the former Ark-La-Tex district, Louisiana will be an increasingly important area of growth for Chesapeake in the years ahead. The company will remain focused primarily on northern Louisiana, where we are actively developing such prolific formations as the Hosston, Cotton Valley and Deep Bossier, all of which are tight sands plays and offer significant upside to Chesapeake.

2005 Total Production: 32 bcfe, +72%, 7%
12/31/05 Proved Reserves: 397 bcfe, +4%, 5%
12/31/05 Net Leasehold Acres: 230,000, +283%, 3%

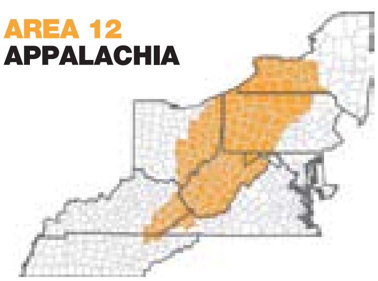
AREA 11 SOUTH TEXAS AND GULF COAST



Chesapeake's Gulf Coast district includes Zapata County, which is Texas' number one gas-producing county and where Chesapeake is now the third largest natural gas producer. This area also includes a number of counties along the Texas Gulf Coast where we have established a significant presence. Throughout this district, we use 3-D seismic data to delineate potentially prolific structural and stratigraphic traps, primarily in the Frio, Yegua and Wilcox formations.

2005 Total Production: 64 bcfe, +50%, 14%
12/31/05 Proved Reserves: 622 bcfe, + 59%, 9%
12/31/05 Net Leasehold Acres: 405,000, +9%, 5%

AREA 12 APPALACHIA



Representing the company's newest and largest district by area, Chesapeake entered Appalachia as a result of our $3 billion acquisition of Columbia Natural Resources in November 2005. Often referred to as America's most drilled but least explored region, Appalachia presents abundant growth opportunities through the application of the leading-edge exploration, drilling and production technologies that Chesapeake intends to transfer to Appalachia from other districts. In addition, Appalachian gas price realizations are the best in the country, there are numerous consolidation opportunities available for our acquisition teams and there is less industry competition than in other areas of the country.

2005 Total Production: 6 bcfe, NM, 1%
12/31/05 Proved Reserves: 1,296 bcfe, NM, 17%
12/31/05 Net Leasehold Acres: 3,160,000, NM, 40%

*** compared to last year**
**** % of company total**
***** not meaningful**

SOCIAL RESPONSIBILITY AND COMMUNITY SERVICE

COMMUNITY RESPONSIBILITY As Chesapeake has grown and prospered over the years, our definition of success has evolved as well. While we have always focused primarily on consistently executing our business strategy to generate top-tier investor returns, we have also focused on being high-quality corporate citizens and on increasing our community service contributions.

Next to creating value for investors, our top priorities remain creating challenging and rewarding jobs for our diverse group of employees, acting as good stewards of the environment, promoting the many favorable environmental benefits of using natural gas and improving the quality of life in the communities and states in which we work.

JOB CREATION Nothing improves a community, state or country more than creating high-quality jobs. Chesapeake is very proud that we have created more than 1,100 jobs in the past year alone and that we now employ over 3,500 hard-working and highly-skilled Americans in one of the country's most attractive and employee-focused corporate workplaces. Furthermore, our workforce has expanded over 700% in the past six years enabling Chesapeake to more efficiently conduct the nation's most active drilling and acquisition program.

This energetic and dedicated team is highly motivated to continue creating value for investors while also making a positive impact in the communities where they live and work. From our business strategy, to the environmentally friendly product we produce, to the organizations we support, everything we do at Chesapeake is conducted with the highest standards and our employees sign and live up to a stringent standard of business conduct and ethics.

ENVIRONMENTAL RESPONSIBILITY Nothing in the energy exploration business personifies environmental responsibility more than natural gas and no company personifies natural gas more than Chesapeake. We are the nation's most active natural gas explorer and driller, the sixth largest producer of U.S. natural gas, and have built a proved reserve base that is 92% natural gas. We believe that natural gas is the fuel of today and also of the future. Natural gas burns more cleanly than any other hydrocarbon and therefore its impact on the earth when extracted and consumed is benign.

We recognized earlier than most the many favorable social, economic and environmental benefits of finding and producing clean-burning, domestically-produced natural gas right here in America. Every BTU of natural gas that Chesapeake produces is a BTU of imported oil, dirty coal, or potentially dangerous nuclear power that is not consumed. In an increasingly volatile geopolitical environment and with increasing concern that climate change might be caused by burning too much coal and oil, natural gas is the right choice for the 21st century – for our investors, for our country and for the world itself.

COMMUNITY SERVICE Chesapeake has a strong tradition of community service, stewardship and leadership. We count among our greatest assets those generous and compassionate employees that recognize and internalize the saying, "to whom much is given, much is expected." Chesapeake's employees recognize that they are fortunate in many ways and, in turn, they continuously strive to be positive role models in the workplace and in their home communities. We believe this is a major reason why Chesapeake has become an employer of choice in most of the areas where we are active.

The focus of our community service effort is identifying needs, determining the opportunities for building sustainable alliances to meet those needs, and then establishing productive partners who have the expertise and commitment to enable our support to have a material impact. Targeting community service commitments in this manner ensures maximum return on our considerable charitable investments.

In 2005, Chesapeake donated $4.1 million to more than 300 social and community organizations. Our interests range from the

In another example of leadership, Chesapeake's employees led the way in the Central Oklahoma United Way's 2005 fundraising efforts, making history by being the first corporation in Oklahoma City to give $1 million.

The new $3 million Chesapeake Boathouse is the initial development along the long-ignored Oklahoma River and serves as a catalyst for economic development along the riverfront.

conventional to the unconventional. Our gifts run from large to sometimes small, depending on the need and the partnering organization's capabilities. However, in all of our community service initiatives, we seek to provide leadership, hope and positive results. A few examples of our corporate and employee generosity are noted below.

MENTORING MATTERS The company's faith in the potential of future generations is the reason that every week hundreds of Chesapeake employees from our corporate headquarters in Oklahoma City participate actively and cheerfully in two public schools to mentor and tutor kindergartners through eighth graders. Because many of these students come from challenging home situations, Chesapeake's employees not only help strengthen their academic skills, but also provide them with encouraging guidance to help build their confidence to succeed in the years ahead.

BUILDING THE FUTURE WORKFORCE We believe that education is the key to enhancing human achievement and promoting future economic success. Through the Chesapeake Scholars Program, hundreds of students who might not otherwise have been able to pursue a college degree can now do so. The program, which started as a result of a need to increase the number of college graduates who might someday focus on careers in the energy field, provides students with grants of up to $2,500 per year. Many of these students are from rural communities where the company's operations are focused and where resources for college tuition are often limited. Chesapeake Scholars must demonstrate leadership, academic achievement and citizenship to receive and maintain the scholarships.

TAMING THE FIRE This year wildfires have plagued many areas of Oklahoma and Texas, the two states that represent more than 80% of our production. During the past two years, Chesapeake has donated refurbished pickup trucks worth more than $300,000 to rural fire departments and emergency service organizations. Several rural volunteer firefighters counted on the donated Chesapeake trucks to help them successfully fight the devastating grass fires of 2005, thereby saving both lives and property. The company expects to enlarge its used pickup truck giveaway program in 2006 and broaden its support into new operating areas.

HUMANITARIAN RELIEF In another example of leadership, Chesapeake's employees led the way in the Central Oklahoma United Way's 2005 fundraising efforts, making history by being the first corporation in Oklahoma City to give $1 million. Chesapeake also stepped up to support Hurricane Katrina relief. The company gave $1 million to the Red Cross, a figure that was impressively matched dollar for dollar by Chesapeake's two co-founders for a total of $3 million given to hurricane-related relief organizations. In addition, this past winter Chesapeake teamed up with the Oklahoma Salvation Army to give $250,000 to help cover heating bills for those in the greatest need.

REVITALIZING OKC In addition to supporting virtually all important social and charitable organizations in Oklahoma City in 2005, we also led the way in helping build a unique boathouse along the Oklahoma River in downtown Oklahoma City. The new $3 million Chesapeake Boathouse is the initial development along the long-ignored Oklahoma River and serves as a catalyst for economic development along the riverfront. It also provides a valuable resource for the rowing community in Oklahoma City and for many inner city schools that have been looking for new ways to build teamwork and character among their students.

Chesapeake considers community service and charitable contributions essential elements of successfully executing the company's business strategy. As a company built on vision, leadership and results, Chesapeake promises to constantly explore ways to strengthen and enhance the communities and environments in which we operate across this great country of ours.

HEALTH, SAFETY AND ENVIRONMENT (HSE)

Responsible HSE management is a cornerstone value for Chesapeake and remains one of our highest priorities. We have always recognized the value created for investors when our employees work safely and protect the environment. To that end, Chesapeake has developed comprehensive systems to protect the health, safety and welfare of our employees and to protect and enhance the environment. We are proud to report great success in 2005 in meeting our objectives in these areas.

IT STARTS AT THE WELLSITE Protecting and preserving the land, air and water around drilling sites is a key element of the company's environmental stewardship responsibilities. The company's goal on every well it drills is simple – minimize the environmental impact at the drilling site, now and in the future. As the nation's most active natural gas exploration company, Chesapeake uses advanced drilling techniques aimed at reducing the operational footprint at all of our well sites.

For example, Chesapeake's engineers are experts at using horizontal and directional drilling techniques. Horizontal and directional drilling have made once uneconomical formations viable for exploration in combination with today's higher energy prices. Since horizontal and directional drilling involves the deviation of the wellbore from a surface location often at some distance from the targeted bottom hole location of the productive formation, the surface location can be selected to minimize the impact of the drilling operation.

Chesapeake strives to always leave a wellsite in better condition than before drilling operations began. Working closely with surface owners, Chesapeake develops plans for keeping the wellsite safe and secure during drilling operations and for restoring the location upon completion. The company's commitment to environmental stewardship is also reflected in its partnering with environmentally conscious organizations devoted to furthering environmental education, protection, preservation and conservation.

ENVIRONMENTAL PARTNERSHIPS One such organization Chesapeake partners with is the Nature Conservancy. Chesapeake's co-founders were landmen and the company has always recognized that all value creation in the energy business involves leasing vast tracts of land. In this regard, the company's philosophies and values are aligned with the mission of the Nature Conservancy, which is to preserve the plants, animals and natural communities that represent the diversity of life on earth by protecting the lands and waters they need to survive.

For example, through the Nature Conservancy, Chesapeake supported efforts to restore the 38,000-acre Tallgrass Prairie Preserve in north-central Oklahoma. Once one of North America's largest original ecosystems, stretching over 14 states and covering more than 140 million acres, today's tallgrass prairie is less than 10 percent of its original size. Large unbroken tracts of tallgrass prairie now exist only in Oklahoma and Kansas. Through the efforts of the Nature Conservancy, the Tallgrass Prairie Preserve in Osage County, Oklahoma will exist forever as a reminder of the beauty of the natural ecosystem that once extended across most of the central U.S.

The company also supports environmental education programs through its active role with the Oklahoma Association of Conservation Districts. The main educational purpose of the Association is to teach people of all ages about the value and fragility of natural resources, with an emphasis on conserving soil and water. Chesapeake sponsors the Association's District of the Year award as well as the group's Environmental Educator of the Year award. The Association selects

Responsible HSE management is a cornerstone value for Chesapeake and remains one of our highest priorities. We have always recognized the value created for investors when our employees work safely and protect the environment.

Through conservation, health and safety education programs, promotion of environmentally sensible exploration practices and encouraging the increased use of clean-burning, domestically-produced natural gas instead of other dirtier or more dangerous hydrocarbons, Chesapeake will continue to promote HSE stewardship and leadership in the energy industry.

five teachers who have creatively and effectively woven environmental lessons into their classroom curriculum. Chesapeake presents cash awards to each Educator of the Year as well as the District of the Year in honor of their achievements. The company's involvement with the Oklahoma Association of Conservation Districts has helped invigorate the organization and has helped make the Oklahoma landscape more beautiful than it otherwise would be.

In addition, Chesapeake is the leading donor to the Oklahoma Energy Resources Board (OERB), which administers Oklahoma's check-off program for oil and natural gas producers. In 2005, Chesapeake donated $600,000 to the OERB which then used the money to help restore abandoned wellsites and educate Oklahomans about the vital role the oil and natural gas industry plays in Oklahoma. Since the check-off program was instituted in 1994, the OERB has restored more than 6,300 abandoned wellsites at no cost to taxpayers in Oklahoma or the U.S.

Chesapeake's partnerships with organizations such as the Nature Conservancy, the Oklahoma Association of Conservation Districts and the Oklahoma Energy Resources Board are evidence of the company's collaborative approach to environmental sensitivity. By helping organizations who share the same values and missions as we do, Chesapeake helps protect and enhance the environment.

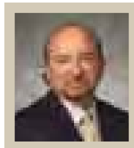
CLOSER TO HOME In addition to these statewide programs, Chesapeake also has been a major benefactor to such local environmental and beautification efforts as Oklahoma City Beautiful, The Tree Bank, NeighborWoods, and many other projects. As Chesapeake expands its operational footprint into new states in its search for safe, secure, environmentally friendly natural gas, the company plans to increase its educational efforts to protect the land, water and air.

LIVING WELL Over the past three years, Chesapeake has been a leader in recognizing the benefits that a healthy lifestyle provides to the productivity, efficiency and overall satisfaction of its workforce. We opened our award-winning 42,000 square foot Health Facility in April 2003 and it has easily become our most popular recruiting tool for new employees and our most appreciated campus amenity for employees at our headquarters. The Living Well program, Chesapeake's newest and most comprehensive employee health promotion program, is designed to give our employees the opportunity and incentive to achieve and maintain a healthy and productive lifestyle through education, motivation and intervention. Employees enrolled in this program can earn up to $1,000 per year and receive recognition in the Living Well Honor Roll by successfully meeting specific requirements in three areas: participation in health education programs, meeting overall fitness standards and participation in regular exercise over an eleven month period. Nearly 1,000 of our employees participate in the Living Well program, mutually supporting our corporate culture of commitment to long-term employee health and wellness.

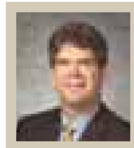
LOOKING AHEAD Through conservation, health and safety education programs, promotion of environmentally sensible exploration practices and encouraging the increased use of clean-burning, domestically-produced natural gas instead of other dirtier or more dangerous hydrocarbons, Chesapeake will continue to promote HSE stewardship and leadership in the energy industry.

CHK'S OFFICERS

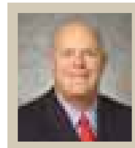
AUBREY K. McCLENDON
Chief Executive Officer
and Chairman



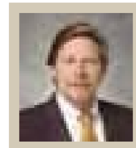
MARCUS C. ROWLAND
Executive Vice President
and Chief Financial Officer



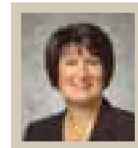
STEVEN C. DIXON
Executive Vice President
Operations and Chief Operating Officer



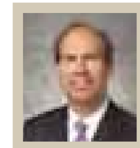
J. MARK LESTER
Executive Vice President
Exploration



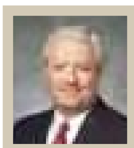
DOUGLAS J. JACOBSON
Executive Vice President
Acquisitions and Divestitures



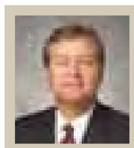
MARTHA A. BURGER
Senior Vice President
Human Resources and Treasurer



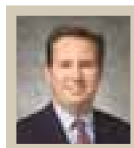
HENRY J. HOOD
Senior Vice President
Land and Legal and General Counsel



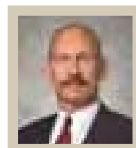
JEFFREY A. FISHER
Senior Vice President
Production



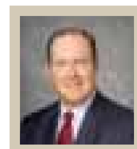
JAMES C. JOHNSON
Senior Vice President
Energy Marketing



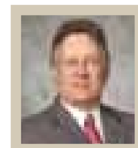
MICHAEL A. JOHNSON
Senior Vice President
Accounting, Controller and Chief Accounting Officer



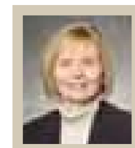
STEPHEN W. MILLER
Senior Vice President
Drilling



JEFFREY L. MOBLEY
Senior Vice President
Investor Relations and Research



THOMAS S. PRICE, JR.
Senior Vice President
Corporate Development



CATHY L. TOMPKINS
Senior Vice President
Information Technology

CHK'S DIRECTORS

BACK ROW
CHARLES MAXWELL, RICHARD DAVIDSON, AUBREY MCCLENDON, BREENE KERR, DON NICKLES
FRONT ROW
FRANK KEATING, FRED WHITTEMORE

AUBREY K. MCCLENDON
Chairman of the Board and
Chief Executive Officer
Oklahoma City, OK

RICHARD K. DAVIDSON 1,3
Chairman of the Board
Union Pacific Corporation
Omaha, NE

FRANK KEATING 2,3
Former Governor, Oklahoma
President and CEO
American Council of Life Insurers
Washington, DC

BREENE M. KERR 1
Private Investor
Easton, MD

CHARLES T. MAXWELL 1
Senior Energy Analyst
Weeden & Co.
Greenwich, CT

DON NICKLES 1
Former U.S. Senator, Oklahoma
Founder and Principal
The Nickles Group
Washington, DC

FREDERICK B. WHITTEMORE 2,3
Advisory Director
Morgan Stanley
New York, NY

1 Audit Committee
2 Compensation Committee
3 Nominating and Corporate Governance Committee

CORPORATE GOVERNANCE

Our Board of Directors is responsible to our shareholders for the oversight of the company and for the implementation and operation of an effective and sound corporate governance environment. We believe that effective corporate governance contributes to long-term corporate performance. An effective governance structure should reinforce a culture of corporate integrity, foster the company's pursuit of long-term strategic goals of growth and profit and, ensure quality and continuity of corporate leadership. Our directors will continue to be diligent in their efforts to preserve the public trust while fostering the long-term success of the company.

CORPORATE AND SECURITIES INFORMATION

CORPORATE HEADQUARTERS

6100 North Western Avenue
Oklahoma City, Oklahoma 73118
(405) 848-8000

INTERNET ADDRESS

Company financial information, public disclosures and other information are available through Chesapeake's website at www.chkenergy.com.

COMMON STOCK

Chesapeake Energy Corporation's common stock is listed on the New York Stock Exchange (NYSE) under the symbol CHK. As of March 31, 2006, there were approximately 318,000 beneficial owners of our common stock.

COMMON STOCK DIVIDENDS

During 2005, the company declared a cash dividend of $0.045 per share on March 11 and $0.05 per share on June 10, September 26 and December 21 for a total dividend declared of $0.195 per share.

INDEPENDENT PUBLIC ACCOUNTANTS

PricewaterhouseCoopers LLP
6120 S. Yale, Suite 1850
Tulsa, Oklahoma 74136
(918) 524-1200

STOCK TRANSFER AGENT AND REGISTRAR

Communication concerning the transfer of shares, lost certificates, duplicate mailings or change of address notifications should be directed to the transfer agent.
UMB Bank, N.A.
P. O. Box 419064
Kansas City, Missouri 64141-6064
(816) 860-7786 or (800) 884-4225

TRUSTEE FOR THE COMPANY'S SENIOR NOTES

The Bank of New York Trust Company, N.A.
101 Barclay Street, 8th Floor
New York, New York 10286

SEC AND NYSE CERTIFICATIONS

The Form 10-K, included herein, which was filed by the Company with the Securities and Exchange Commission (SEC) for the fiscal year ending December 31, 2005 includes as exhibits, the certifications of our Chief Executive Officer and Chief Financial Officer required to be filed with the SEC pursuant to Section 302 of the Sarbanes-Oxley Act. The Company has also filed with the NYSE the 2005 annual certification of its Chief Executive Officer confirming that the Company has complied with the NYSE corporate governance listing standards.

STOCK PRICE DATA

2006	High	Low	Last
First Quarter	$35.57	$27.80	$31.41

2005	High	Low	Last
Fourth Quarter	$40.20	$26.59	$31.73
Third Quarter	38.98	22.90	38.25
Second Quarter	24.00	17.74	22.80
First Quarter	23.65	15.06	21.94

2004	High	Low	Last
Fourth Quarter	$18.31	$15.17	$16.50
Third Quarter	16.24	13.69	15.83
Second Quarter	15.05	12.68	14.72
First Quarter	13.98	11.70	13.40

STOCK SPLIT HISTORY

December 1996: two-for-one
June 1996: three-for-two
December 1995: three-for-two
December 1994: two-for-one

FORWARD-LOOKING STATEMENTS

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements give our current expectations or forecasts of future events. They include statements regarding oil and gas reserve estimates, planned capital expenditures, the drilling of oil and gas wells and future acquisitions, expected oil and gas production, cash flow and anticipated liquidity, business strategy and other plans and objectives for future operations and expected future expenses. Statements concerning the fair values of derivative contracts and their estimated contribution to our future results of operations are based upon market information as of a specific date. These market prices are subject to significant volatility.

Although we believe the expectations and forecasts reflected in these and other forward-looking statements are reasonable, we can give no assurance they will prove to have been correct. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Factors that could cause actual results to differ materially from expected results are described under "Risk Factors" in Item 1A of our 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2006. They include the volatility of oil and gas prices; adverse effects our level of indebtedness could have on our operations and future growth; our ability to compete effectively against strong independent oil and gas companies and majors; the availability of capital on an economic basis to fund reserve replacement costs; uncertainties inherent in estimating quantities of oil and gas reserves and projecting future rates of production and the timing of development expenditures; our ability to replace reserves and sustain production; uncertainties in evaluating oil and gas reserves of acquired properties and associated potential liabilities; unsuccessful exploration and development drilling; declines in the value of our oil and gas properties resulting in ceiling test write-downs; lower prices realized on oil and gas sales and collateral required to secure hedging liabilities resulting from our commodity price risk management activities; lower prices realized on oil and gas sales and collateral required to secure hedging liabilities resulting from our commodity price risk management activities; and drilling and operating risks.

We caution you not to place undue reliance on these forward-looking statements, and we undertake no obligation to update this information. We urge you to carefully review and consider the disclosures made in this report and our other filings with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect our business.

The SEC has generally permitted oil and gas companies, in filings made with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. We use the terms "probable", "possible" or "unproved" to describe volumes of reserves potentially recoverable through additional drilling or recovery techniques that the SEC's guidelines may prohibit us from including in filings with the SEC. These estimates are by their nature more speculative than estimates of proved reserves and accordingly are subject to substantially greater risk of being actually realized by the company. While we believe our calculations of unproved drillsites and estimation of unproved reserves have been appropriately risked and are reasonable, such calculations and estimates have not been reviewed by third party engineers or appraisers.