Chesapeake Energy is the third-largest independent producer of natural gas in the U.S. and the seventh-largest overall. Headquartered in Oklahoma City, the company’s operations are focused on exploratory and developmental drilling and corporate and property acquisitions in the Mid-Continent, Fort Worth Barnett Shale, Appalachian Basin, Fayetteville Shale, South Texas, Permian Basin, Delaware Basin, Ark-La-Tex and Texas Gulf Coast regions of the United States. At year-end 2006, Chesapeake owned interests in approximately 35,000 producing wells and had proved reserves of 9.0 trillion cubic feet equivalent, of which 93% were natural gas.

Chesapeake’s new logo is an evolution of the logo we adopted seven years ago and updates our message in two important ways. First, the flame and the font have been modernized and more significantly, we have introduced a green element to our logo that communicates both the environmental attractiveness of natural gas and Chesapeake’s heightened environmental awareness.

Some of the great public policy debates of the next 10 years will focus on how we should meet America’s growing need for more electricity. Presently, coal meets 52% of our electricity needs, nuclear 21%, natural gas 21% and hydro, wind and other renewables about 6%. It is imperative for the continued prosperity of our company and industry that natural gas be seen as the preferred solution to meeting the twin challenges of generating more electricity in the years ahead while at the same time reducing greenhouse gas emissions.

Chesapeake’s new logo communicates our belief that the company’s vast reserves of natural gas can help solve the environmental challenges of the years ahead. We are on the right side of history in the climate change debate and we hope you like our new logo and the message it conveys.

Burlington Resources, Inc. and Kerr McGee Corporation are not included in the peer group in 2006 due to their acquisitions by ConocoPhillips and Anadarko Petroleum Corporation, respectively.

We increased our proved reserves 19% to 9.0 tcfe from 7.5 tcfe in 2005 through both acquisitions and the drillbit.

Chesapeake’s Five-Year Common Stock Performance

The adjacent graph compares the performance of our common stock to a group of peer companies and the S&P 500 Index for the past five years. The graph assumes an investment of $100 on December 31, 2001, the reinvestment of all dividends and shows the value of the investment at the end of each year.

CHK 2006 Fact 1: Our stock price has increased 2100% since Chesapeake’s IPO 14 years ago.

CHK 2006 Fact 2: We increased our average daily production 23% to 1,585 mmcfe from 1,284 mmcfe in 2005.

CHK 2006 Fact 3: We increased our proved reserves 19% to 9.0 tcfe from 7.5 tcfe in 2005 through both acquisitions and the drillbit.
### Financial Review

#### Financial and Operating Data

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<tbody>
<tr>
<td>Oil and natural gas sales</td>
<td>$5,618,894</td>
<td>$3,727,983</td>
<td>$1,956,176</td>
<td>$1,286,822</td>
<td>$568,187</td>
<td>$820,118</td>
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<tr>
<td>Oil and natural gas marketing and sales and service operations</td>
<td>$1,706,701</td>
<td>$1,592,795</td>
<td>$753,092</td>
<td>$429,610</td>
<td>$170,931</td>
<td>$148,555</td>
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<td>Total revenues</td>
<td>$7,325,595</td>
<td>$5,317,158</td>
<td>$2,709,868</td>
<td>$1,716,432</td>
<td>$758,128</td>
<td>$968,663</td>
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<tr>
<td>Operating costs</td>
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<td>Production expenses</td>
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<td>General and administrative expenses</td>
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<td>Depreciation, depletion and amortization expenses</td>
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<td>Operating income</td>
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<td>General and administrative expenses</td>
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<tr>
<td><strong>Total operating income</strong></td>
<td>$3,912,373</td>
<td>$2,892,130</td>
<td>$1,716,933</td>
<td>$1,042,177</td>
<td>$564,848</td>
<td>$448,771</td>
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<tr>
<td>Income from operations</td>
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<td>Operating cash flow (non-GAAP)*</td>
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<tr>
<td>EPS – basic</td>
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<tr>
<td>EPS – assuming dilution</td>
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<td>Stockholders' equity (deficit)</td>
<td></td>
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<td>Long-term debt, net of current maturities</td>
<td></td>
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<tr>
<td>Total assets</td>
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<td><strong>Balance Sheet Data (at end of period):</strong></td>
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<tr>
<td><strong>Total assets</strong></td>
<td>$24,417,167</td>
<td>$16,118,462</td>
<td>$8,244,509</td>
<td>$4,572,291</td>
<td>$2,875,608</td>
<td>$2,286,780</td>
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<tr>
<td><strong>Stockholders' equity (deficit)</strong></td>
<td>$11,251,471</td>
<td>$6,174,323</td>
<td>$3,162,883</td>
<td>$1,732,810</td>
<td>$907,875</td>
<td>$767,407</td>
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<tr>
<td><strong>Operating cash flow (non-GAAP)</strong></td>
<td>$4,843,474</td>
<td>$2,406,888</td>
<td>$1,432,274</td>
<td>$938,907</td>
<td>$428,797</td>
<td>$478,098</td>
</tr>
<tr>
<td><strong>Stockholders' equity (deficit)</strong></td>
<td>$11,251,471</td>
<td>$6,174,323</td>
<td>$3,162,883</td>
<td>$1,732,810</td>
<td>$907,875</td>
<td>$767,407</td>
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### CHK 2006 Facts

- We replaced 348% of our production with a drillbit finding and development cost of only $1.93 per mcfe.

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### CHK 2006 Fact

- We were the most active driller of new wells in the U.S., drilling 1,488 gross operated wells and participating in another 1,534 gross wells drilled by others.
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<tbody>
<tr>
<td><strong>Drilling Expenses</strong></td>
<td>$701,555</td>
<td>$530,350</td>
<td>$446,363</td>
<td>$396,107</td>
<td>$367,140</td>
<td>$304,758</td>
<td>$296,705</td>
<td>$257,548</td>
<td>$194,028</td>
<td>$142,320</td>
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<td><strong>Exploration Expenses</strong></td>
<td>$1,631,023</td>
<td>$1,465,350</td>
<td>$1,262,768</td>
<td>$1,041,632</td>
<td>$892,700</td>
<td>$749,564</td>
<td>$622,098</td>
<td>$524,618</td>
<td>$413,752</td>
<td>$321,584</td>
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<td><strong>General and Administrative Expenses</strong></td>
<td>$1,344,350</td>
<td>$1,210,630</td>
<td>$1,021,768</td>
<td>$895,000</td>
<td>$791,028</td>
<td>$669,000</td>
<td>$537,000</td>
<td>$445,000</td>
<td>$350,000</td>
<td>$275,000</td>
</tr>
<tr>
<td><strong>Depreciation and Amortization</strong></td>
<td>$2,875,608</td>
<td>$2,286,768</td>
<td>$1,440,426</td>
<td>$850,533</td>
<td>$812,615</td>
<td>$952,784</td>
<td>$949,068</td>
<td>$572,335</td>
<td>$276,693</td>
<td>$125,690</td>
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<tr>
<td><strong>Gain on Sale of Properties</strong></td>
<td>$738,502</td>
<td>$969,051</td>
<td>$627,952</td>
<td>$354,946</td>
<td>$377,946</td>
<td>$153,898</td>
<td>$269,092</td>
<td>$145,591</td>
<td>$65,819</td>
<td>$28,843</td>
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<tr>
<td><strong>Total Expense</strong></td>
<td>$4,651,480</td>
<td>$3,572,575</td>
<td>$2,746,768</td>
<td>$1,666,033</td>
<td>$1,556,658</td>
<td>$1,366,444</td>
<td>$1,804,450</td>
<td>$1,408,954</td>
<td>$1,002,582</td>
<td>$647,274</td>
</tr>
</tbody>
</table>

We were one of the most active consolidators in the industry, acquiring $14.0 billion of oil and natural gas properties and $14.3 billion of oil and natural gas properties.
Dear Fellow Shareholders

Each year, my letter to shareholders has two objectives: first, to showcase the company’s achievements during the preceding year and second, to highlight the issues we believe will be most important to us in the year ahead. This year there are four such issues: people, land, technology and climate change. The first three I have referred to in the past as the “building blocks of value creation” in the exploration and production (E&P) business. The fourth is of increasing importance to our industry, the U.S. and the world. Growing concern about climate change will create many opportunities for Chesapeake and our industry to promote the substantial environmental benefits of clean-burning natural gas, thereby enhancing the future value of the company’s substantial natural gas reserves.

2006 In Review

Certainly 2006 was another in a series of extraordinary years for Chesapeake, as it was for energy producers and consumers around the globe. The year started with record high natural gas prices in the wake of Katrina and Rita’s destructive path through the Gulf of Mexico. Only nine months later, the industry experienced four-year lows in natural gas prices primarily due to record warmth in the winter of 2005-06 and rebounding natural gas production volumes.

Despite long odds, this past winter started off with a repeat of the previous winter’s record warmth, and natural gas prices ended 2006 near $6 per mmbtu. However, a surprisingly strong cold spell from mid-January to mid-February 2007 eliminated the year-over-year natural gas storage surplus that had weighed heavily on natural gas prices for most of 2006. Natural gas prices have now settled into a more comfortable range around $7.50.

Globally, last winter was the warmest in recorded history. Combined with political changes in Washington, D.C. last November, this record warmth has set the stage for a dramatically different environment in which to discuss global climate change. I will elaborate on the subject of climate change later in this letter.

Oil prices were also highly volatile in 2006, beginning the year just above $60 per barrel, rising to $77 during midsummer, and then falling back to $60 by the end of the year (and as low as $52 in early 2007). Although 91% of Chesapeake’s production is natural gas, and oil and natural gas are not exact substitutes, oil still plays a very important role in how natural gas is priced. Natural gas prices have recently traded at a 20-40% discount to the price of oil on an energy equivalent (BTU) basis. Historically, the significant BTU discount of natural gas prices to oil prices has existed because natural gas is not as freely tradable around the world as oil and also natural gas is not influenced by geopolitical tensions in the same way oil is. Over time, however, we believe that natural gas prices will trade more closely to BTU parity with oil, given our view that natural gas demand will increase more quickly than oil demand in the years ahead.

Despite the volatility in oil and natural gas prices, Chesapeake delivered exceptional operating and financial results during 2006. Of particular note is management’s proven ability to harness oil and natural gas price volatility to Chesapeake’s advantage. Through our industry-leading hedging program, we generated $1.3 billion in additional revenue in 2006 by capturing unusually high oil and natural gas prices when they were available. Simply put, we seek to be “price-makers” rather than “price-takers.” This is in contrast to most of our competitors who seem satisfied to accept the prevailing every day or every month market price for the oil and natural gas they sell.

In our view, there are times when oil and natural gas prices rise to levels that are either likely to be unsustainable or are so attractive financially we believe we must take some chips off the table for our investors. In addition to enhancing our revenues through hedging, we also significantly lower the company’s risk profile by reducing investors’ exposure to the inherent volatility of energy prices. We believe our hedging skills are an increasingly valuable (but perhaps underappreciated) aspect of our management team’s capabilities.
Leading-edge drilling techniques are being put to new uses as Chesapeake ramps up activities in the Fort Worth Barnett Shale of north-central Texas. In what may become the largest urban drilling program ever undertaken, Chesapeake’s efforts in the Barnett Shale will utilize continually improving horizontal drilling and multiple well pad technologies enabling the company to drill more productive wells while reducing our environmental footprint.
Growing concern about climate change will create many opportunities for Chesapeake to promote the substantial environmental benefits of clean-burning natural gas, thereby enhancing the future value of the company’s vast natural gas reserves.

Throughout the year, Chesapeake delivered consistently superior operational and financial results and steadily increased the company’s net asset value per share. Unfortunately, our stock price decreased 8% during the year after having increased 92% in 2005. Against the backdrop of extreme volatility in natural gas markets that saw prices decline from near $11 per mmbtu at the beginning of the year to a low of just above $4 per mmbtu in the fall, the equity markets were unwilling to reward Chesapeake’s strong operational and financial achievements in 2006.

Over time, however, the stock market has kept pace with the company’s financial and operational performance (Chesapeake’s stock price is up 2,100% in our 14 years as a public company) and we look forward to improved stock price performance in 2007 and the years ahead. We expect another terrific year of value creation this year through the continued execution of 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 approximately 35,000 producing wells. These attributes enable us to create substantial shareholder value from a business managed to mitigate risk and capture value from increasing volatility in oil and natural gas markets, which are significantly influenced by unpredictable weather patterns and turbulent geopolitical events.

A closer look at Chesapeake’s achievements in 2006 reflects the following financial and operational highlights:

- Average daily oil and natural gas production increased 23% from 1.28 bcfe to 1.59 bcfe;
- Proved oil and natural gas reserves increased 19% from 7.5 tcf to 9.0 tcf;
- Reserve replacement for the year reached 348% at a drilling and acquisition cost of only $1.93 per mcf;
- Revenues rose 57% from $4.7 billion to $7.3 billion;
- Ebitda increased 89% from $2.7 billion to $5.0 billion;
- Operating cash flow grew 67% from $2.4 billion to $4.0 billion; and
- Net income per fully diluted common share increased 73% from $2.51 to $4.35.

As a result of our achievements in 2006, Chesapeake became the third-largest independent producer of U.S. natural gas and the seventh-largest U.S. natural gas producer overall. Given our production growth trends and those of our competitors, we expect to end 2007 as a top-five producer of natural gas in the U.S. and possibly the largest independent natural gas producer. Moreover, we led the nation in drilling activity last year and we expect to do so again this year. In 2006, we utilized an average of 98 operated rigs and 79 non-operated rigs, or 11% of the nation's drilling rig fleet, to drill over 3,000 wells (1,450 net to Chesapeake). In 2007, we expect to use between 130-140 operated rigs and 80-90 non-operated rigs, thereby participating in approximately 13% of the nation’s drilling activity. This drilling program should result in a production increase for 2007 of between 14-18%, an increase we expect will lead our large-cap peer group.

Chesapeake’s proved and unproved oil and natural gas reserves continue to increase significantly as a result of our successful drilling and acquisition programs. Following an increase to 9 trillion cubic feet of natural gas equivalent (tce) proved reserves (the energy equivalent of 1.5 billion barrels of oil) in 2006, Chesapeake’s proved reserves should exceed 10 tce by year-end 2007. Furthermore, we fully expect to reach at least 12 tce (or 2 billion barrels of oil equivalent) by year-end 2009.

It is important to note the distinction between proved and unproved reserves has become increasingly blurred as the SEC definition of proved reserves (which was last updated in 1979) has not kept pace with the industry’s ability to find, evaluate and produce natural gas reserves from unconventional reservoirs. While the industry has long known that fractured carbonates, tight sands and shales contain natural gas, it has only been the recent arrival of higher natural gas prices and greatly improved drilling and completion technologies that has made developing many of these reservoirs economical. However, because these reserves often lie in reservoirs that are continuous for tens of miles and the SEC definition of proved reserves only allows for the recognition of proved undeveloped reserves as direct offsets to producing wells in a particular formation, significant reserves of natural gas are not captured in the SEC's current definition of proved reserves. The substantial value of unproved reserves in unconventional reservoirs is evidenced by companies routinely valuing and paying for unproved reserves in today’s acquisition market.

Our point is not to disagree with the SEC’s reserve definitions, but rather to simply state our belief that today’s E&P industry, and especially Chesapeake, is substantially undervalued in the equity markets because value is not always appropriately given by investors for what can be very significant amounts of low-risk unproved reserves.

At Chesapeake, we believe we have captured the nation’s largest inventories of leasehold, 3-D seismic and unconventional natural gas resources. As a result, our 9 tce of proved reserves are dwarfed by our 18 tce of risked, unproved reserves and our 71 tce of unrisked, unproved reserves. We believe Chesapeake’s current stock price reflects very little of this large storehouse of future natural gas production. However, continued success from our industry-leading drilling campaign in 2007 should help highlight the enormity of Chesapeake’s unproved reserves and should lead to more appropriate value recognition.
Chesapeake’s Business Strategy and Natural Gas Focus

Chesapeake’s business strategy is one of the easiest to understand among all 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 through hedging. By consistently and effectively executing this strategy, Chesapeake has become a member of the S&P 500 Index and the Fortune 500, was recognized in January 2007 by Forbes as “the best managed oil & gas company in the U.S.” and has been one of America’s top 15 best-performing stocks during the past eight years. In addition to the simplicity of our business strategy, our early recognition of evolving trends in the industry and our willingness to seize opportunities have distinguished Chesapeake among its peers and should provide us with competitive advantages for years to come.

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 the U.S. natural gas market would increase from 22 trillion cubic feet (tcf) to 30 tcf per year by 2010 and 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:

- depletion rates from producing wells 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 and begin a decline 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 U.S. natural gas production would likely follow a similar bell-shaped curve of ramping up to an 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.

Accordingly, we decided Chesapeake should position itself to be a first mover to take advantage of multiple opportunities that we believed would emerge in the first decade of the 21st century. To that end, we adopted four objectives:

- acquire all of the existing natural gas production and reserves we could afford;
- lease all the potentially productive natural gas 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 nine years, we have accomplished these objectives. Meanwhile, with the help of higher oil prices, natural gas prices have risen to levels many times more than they were in 1998 and early 1999. More importantly, natural gas demand is likely to steadily increase as the U.S. economy grows and as natural gas is increasingly seen as the most practical way to reduce greenhouse gas emissions and reduce the risk of climate change. We believe this should lead to continuing natural gas price strength for years to come. As a result of anticipating these trends and getting ahead of our competition, Chesapeake remains very well positioned for future success.

People, Land and Technology

Chesapeake’s industry-leading drilling activity and consistent annual production growth require great people, abundant leasehold and the latest technologies — attributes that Chesapeake fortunately has in abundance. Our employees now number approximately 5,000, our leasehold inventory of 11 million net acres provides 26,000 future net drilling opportunities and our technological superiority in 3-D seismic interpretation, unconventional reservoir analysis and deep vertical and horizontal drilling capabilities provides many competitive advantages.
Chesapeake’s inventory of leasehold has now reached 11 million net acres, on which we believe 26,000 additional net wells can be drilled. This represents more than a 10-year backlog of drilling opportunities and a vast storehouse of unrecognized value in our company.
People
First and foremost, Chesapeake is a people company – our employees work creatively and enthusiastically for our shareholders to profitably produce an environmentally superior product millions of Americans rely on every day. In 2000, Chesapeake was one of the first companies to recognize that after 15 years of downsizing, the E&P industry was not prepared to meet the rising demand for natural gas. The average age of a petroleum geoscientist, landman or engineer in the U.S. is now more than 50 years and after a five-year increase in energy prices, the country is still graduating fewer than 3,500 petroleum geoscientists and engineers per year (compared to almost 44,000 new lawyers each year). Retirements are estimated to be running at almost the same level as new graduates are entering the industry, and these retirements will accelerate in the next 15 years as today’s average-aged geoscientist, landman and engineer reaches traditional retirement age.

Because of Chesapeake’s early recognition of this looming shortage of industry talent, we began aggressively hiring young technical talent. We now employ more than 200 degreed geoscientists, landmen and engineers under the age of 35, and the average age of our geoscience, land and engineering departments has dropped from 49 in 2000 to 40 today. Talent creates value and our company has an abundance of talented people creating value every day. Chesapeake now employs nearly 1,100 employees in its geoscience, land and engineering departments, of which 70% are degreed professionals.

In total, the company has approximately 5,000 employees, of whom approximately 60% work in our E&P operations and 40% work in our oilfield service operations. Chesapeake’s people are a highly valued (and much coveted) resource and we are proud they have chosen our company as their professional home. Continuing a tradition we started in 1994, a complete list of our employees sorted by the year they joined the company begins on page 28 of this report.

Land
Now I would like to turn to my favorite of the three building blocks of value creation – land (in full disclosure of my bias on this point, I am a history major by education but a petroleum landman by vocational training). Land is the foundation of all value creation in the E&P business. Geoscientists and engineers can have great ideas, but without a lease those great ideas have no value – as we say in the business, “Without the lease, there is no grease.” Chesapeake is one of the few E&P companies to have a landman as its CEO, and perhaps as a consequence, we have been more willing than our competitors to acquire an unusually large inventory of leasehold on which to drill wells. Our inventory of 11 million net acres of leasehold and 26,000 net drilling locations represents more than a 10-year drilling backlog and a vast storehouse of unrecognized value in our company.

We embarked on this aggressive “land grab” in 2000 as we recognized earlier than most of our competitors that vast new areas of the U.S. would open up for natural gas exploration and development when new horizontal drilling and completion technologies were applied to different types of rocks (now commonly referred to as “unconventional reservoirs”) in a time of structurally higher natural gas prices. We believed this decade would go down in oil and natural gas history as a once-in-a-generation opportunity to acquire leases in the modern day equivalent of the great Oklahoma land rushes of the late 19th century.

Today that land grab is largely over, and not surprisingly, we believe Chesapeake won. The leasehold we now own could not be reassembled in today’s ultra-competitive marketplace – and what we have built is unique, large and exceptionally valuable. Our investment to date in this undeveloped leasehold exceeds $6 billion, but we believe its value over time will prove to be a significant multiple of that. Having acquired this enormous inventory of opportunities, we have also been building the employee, infrastructure and support systems to enable Chesapeake to execute a drilling program with a size and technological sophistication that is unprecedented in the E&P industry. The results of this drilling program over the next few years are likely to make Chesapeake the largest producer of natural gas in the U.S. and should create billions of dollars of value for our shareholders.
To help investors more easily analyze Chesapeake’s extensive drilling inventory, we divide it into four play types: conventional gas resource, unconventional gas resource, emerging gas resource and Appalachian Basin gas resource. The company’s current leasehold and proved reserve, risked, unproved reserve and unrisked, unproved reserve totals by play type are set forth below:

- 3.2 million net acres in our traditional conventional plays (i.e., much of the Mid-Continent, Permian, Gulf Coast, South Texas and other areas) on which we have identified approximately 3,500 drillsites, 3.9 tcf of proved reserves, approximately 3.1 tcf of risked, unproved reserves and approximately 20 tcf of unrisked, unproved reserves;
- 1.3 million net acres in our unconventional gas resource plays (i.e., Fort Worth Barnett Shale, Sahara, Granite/Atoka/Colony Washes, and Ark-La-Tex tight sands) on which we have identified approximately 9,800 drillsites, 3.4 tcf of proved reserves, approximately 6.6 tcf of risked, unproved reserves and approximately 11 tcf of unrisked, unproved reserves;
- 2.7 million net acres in our emerging gas resource plays (i.e., Fayetteville Shale, Delaware Barnett and Woodford Shales, Deep Haley, Deep Bossier and others) on which we have identified approximately 3,300 drillsites, 0.2 tcf of proved reserves, approximately 5.6 tcf of risked, unproved reserves and approximately 36 tcf of unrisked, unproved reserves; and
- 3.5 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 primarily acquired in our November 2005 acquisition of Columbia Natural Resources, we have identified approximately 9,000 drillsites, 1.5 tcf of proved reserves, approximately 2.4 tcf of risked, unproved reserves and approximately 4 tcf of unrisked, unproved reserves.

The company continues to actively acquire more acreage throughout our operating areas. In 2006, we acquired 1.9 million net acres through an aggressive land acquisition program currently utilizing almost 2,000 contract landmen in the field. This is an unsurpassed commitment to ensure Chesapeake will always have a substantial backlog of value-creating projects for its investors.
Technology
In another example of early recognition of evolving industry trends, Chesapeake’s management team in the late 1990s correctly anticipated that better technologies applied to unconventional reservoirs in a time of structurally higher natural gas prices would result in the discovery and development of many tcf of new natural gas reserves.

As I think back on Chesapeake’s founding in 1989, this is exactly what we started our company to accomplish — utilize the new technology of drilling horizontal wells in unconventional reservoirs to avoid the risk of drilling a dry hole. We began by developing southern Oklahoma fractured carbonate rocks such as the Sycamore, Woodford, Hunton and Viola formations, and later expanded into various Austin Chalk plays of south-central and southeastern Texas. We did not know enough at the time to brand these fractured carbonates as “unconventional,” but they certainly were. For a long time our company’s reputation paid a price for focusing on these fractured carbonates, reservoirs that for decades the industry knew contained oil and natural gas, but were not economical to develop. Ironically, what was contrarian and controversial 18 years ago has today become a widely followed strategy in our industry.

While we were very successful in cracking the code to these unconventional reservoirs in Oklahoma and Texas in the late 1980s and early 1990s, we were less successful in the mid-1990s extending our early success in the Austin Chalk to Louisiana. That painful failure in Louisiana and the collapse of oil and natural gas prices in 1998-99 led to Chesapeake’s retreat, for a time, from unconventional plays. However, when it became clear after 2000 that unconventional formations might yield vast reserves of previously uneconomical natural gas to horizontally drilled wells with fracture stimulations isolated in discrete intervals (a technology not previously perfected), Chesapeake returned to its roots and began to aggressively pursue new unconventional gas resource plays with substantial upside.

The most notable of these unconventional plays is the Fort Worth Barnett Shale. Centered around Fort Worth, Texas, the Fort Worth Barnett Shale has emerged as one of America’s largest natural gas fields and is the best example of what can happen at today’s three-way intersection of improved horizontal drilling and completion technology, a better scientific understanding of how shales work and structurally higher natural gas prices. This play is currently responsible for approximately 4% of U.S. natural gas production and almost 10% of the nation’s drilling activity. Its importance to the U.S. will greatly increase in the years ahead as Chesapeake and others drill thousands of wells to develop this exceptionally large natural gas resource base estimated to contain at least 25 tcf.

Chesapeake entered the Fort Worth Barnett Shale in 2002 through an acquisition that included 4,000 net acres in the play (for which, at the time of the acquisition, we gave no value). Since that time, we have assembled almost 200,000 net acres of leasehold in what is referred to as the Tier 1 area of the play, principally in Johnson, Tarrant and western Dallas counties. In the Tier 1 area, Chesapeake now owns the industry’s largest leasehold position and has drilled or acquired nearly 400 wells that are today producing about 285 million cubic feet of natural gas equivalent (mmcfe) (190 mmcfe net to Chesapeake). We are currently the fourth-largest producer of natural gas in the Barnett play, but with our current drilling activity of 25 rigs moving to a projected industry-leading 35 rigs by midyear 2007, we anticipate becoming the second-largest producer of natural gas from the Fort Worth Barnett Shale by year-end 2007.

This year Chesapeake expects to invest approximately $1 billion in the Fort Worth Barnett Shale to drill nearly 400 gross wells. While this represents just 25% of our drilling capital expenditures for the year, we anticipate this drilling program will be prolific enough to replace nearly all of Chesapeake’s production during 2007, allowing our remaining capital expenditures to generate significant overall growth. Furthermore, this play will remain the foundation of our growth for years to come as we currently have enough leasehold to drill 2,300 additional net wells, representing almost 4 tcf of future reserves. In recognition of the play’s attractiveness, we continue to acquire more leasehold in the play, especially in and around metropolitan Fort Worth, where we believe the most favorable geology exists and where the best wells will likely be drilled.
In the foreground, 3-D seismic trucks are in action at the DFW International Airport between Dallas and Fort Worth. In 2006, Chesapeake was selected as the airport’s exclusive partner to develop the potentially vast reserves of Barnett Shale natural gas underlying the airport’s 18,000 net acres. Chesapeake’s 3-D seismic work is the precursor to drilling activities that will begin in May 2007.
Climate Change

Probably no public policy debate has evolved so dramatically in the past year as the debate about global climate change. A year ago, it would have been difficult to anticipate the broad consensus that has emerged among the world’s scientists and policymakers about the need to begin taking action to reduce the threat of global climate change. As a company employing dozens of earth scientists (and two meteorologists), we are fully aware there have been many times in the past when the earth’s temperatures were much higher than they are today, but with lower CO₂ levels, and also many times when CO₂ levels were much higher than they are today, but with lower global temperatures. So to us, climate change over a long period of time is a normal and inevitable process caused by an ever-changing planet.

However, even as we continue to learn more about the earth’s long history of climate change, it is difficult to ignore that humans directly and indirectly consume energy, create heat and release carbon — a simple fact of everyday life. The debate is centered around whether these human activities are the cause of the steady rise of greenhouse gas concentrations and worldwide temperatures during the past 20 years. Our view is that it is largely irrelevant whether or not the increases in greenhouse gas emissions and global temperatures are natural or influenced by humans. The fact is we can, and should, reduce our greenhouse gas emissions because the risks associated with failing to do so are simply too great.

This is where Chesapeake and natural gas can come to the rescue. As the debate in America intensifies about how to become more energy independent in an increasingly dangerous world and at the same time reduce greenhouse gas emissions in a growing economy, we need to frame the problem truthfully and solve it practically. The vast majority of greenhouse gas emissions are caused by transportation vehicles burning gasoline and diesel and by power plants and factories burning coal. Today, we see policymakers promoting alternative fuels such as wind, solar, biofuels and nuclear. These are all legitimate alternatives (although some much less so than others), yet none can offer energy in great abundance at a reasonable price anytime soon. On the other hand, burning natural gas instead of gasoline, diesel or coal reduces greenhouse gas emissions by approximately 50%. We believe the evidence clearly demonstrates that natural gas is by far the most practical solution to the problem — it is abundant, affordable, reliable, clean burning and domestically produced.

To spread the word about the positive attributes of natural gas, Chesapeake has recently helped establish a foundation based in Washington, D.C., called the American Clean Skies Foundation (www.americancleanskies.com). This foundation will become a
leading voice in the debate about how to reduce greenhouse gas emissions and avoid abrupt climate change. The foundation will encourage conservation of all types of energy, but will primarily advocate the increased use of natural gas in the U.S. and around the world.

For many years, natural gas has been valued at a BTU discount to oil. We believe the opportunity is now at hand for the climate change debate to lead to an increased appreciation of natural gas and a higher valuation for the superior fuel we produce. We intend to do well for our shareholders by doing well for our country and our world. We hope you will join us by visiting the foundation’s web site and adding your contribution to ours to make the world a better place.

Looking Forward
As I conclude this letter and reflect on 2006’s accomplishments and also consider the opportunities ahead, I am grateful for 14 years of investor support of Chesapeake. Following exceedingly humble beginnings and an adolescent growth spurt accompanied by many challenges, Chesapeake has now emerged as a true industry leader characterized by value creation, constant innovation, risk mitigation, forward thinking and hard work.

We have the commitment and talents of 5,000 top-notch employees, an engaged and insightful Board of Directors, a time-tested and successful business strategy, a value-added risk management program, a steadily improving balance sheet and a large and increasingly valuable onshore U.S. natural gas asset base. Furthermore, Chesapeake offers an entrepreneurial and experienced management team that has proven itself capable of creating value through a full range of commodity cycles and challenges in building a $24 billion enterprise value company from an initial $50,000 investment in just 18 years.

We are off to a great start in delivering another successful year of financial and operational performance to our shareholders in 2007. Chesapeake’s production and proved reserves should once again reach new records with double-digit growth and we expect to generate another year of substantial gains from our hedging program. Though volatility will remain, natural gas prices should stay strong during the year as tighter supply and demand fundamentals in both U.S. natural gas and world oil markets emerge this summer and beyond.

Finally, Chesapeake is on the right side of history in the climate change debate and we expect natural gas to become more highly valued in the years ahead as a result of its substantial environmental benefits. Just as coal was the fuel of the 18th and 19th centuries and oil was the fuel of the 20th century, natural gas will be the fuel of at least the first quarter of the 21st century and perhaps for far longer. As a result, we believe the stage is set for an extended period of strong natural gas prices and we look forward to Chesapeake continuing to deliver exceptional results to our shareholders in 2007 and beyond.

Best regards,

Aubrey K. McClendon
Chairman and Chief Executive Officer
March 31, 2007

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

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

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

4. Listing in Forbes’ Platinum 400 list of America’s Best Big Companies and recognized as the best managed company in the Oil & Gas Operations category in the magazine’s 1/8/07 issue.

5. Ranking is according to Zack’s Investment Research (Zack’s) based on stock price performance from 12/31/98 to 12/31/06 of over 3,200 companies tracked by Zack’s with market capitalizations over $50 million on 12/31/98.

6. Note: Reconciliations and other information on the measures referenced in notes 1, 2 and 3 are presented on the Reconciliation of Non-GAAP Financial Measures page on our web site at www.chkenergy.com.
Chesapeake embarked on an aggressive “land grab” in 2000 as we recognized earlier than most of our competitors that vast new areas of the U.S. would open up for natural gas exploration and development when new horizontal drilling and completion technologies were applied to different types of rocks (now commonly referred to as “unconventional reservoirs”) in a time of structurally higher natural gas prices. We believed this decade would go down in oil and natural gas history as a once-in-a-generation opportunity to acquire leases in the modern day equivalent of the great Oklahoma land rushes of the late 19th century. Today that land grab is largely over and we believe Chesapeake won by acquiring a leasehold inventory of 11 million net acres, on which we expect to drill 26,000 net wells in the years to come.
One of Chesapeake’s most important natural gas resource plays is the Sahara area of northwest Oklahoma. To date, we have drilled more than 1,000 wells in the Sahara and we anticipate drilling another 6,000 in the years ahead.
### CHK’s Operating Area Summaries

1. **Fort Worth Barnett Shale**
   The Fort Worth Barnett Shale was Chesapeake’s greatest area of investment during 2006 and will be the most important contributor to our growth in 2007. In addition to multiple acquisitions of high-quality assets during 2006, Chesapeake also leased the right to drill the 18,000 net acres underlying the Dallas/Fort Worth International Airport. In the Barnett, Chesapeake is the fourth-largest producer of natural gas, the most active driller and the largest leasehold owner in the Tier 1 sweet spot of Tarrant, Johnson and western Dallas counties. We are rapidly increasing our drilling activity in the play and expect to be completing, on average, one new Barnett Shale well every day by midyear 2007.

2. **Southern Oklahoma**
   Chesapeake’s Southern Oklahoma area encompasses some of Oklahoma’s oldest and largest fields, several of which date back to discoveries in the early 1900s. This area is also home to Chesapeake’s earliest drilling successes in the Golden Trend and Sholem Arch fields. Today our activities focus on the Bray, Southwest Duncan, Galt and Cement areas where we are developing both conventional and unconventional objectives.

3. **Anadarko Basin**
   The Anadarko Basin, which remains Chesapeake’s largest area of natural gas production, is characterized by a wide variety of play types and depth ranges, including some of the most complex and prolific natural gas reservoirs in the U.S. In this area, Chesapeake remains the most active driller and largest producer and focuses on three major play types found between 12,000 and 20,000 feet: deep Morrow-Springer; medium depth Red Fork-Morrow-Springer; and vertically and horizontally drilled medium-depth Granite, Atoka and Colony Washes.

4. **Northern Mid-Continental**
   The Northern Mid-Continental area was a key contributor to our growth in 2006 and includes northwest Oklahoma, the Texas and Oklahoma panhandles and southwest Kansas. In addition to various conventional plays in this area, we focus on the massive Sahara unconventional natural gas resource project. In Sahara, Chesapeake is by far the dominant operator with more than 600,000 net acres under lease in this multi-county area of excellent low-risk, shallow natural gas production. Since 1998, we have drilled over 1,000 wells in Sahara and have plans to drill an additional 6,000 net wells in the next 10 years.

5. **Oklahoma Arkoma**
   The Oklahoma portion of the Arkoma Basin has long been an extremely prolific natural gas region. In this area, Chesapeake is targeting a variety of plays ranging from complex overthrust geological targets in the southern portion of the basin, to shallow horizontally drilled coalbed methane (CBM) wells in the northern portion of the basin, to the emerging unconventional Woodford Shale play in the western portion of the basin. In the CBM and Woodford plays, we have now established the second largest leasehold positions.

6. **Fayetteville Shale**
   Chesapeake owns the industry’s largest acreage position in the high-potential Arkansas Fayetteville Shale play, including the second-largest acreage position in the play’s core area. During 2006, we focused on testing the boundaries of our acreage position, obtaining 3-D seismic surveys and optimizing drilling and completion techniques. We are now in the process of increasing our drilling activity from three to 12 rigs to accelerate reserve and production growth from this promising play.
East Texas  In East Texas, Chesapeake is focused on developing various tight natural gas sand formations in medium to deep horizons, including the Pettet, Travis Peak, and Cotton Valley formations. In addition, we are one of the top three leasehold owners in the emerging Deep Bossier play that has recently yielded impressive exploration results. We are currently drilling our first operated Deep Bossier well, a 22,000 foot well in Madison County.

Texas Gulf Coast  Chesapeake has established a significant presence in a number of counties along the prolific Texas Gulf Coast. Throughout this area we utilize 3-D seismic data to delineate structural and stratigraphic traps, primarily in the Frio, Vegas and Wilcox formations. During the past few years, Chesapeake has obtained 2,000 square miles of 3-D seismic data and has drilled a number of significant wells as a result.

South Texas  The South Texas area remained one of the largest areas of natural gas production for Chesapeake in 2006. In South Texas, our operations are primarily focused in Zapata County, which is Texas’ number one natural gas producing county and where Chesapeake is the third-largest natural gas producer. During 2007, we will focus on developing deeper structural opportunities under the traditional Lobo and Perdido objectives.

Permian Basin  In the northern portion of the Permian Basin, Chesapeake has focused on discovering and developing various shallow- to medium-depth oil and natural gas plays and also operates a number of secondary recovery oil projects. In the southern portion of the Permian, we have focused on developing new shallow- to medium-depth natural gas plays in the Val Verde Basin where we have recently made a potentially significant new discovery.

Delaware Basin  Chesapeake’s most significant land acquisition activities during 2006 took place in the Delaware Basin in far West Texas where we have built the largest leasehold position in the emerging Barnett and Woodford Shale plays. We believe that substantial natural gas reserves exist in this stacked shale play and are working to determine its commerciality. The Delaware Basin also includes the Deep Haley play, which is centered in Loving County, Texas. In Haley, Chesapeake owns the industry’s second-largest leasehold where we are targeting the prolific and over-pressured Strawn, Atoka and Morrow formations that are located at depths of 15,000-18,000 feet. Our production from Haley has recently doubled as a result of several prolific new wells.

Louisiana  In Louisiana, Chesapeake is primarily focused on the northern portion of the state where we are actively developing such prolific formations as the Houston, Cotton Valley and Deep Bossier, all of which are tight sand plays and offer significant upside potential. We also have several new 3-D seismic surveys planned for Louisiana and are pursuing unconventional objectives there as well.

Appalachia  During 2006, Chesapeake successfully integrated the November 2005 $3 billion acquisition of Columbia Natural Resources and began laying the groundwork for future growth and value creation from the area. Our 2006 reserve and production growth from Appalachia benefited from an accelerated drilling program and exceeded our expectations. Often referred to as America’s most drilled, but least explored area, Appalachia presents abundant growth opportunities through the application of leading-edge exploration, drilling and production technologies in which Chesapeake is a recognized industry leader. We are currently assessing the potential of deeper drilling opportunities and will be aided by a substantial amount of new proprietary 3-D seismic data. In addition, we are pursuing a variety of new initiatives to develop unconventional shales in Alabama, northern Illinois and western Kentucky and will drill our first operated horizontal shale well in Appalachia in mid-2007.
Social Responsibility and Community Service

The first responsibility of every publicly held company is to build value for its shareholders while providing a product or service vital to economic and social development. A second important responsibility should be to serve as a conscientious corporate citizen in every community where it conducts business. Since our founding in 1989, Chesapeake has been committed to meeting both responsibilities: building shareholder value while helping make the world a better place.

Educational Commitment

In a knowledge-driven global economy, Chesapeake focuses on a U.S.-based business model that builds both the competitive skills of its workforce and the communities where its employees live, work and play. We accomplish this important goal through workforce training and investments in education at all levels.

In 2003, we began a relatively small program to provide college scholarships to students from rural Oklahoma communities. Since its inception, the Chesapeake Scholars program has grown into one of the larger corporate scholarship programs in America, pledging over $6 million dollars to well-deserving students. Twenty-two colleges and universities around the nation currently receive financial support from this program, a number expected to grow to 35 programs in 2007.

While today’s Chesapeake Scholars will continue to receive general support in their chosen fields of endeavor, future scholarship recipients will be more focused in areas such as the geosciences, petroleum engineering, land, information technology, human resources, accounting and law. The energy industry is growing quickly, and skilled, well-educated employees are highly sought after as valuable contributors to the success of Chesapeake and our industry.

Among the many bright spots in our educational support program is Chesapeake’s partnership with Southern West Virginia Community College (SWVCC) at its main campus in Logan County, West Virginia. For 30 years, SWVCC has made higher education more accessible to both traditional and nontraditional students in southern West Virginia, the core of Chesapeake’s Appalachian natural gas producing base. In addition, understanding that natural gas exploration and production is an increasingly vital part of West Virginia’s future, Chesapeake’s financial support of the soon-to-open Academy for Mine Safety and Energy Technologies at SWVCC will provide education and training for future leaders of both the mining and natural gas industries.

Another example of Chesapeake’s educational commitment is our recent $500,000 donation to the Oklahoma School of Science and Mathematics in Oklahoma City to create the first endowed chair in a public high school in the state’s history. The professor filling the Chesapeake Chair for Geoscience will be teaching some of the state’s brightest high school junior and senior students about the exciting world of geology and geophysics. By planting seeds at this early stage, we anticipate some of these gifted students will continue an academic path in the geosciences, ultimately leading them to highly rewarding technology-driven careers critical to today’s increasingly challenging search for clean-burning natural gas reserves.

The company’s educational initiatives extend to the grade school level as well. For example, Nash Elementary School in Fort Worth, Texas, the capital of the prolific gas-producing Barnett Shale, received a donation from Chesapeake that enabled every teacher to have his or her own laptop computer in class. This allows both teachers and students to benefit from easier access to the latest information and technologies.

Just as Nash Elementary in Fort Worth has benefited from Chesapeake’s corporate philanthropy, so has Horace Mann Elementary School, our adopted grade school located just blocks from our corporate headquarters in Oklahoma City. In addition to significant yearly financial support, more than 100 dedicated Chesapeake employee mentors spend an hour of company time every week reading and talking to their students. By investing in the physical appearance of the school and by providing an effective mentoring...
program, Chesapeake has helped Horace Mann’s students achieve significant improvements in test scores. Neighborhood property values have risen approximately 20% as the school becomes an ever more attractive place for children to attend.

**Quality of Life Commitment**

In addition to educational advancement, Chesapeake is committed to improving the quality of life and encouraging economic development in the communities where we operate. An exciting example is the story of Chesapeake’s contribution to the Oklahoma City Boathouse Foundation and how it is transforming the riverfront area in the city’s downtown into a vibrant destination for rowers and tourists across the state and country. The Chesapeake Boathouse, an acclaimed modern architectural icon, has already hosted a major rowing event with over 30,000 spectators and 1,000 athletes, including the U.S. National, Harvard University and U.S. Naval Academy rowing teams. In October 2007, the Chesapeake Boathouse will host its first international event, the USA Rowing World Challenge. This event will feature teams from around the world as they prepare for the 2008 Olympic Games in Beijing. Oklahoma City is rapidly becoming a “must visit” venue for world-class rowers in the U.S.

In Fort Worth, Chesapeake’s million-dollar pledge to the Museum of Science and History will provide funds to build an exhibit commemorating the important role energy has played in the state of Texas for more than 100 years. Students will learn firsthand the career opportunities afforded them in this challenging, high-tech industry that is a major and growing contributor to Fort Worth’s booming economy through the wealth the Barnett Shale’s rapid development is creating.

Since a large portion of Chesapeake’s business model is rooted in rural areas where the majority of our drilling rigs operate, the company places great emphasis on improving life outside of major metropolitan areas. Hundreds of Chesapeake employees are actively involved in local governments, schools, volunteer fire departments and a myriad of other benevolent activities. Chesapeake supports dozens of initiatives to improve safety and well-being, regardless of the size of the community.

As an example of this commitment, Chesapeake supported the “Live at Lincoln” concert series launched last fall in Hamlin, West Virginia (population 1,114). Commitment to the arts is an important part of any community’s development, and this new program makes great strides to enriching the quality of life for people in and around Hamlin. Chesapeake’s donation is expected to increase tourism and serve as a catalyst for economic development while exposing young and old to great classical musical performances.
The $3 million Chesapeake Boathouse is the initial development along the long-ignored Oklahoma River and has served as a catalyst for economic development along the riverfront and downtown Oklahoma City.
Our company’s community service strategy includes identifying needs, determining the opportunities for building sustainable alliances to meet those needs, and then establishing productive partnerships with groups that have the expertise and commitment required to ensure our support will have a material impact. Targeting community service commitments in this manner provides the most positive returns on our considerable charitable investments.

Chesapeake’s employees recognize they are fortunate in many ways. In turn, they make genuine efforts to serve as positive role models in the workplace and in their communities. In 2006, charitable support through Chesapeake helped communities throughout our operating areas raise a record $7 million dollars in charitable donations.

In addition to generous giving, Chesapeake employees in every state of our operations volunteer their time and talents in hundreds of community programs: wielding hammers for Rebuilding Together and Habitat for Humanity, running in charity marathons, coaching youth athletics, and shaving their heads to support children’s cancer research. The company appreciates the generosity and compassion of its employees and applauds their efforts to enhance the lives of their friends and neighbors.

![2006 Charitable Donations Chart]

Economic Development Commitment

Few factors improve the quality of life in a community, state or country more than the creation of high-quality jobs. Chesapeake is proud that we have developed more than 2,400 jobs in the past year alone. At year-end 2006, we employed almost 5,000 dedicated and talented people across our 16-state operating area. Since 2000, our work force has expanded nearly 1,000%, enabling Chesapeake to reach our growth objectives and efficiently conduct the nation’s most active drilling program.

Chesapeake is dedicated to exploring and producing clean-burning natural gas for American homes and industries while growing the value of our stakeholders’ investments. As we accomplish these goals, our company also strives to create challenging and rewarding jobs for our employees, to serve as a responsible steward of the environment and to enhance the quality of life in the communities and states where we work, live and play.
Health, Safety and Environment (HSE)

Protecting the health and safety of our employees is of critical importance to Chesapeake. We are equally committed to protecting the world in which we live, work and play by meeting or exceeding environmental compliance regulations throughout our operating areas. To demonstrate these commitments, the company has a growing array of comprehensive programs to ensure our employees work safely and protect and enhance the environment.

Employee Health and Safety Commitment

Helping our employees become and stay healthy is a key strategy to help boost productivity and make Chesapeake an employer of choice. In our ongoing effort to promote good health, we have initiated a number of wellness programs in our operating units and at our Oklahoma City corporate headquarters to increase productivity and lower health care costs. In Oklahoma City, a 42,000-square-foot state-of-the-art health facility provides employees and families with convenient access to the latest health equipment and group exercise classes. Chesapeake also subsidizes family fitness center membership fees for employees in the field.

In 2006, Chesapeake introduced our employees to the Living Well program, which offers financial incentives to employees to achieve and maintain healthy and productive lifestyles through education, motivation and intervention. The program’s success was so great, this year Living Well has been extended to include field office employees. Today, more than 1,500 employees, a third of whom work in field locations, are enrolled in the program.

Chesapeake has recently been admitted to an elite group of organizations that make up the Health Enhancement Research Organization (HERO). HERO is a nationwide, research-based coalition of organizations with common interests in health promotion, disease management and health-related productivity research. Chesapeake is proud to join the HERO coalition, which is striving to shift the paradigm from a health system focused only on diagnosis and treatment to one that focuses on prevention and productivity.
At Chesapeake, we place a great deal of importance on providing safe work environments for our employees, both in office and field locations. Equally important is our commitment to ensuring the safety of those around us by continually reviewing and improving our drilling operations. In 2006, the number of Chesapeake employees participating in safety and environmental training programs increased by almost 30%. In addition to regular operational training, employees in field facilities also attended an average of 24 hours of specialized safety and environmental training. The company is making such programs accessible to all employees by providing a multitude of training venues, from one-on-one instruction to on-site meetings, classroom training and online instruction systems.

**Environmental Commitment**

Chesapeake is committed to conducting our operations with care for the environment. The company’s goal at every well it drills is simple -- minimize the environmental impact at the drilling site, now and in the future. As we explore for and produce natural gas, we demonstrate our respect for the needs of the people and creatures with whom we share this planet and for the generations who will follow.

Natural gas represents 91% of Chesapeake’s production and is the cleanest-burning, most environmentally responsible conventional energy source, emitting lower levels of the greenhouse gases that contribute to acid rain and global warming. Increasing the use of natural gas as a preferred energy source for residential, commercial and industrial purposes is a significant tool in the goal to reduce overall pollution levels.

**Environmentally Friendly Operations**

At Chesapeake, we are proud to be a leading producer of the cleanest-burning conventional energy source. This pride is evidenced by the way we conduct our operations. Each well we drill and operate must comply with a host of regulations promulgated by federal, state and local regulatory agencies. With more rigs running than any other E&P company in the nation, Chesapeake acknowledges and embraces the great responsibility that accompanies our success.
Chesapeake drills in a wide variety of environments, from densely populated cities to farmlands to wilderness areas. At each site, the company adapts its operations to protect and preserve the environmental integrity of the area. “Choose wisely and plan well” is the corporate directive our drilling and production professionals follow diligently to guide them through the processes of wellsite selection, drilling and production in every operating region.

**Small Footprints**

Having well-informed, committed people in the field is a key element to sustaining environmentally acceptable operations. The company has environmental education programs in place for field employees and encourages all employees to participate. Their efforts are assisted by programs such as our Geographic Information System. This innovative online database provides site-specific information about the presence of bodies of water, endangered species habitats and proximity to wildlife preservation areas before selection teams ever set foot on a prospective wellsite.

Leading-edge drilling techniques are being put to new uses as Chesapeake ramps up activities in the Fort Worth Barnett Shale of north-central Texas, in what may become the largest urban drilling program ever undertaken. Continually improving horizontal drilling and multiple well pad drilling technologies enable the company to drill more productive wells while reducing our environmental footprint.

Neighborhood-friendly operations in highly populated areas such as in the Fort Worth metropolitan area require the use of effective noise control methods as we drill, complete and produce wells. Chesapeake is a noise abatement pioneer in the Barnett, conducting our own noise sampling and implementing the strongest measures possible to reduce noise, which may involve retrofitting existing rigs at the same time we design quieter new-generation rigs.

Finally, Chesapeake’s “Good Neighbor Initiative” promotes helpful dialogue between landowners, lessees, permit holders and residents of producing areas. This successful program, developed in our New Mexico operations, is now being introduced into the Fort Worth area. It pledges the responsible development of energy resources, along with environmental stewardship and respect for property rights.

**Public Lands**

While the majority of the company’s activities are conducted on privately owned land, Chesapeake does occasionally explore for and produce natural gas on public lands. There, we consistently meet or exceed some of the most complex environmental regulations in the world. In each of these public areas, we implement a multitude of best practices, such as closed-loop drilling mud systems to reduce the impact of our operations. We believe Chesapeake’s track record on public lands is another visible demonstration of our concern for the environment and motivates us to be a better operator everywhere we drill.

For example, as we begin development in the Davy Crockett National Forest of east Texas, the company is working closely with the U.S. Forest Service, which has applauded our efforts. Each potential wellsite goes through a rigorous assessment process that includes evaluations of wildlife habitats, possible impact on wetlands and trees, and archeological studies.

**Water**

In every state where we operate, Chesapeake recognizes the need to conserve water and protect groundwater resources. We typically use safety measures, including surface casing and conductor pipe, to ensure the integrity of freshwater formations. We isolate and safely dispose of any saltwater produced during the drilling process.

The company is keenly aware of our role as stewards of the environment when we grow through acquisitions. Chesapeake has established a highly regarded reputation for planning and executing immediate improvements on acquired wellsites, bringing them up to company-wide standards as well as government compliance levels.
Supporting Environmental Initiatives

Building strong relationships with private, nonprofit and public partners is another key element of environmentally friendly operations. A Chesapeake manager has chaired the Bureau of Indian Affairs/Bureau of Land Management Working Group, an industry/governmental organization whose goal is to improve understanding and communications between the natural gas industry and government land management and regulatory agencies and to facilitate interagency communications.

Chesapeake is also a founding member of the Low Impact Natural Gas and Oil project in Arkansas, a collaborative effort to develop a web-based decision-support tool that will enable energy companies and regulatory agencies to share education and integration systems while promoting better communications.

The company continues its multiple commitments to industry and nonprofit environmental groups such as the Oklahoma Energy Resources Board, which has remediated more than 6,000 abandoned well sites across the state at no cost to taxpayers. We are now Oklahoma’s largest financial contributor to this program and in 2006 our contributions were over $500,000. We also are a supporter of educational outreach programs conducted by the Oklahoma Association of Conservation Districts, providing cash awards to educators and districts who record outstanding achievements in environmental education.

In addition, Chesapeake partners with The Nature Conservancy, sharing its mission 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. This long-term partnership has had lasting and beautiful results, such as restoration of the 38,000-acre Tallgrass Prairie Preserve in north-central Oklahoma.

Chesapeake continues to place health, safety and environmental management among our highest priorities, because HSE programs improve the quality of work life of our employees while adding value for investors.
CHK’s Officers

Aubrey K. McClendon 1
Chief Executive Officer and Chairman

Marcus C. Rowland 2
Executive Vice President and Chief Financial Officer

Steven C. Dixon 3
Executive Vice President Operations and Chief Operating Officer

Douglas J. Jacobson 4
Executive Vice President Acquisitions and Divestitures

J. Mark Lester 5
Executive Vice President Exploration

Martha A. Burger 6
Senior Vice President Human and Corporate Resources

Jeffrey A. Fisher 7
Senior Vice President Production

Jennifer M. Grigsby 8
Senior Vice President Treasurer and Corporate Secretary

Henry J. Hood 9
Senior Vice President Land and Legal and General Counsel

James C. Johnson 10
Senior Vice President Energy Marketing

Michael A. Johnson 11
Senior Vice President Accounting, Controller and Chief Accounting Officer

Stephen W. Miller 12
Senior Vice President Drilling

Jeffrey L. Mobley 13
Senior Vice President Investor Relations and Research

Thomas S. Price, Jr. 14
Senior Vice President Corporate Development

Cathy L. Tompkins 15
Senior Vice President Information Technology
CHK’s Directors

Aubrey K. McClendon  
Chairman of the Board and  
Chief Executive Officer  
Oklahoma City, OK

Richard K. Davidson  
Former Chairman of the Board  
Union Pacific Corporation  
Omaha, NE

Frank Keating  
Former Governor, Oklahoma  
President and CEO  
American Council of Life Insurers  
Washington, DC

Breene M. Kerr  
Private Investor  
Easton, MD

Charles T. Maxwell  
Senior Energy Analyst  
Weeden & Co.  
Greenwich, CT

Merrill A. “Pete” Miller, Jr.  
Chairman, President and CEO  
National Oilwell Varco, Inc.  
Houston, TX

Don Nickles  
Former U.S. Senator, Oklahoma  
Founder and Principal  
The Nickles Group  
Washington, DC

Frederick B. Whittemore  
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.
As of December 31, 2006, and sorted alphabetically by year of hire
Corporate and Securities Information

Corporate Headquarters
6300 Kent Western Bivd.
Oklahoma City, OK 73118
(405) 848-8800

Internet Address
Company financial information, public disclosures and other information are available through Chesapeake’s web site 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, 2007, there were approximately 100,000 beneficial owners of our common stock.

Common Stock Dividends
During 2006, the company declared a cash dividend of $0.05 per share on March 6 and $0.06 per share on June 14, September 25 and December 19 for a total dividend declared of $0.23 per share.

Independent Public Accountants
PricewaterhouseCoopers LLP
6100 South 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 our transfer agent:

UMB Bank, N.A.
P.O. Box 69064
Kansas City, Missouri 64166
(816) 860-7790 or (800) 894-8225

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, 2006, 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 2006 annual certification of its chief executive officer confirming that the company has complied with the NYSE corporate governance listing standards.

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 are made in current expectations or forecasts of future events. They include estimates of oil and natural gas reserves, expected oil and natural gas production and future expenses, projections of future oil and natural gas prices, planned capital expenditures for drilling, development and acquisitions, and statements concerning our expected or intended future actions. Factors that could cause actual results to differ materially from expected results are described under “Risk Factors” in Item 1A of our 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2007. They include the volatility of oil and natural gas prices, the limited level of demonstrated recoverable oil and natural gas resources, our ability to accurately estimate our oil and natural gas reserves, the sensitivity of our financial results to commodity prices, the risks involved in drilling for oil and natural gas, our ability to replace oil and natural gas reserves and sustain production levels, our level of indebtedness, changes in federal, state and local laws and regulations, the risks associated with our operations, our ability to raise capital in the capital markets and our ability to successfully execute our business strategy. The company has also filed with the NYSE the 2006 annual certification of its chief financial officer confirming that the company has complied with the NYSE corporate governance listing standards.

Stock Price Data

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<th>Third Quarter</th>
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Stock Split History
December 1996: two-for-one
June 1997: three-for-two
December 1998: three-for-two
December 1999: two-for-one

We caution you to place undue reliance on these forward-looking statements, and we undertake no obligation to update this information. We urge you to closely review and consider the disclosures made in this report and our other filings with the Securities and Exchange Commission that address these matters.

The SEC has generally permitted oil and natural 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 term “proved” to describe volumes of reserves that are expected to be recoverable from a given area under existing economic and operating conditions. The SEC has also permitted a company to disclose additional information about its probable reserves, if it is determined that the reserve estimates of probable reserves and accretion are subject to a relatively greater risk of being actually recovered than the reserves that are included in the SEC’s definition of proved reserves. We have determined that a portion of our reserves have been appropriately identified as probable and are not recoverable, as such calculations and estimates have not been reviewed by third-party engineers or appraisers.

Chesapeake Energy Corporation 2006 Annual Report