# Chesapeake Energy Corporation

## Key Takeaways

Concerns about pay and performance misalignment were mitigated by decreased CEO pay and strong financial performance not reflected in the company's declining stock price.

Support for the shareholder proposal seeking a report on the company's capital expenditures in light of policies to mitigate climate change is warranted, as shareholders would benefit from comprehensive information regarding the impact of climate change regulations and potential reduced demand for oil on the company's capital expenditure strategies.

Support for the shareholder proposal regarding political contributions disclosure is warranted, as additional information on the company's political expenditures and trade association memberships, and related management level oversight mechanisms would aid investors in assessing its management of related risks and benefits.

**ISS QuickScore**

GOVERNANCE

5

Scores indicate decile rank relative to index or region. A decile score of 1 indicates lower governance risk, while a 10 indicates higher governance risk.

**Meeting Type:** Annual
**Meeting Date:** 22 May 2015
**Record Date:** 23 March 2015
**Meeting ID:** 965726

**New York Stock Exchange**: CHK
**Index:** S&P 500
**Sector:**
Oil & Gas Exploration & Production
**GICS:** 10102020

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## Agenda & Recommendations

Policy: United States

**Incorporated:** Oklahoma, USA

| Item | Code | Proposal | Board Rec. | ISS Rec. |
|---|---|---|---|---|
| MANAGEMENT PROPOSALS | | | | |
| 1a | M0201 | Elect Director Archie W. Dunham | FOR | FOR |
| 1b | M0201 | Elect Director Vincent J. Intrieri | FOR | FOR |
| 1c | M0201 | Elect Director Robert D. Lawler | FOR | FOR |
| 1d | M0201 | Elect Director John J. Lipinski | FOR | FOR |
| 1e | M0201 | Elect Director R. Brad Martin | FOR | FOR |
| 1f | M0201 | Elect Director Merrill A. 'Pete' Miller, Jr. | FOR | FOR |
| 1g | M0201 | Elect Director Frederic M. Poses | FOR | FOR |
| 1h | M0201 | Elect Director Kimberly K. Querrey | FOR | FOR |
| 1i | M0201 | Elect Director Louis A. Raspino | FOR | FOR |
| 1j | M0201 | Elect Director Thomas L. Ryan | FOR | FOR |
| 2 | M0550 | Advisory Vote to Ratify Named Executive Officers' Compensation | FOR | FOR |
| 3 | M0101 | Ratify PricewaterhouseCoopers LLP as Auditors | FOR | FOR |
| SHAREHOLDER PROPOSALS | | | | |
| 4 | S0224 | Require Director Nominee with Environmental Experience | AGAINST | AGAINST |
| 5 | S0742 | Report on Capital Expenditure Strategy with Respect to Climate Change Policy | AGAINST | FOR |
| 6 | S0807 | Report on Political Contributions | AGAINST | FOR |
| 7 | S0205 | Establish Risk Oversight Committee | AGAINST | AGAINST |

Shading indicates that ISS recommendation differs from Board recommendation
▶ Items deserving attention due to contentious issues or controversy

## Report Contents

## ISS-Company Dialogue

| Dates | Topic | Initiated By | Notes |
|---|---|---|---|
| May 6, 2015 | Draft Review | Issuer | The company was given the opportunity to review a draft of this analysis for fact-checking purposes. |

**Note:** ISS engages in ongoing dialogue with issuers in order to ask for additional information or clarification, but not to engage on behalf of its clients. Any draft review which may occur as part of this process is done for purposes of data verification only. All ISS recommendations are based solely upon publicly disclosed information.

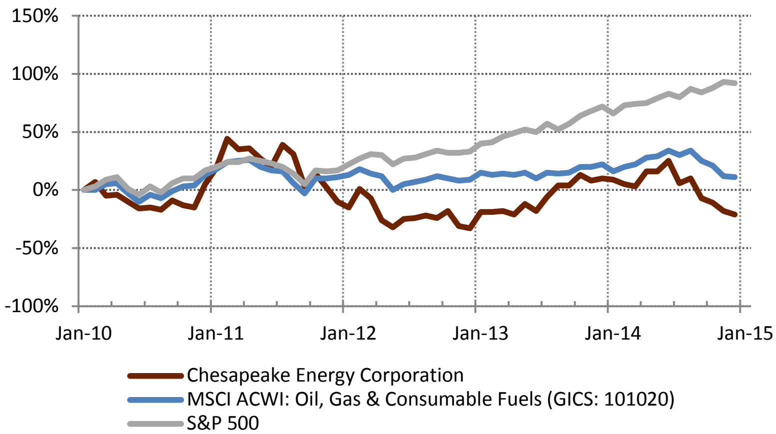
## Material Company Updates

| Item | Summary |
|---|---|
| Charter and Bylaw Amendments | The board made a number of changes to the company's certificate of incorporation and bylaws, which had been approved by shareholders at the 2014 annual meeting. The changes included the removal of references to the classified board structure and addition of provisions for annual election of all directors; revisions to increase the maximum number of directors from nine to ten; revisions to eliminate supermajority vote standards for shareholder amendments to the bylaws and certificate; revisions to provide that any director, or the entire board, may be removed, with or without cause, by a majority of shares entitled to vote; and revisions to implement proxy access. |
| Board Update | Kimberly K. Querrey was appointed to the board on April 7, 2015. |
| Antitrust Investigations | According to the company's most recent Form 10-K, the company has received, from the Antitrust Division of the U.S. Department of Justice and certain state governmental agencies, subpoenas and demands for information and testimony in connection with investigations into possible violations of federal and state laws relating to the purchase and lease of oil and gas rights in various states. Chesapeake is responding to these subpoenas and demands.<br><br>On March 5, 2014, the Attorney General of Michigan filed a criminal complaint against Chesapeake in Michigan state court alleging misdemeanor antitrust violations and attempted antitrust violations under state law arising out of the Company’s leasing activities in Michigan during 2010. On July 9, 2014, a Michigan state court ruled that one count alleging a bid-rigging conspiracy between Chesapeake and Encana Oil & Gas USA, Inc. regarding the October 2010 state lease auction would proceed to trial, and dismissed claims alleging a second antitrust violation and an attempted antitrust violation. The Michigan Attorney General filed a second criminal complaint against Chesapeake in the same court on June 5, 2014 which alleges that Chesapeake’s conduct in canceling lease offers to Michigan landowners in 2010 violated the state’s criminal enterprises and false pretenses felony statutes. On September 9, 2014, the Court ruled that all charges in the complaint would be tried.<br><br>On April, 24, 2015, in order to resolve both criminal complaints and with no admission of wrongdoing, the company entered pleas of no contest to one count of misdemeanor attempted antitrust violation and one count of misdemeanor false pretenses. The plea will be dismissed if the company fulfills the terms of a settlement agreement with the Michigan Attorney General. As part of this settlement, the company will contribute up to $25 million to a compensation fund for Michigan landowners for unfunded oil and gas leases in 2010. |

# Financial Highlights

**Company Description:** Chesapeake Energy Corporation engages in the acquisition, exploration, and development of properties for the production of oil, natural gas and natural gas liquids (NGL) from underground reservoirs in the United States.

## STOCK PRICE PERFORMANCE




## TOTAL SHAREHOLDER RETURNS

| | 1 Yr | 3 Yr | 5 Yr |
|---|---|---|---|
| Company TSR (%) | -22.25 | -0.71 | -2.94 |
| GICS 1010 TSR (%) | -26.17 | -4.18 | 1.54 |
| S&P500 TSR (%) | 13.69 | 20.41 | 15.45 |

Source: Compustat. As of last day of company FY end month: 12/31/2014

## COMPANY SNAPSHOT

| | |
|---|---|
| Market Cap (M) | 9,383.7 |
| Closing Price | 14.11 |
| Annual Dividend | 0.35 |
| 52-Week High | 31.49 |
| 52-Week Low | 13.38 |
| Shares Outstanding (M) | 665.04 |
| Average daily trading volume (prior mo)* | 28,068.46 |

As of March 23, 2015 (All currency in USD)
* Trading Volume in thousands of shares

## FINANCIAL & OPERATIONAL PERFORMANCE

| | Historical Performance (FY ending) | | | | | Compared to Peers (Compustat FY*) – 2014 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **All currency in USD** | **12/2010** | **12/2011** | **12/2012** | **12/2013** | **12/2014** | **EQT** | **SWN** | **CXO** | **COG** | **RRC** |
| **Earnings** | | | | | | EQT Corporation | Southwestern Energy Company | Concho Resources Inc. | Cabot Oil & Gas Corporation | Range Resources Corporation |
| Revenue (M) | 9,366 | 11,635 | 12,316 | 17,506 | 20,951 | 2,470 | 4,038 | 2,660 | 2,173 | 2,419 |
| Net Income (M) | 1,774 | 1,742 | -769 | 724 | 1,917 | 387 | 924 | 538 | 104 | 634 |
| EBITDA (M) | 4,303 | 4,453 | 1,197 | 5,464 | 6,522 | 1,766 | 2,315 | 1,403 | 1,490 | 1,547 |
| EPS (USD) | 2.63 | 2.47 | -1.46 | 0.73 | 1.93 | 2.54 | 2.63 | 4.89 | 0.25 | 3.81 |
| EPS Y/Y Growth (%) | N/A | -6 | N/A | N/A | 164 | 28 | 31 | 115 | -63 | 437 |
| **Profitability** | | | | | | | | | | |
| Net Margin (%) | 31 | 25 | -8 | 8 | 15 | 29 | 36 | 32 | 2 | 43 |
| EBITDA Margin (%) | 46 | 38 | 10 | 31 | 31 | 72 | 57 | 53 | 69 | 64 |
| Return on Equity (%) | 14 | 12 | -8 | 4 | 13 | 8 | 20 | 10 | 5 | 18 |
| Return on Assets (%) | 5 | 4 | -2 | 1 | 4 | 3 | 6 | 5 | 2 | 7 |
| ROIC (%) | 6 | 6 | -3 | 2 | 6 | 4 | 13 | 6 | 3 | 10 |
| **Leverage** | | | | | | | | | | |
| Debt/Assets | 34 | 26 | 31 | 31 | 28 | 25 | 47 | 31 | 32 | 35 |
| Debt/Equity | 83 | 65 | 82 | 81 | 68 | 65 | 149 | 68 | 82 | 89 |
| **Cash Flows** | | | | | | | | | | |
| Operating (M) | 5,117 | 5,903 | 2,837 | 4,614 | 4,634 | 1,415 | 2,335 | 1,674 | 1,236 | 954 |
| Investing (M) | -8,503 | -5,812 | -4,984 | -2,967 | 454 | -2,444 | -7,288 | -2,546 | -1,665 | -1,245 |
| Financing (M) | 3,181 | 158 | 2,083 | -1,097 | -1,817 | 1,261 | 4,983 | 872 | 426 | 291 |
| Net Change (M) | -205 | 249 | -64 | 550 | 3,271 | 232 | 30 | 0 | -2 | 0 |
| **Valuation & Performance** | | | | | | | | | | |
| Price/Earnings | 9.90 | 9.00 | N/A | 37.20 | 10.10 | 29.80 | 10.40 | 20.40 | 118.40 | 14.00 |
| Annual TSR (%) | 1.42 | -13.23 | -24.10 | 65.88 | -22.25 | -15.58 | -30.61 | -7.64 | -23.43 | -36.46 |

Source: Compustat. *Note: Compustat standardizes financial data and fiscal year designations to allow for accurate comparison across companies and industries. Compustat data may differ from companies' disclosed financials. See www.issgovernance.com/policy-gateway/company-financials-faq/ for more information. Peers used in Financial Highlights represent closest industry peers drawn from those peers used in ISS' pay-for-performance analysis.

# Corporate Governance Profile

## BOARD & COMMITTEE SUMMARY

| | Independence | Members | Meetings |
|---|---|---|---|
| Full Board | 90% | 10 | 11 |
| Audit | 100% | 4 | 11 |
| Compensation | 100% | 3 | 7 |
| Nominating | 100% | 4 | 5 |

| | |
|---|---|
| Chairman classification | Independent Outsider |
| Separate chair/CEO | Yes |
| Independent lead director | N/A |
| Voting standard | Majority |
| Plurality carveout for contested elections | Yes |
| Resignation policy | Yes |
| Total director ownership (000 shares) | 3,913 |
| Total director ownership (%) | N/A |
| Percentage of directors owning stock | 100% |
| Number of directors attending < 75% of meetings | 0 |
| Number of directors on excessive number of outside boards | 1 |
| Average director age | 61 years |
| Average director tenure | 2 years |
| Percentage of women on board | 10% |

## SHAREHOLDER RIGHTS SUMMARY

| | |
|---|---|
| Controlled company | No |
| Classified board | No |
| Dual-class stock | No |
| Vote standard for mergers/acquisitions | Majority |
| Vote standard for charter/bylaw amendment | Majority |
| Shareholder right to call special meetings | No |
| Material restrictions on right to call special meetings | N/A |
| Shareholder right to act by written consent | Yes |
| Cumulative voting | No |
| Board authorized to issue blank-check preferred stock | Yes |
| Poison pill | No |

# Board Profile

## Director Independence & Affiliations

### EXECUTIVE DIRECTORS

| On Ballot | Name | Affiliation | Independence Classification | | Attend <75% | Gen-der | Age | Tenure | Term Ends | Outside | | Key Committees | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Company | ISS | | | | | | Boards | CEO | Audit | Comp | Nom | Gov |
| ✓ | Robert D. ("Doug") Lawler | CEO | Non-Independent | Insider | | M | 48 | 1 | 2016 | 0 | | | | | |

### NON-EXECUTIVE DIRECTORS

| On Ballot | Name | Affiliation | Independence Classification | | Attend <75% | Gen-der | Age | Tenure | Term Ends | Outside | | Key Committees | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Company | ISS | | | | | | Boards | CEO | Audit | Comp | Nom | Gov |
| ✓ | Archie W. Dunham | Chair | Independent | Independent Outsider | | M | 76 | 2 | 2016 | 0 | | | | M | M |
| ✓ | Vincent J. Intrieri | | Independent | Independent Outsider | | M | 58 | 2 | 2016 | 3 | | | | M | M |
| ✓ | John J. (Jack) Lipinski | | Independent | Independent Outsider | | M | 64 | 1 | 2016 | 3 | ✓ | M | M | | |
| ✓ | R. Brad Martin | | Independent | Independent Outsider | | M | 63 | 2 | 2016 | 2 | | | M | C | C |
| ✓ | Merrill A. (Pete) Miller Jr. | | Independent | Independent Outsider | | M | 64 | 8 | 2016 | 2 | | | C | | |
| ✓ | Frederic M. Poses | | Independent | Independent Outsider | | M | 72 | 2 | 2016 | 0 | | | | M | M |
| ✓ | Kimberly K. Querrey | | Independent | Independent Outsider | | F | 54 | 0* | 2016 | 0 | | M | | | |
| ✓ | Louis A. Raspino | | Independent | Independent Outsider | | M | 62 | 2 | 2016 | 2 | | C F | | | |
| ✓ | Thomas L. Ryan | | Independent | Independent Outsider | | M | 49 | 2 | 2016 | 2 | ✓ | F | | | |

M = Member | C = Chair | F = Financial Expert

*Indicates director not previously submitted to shareholders for election.

## Director Notes

| | |
|---|---|
| Archie W. Dunham | 1) The company has sales transactions with Union Pacific Corporation ("UPC") where Archie W. Dunham served as a non-employee director in 2014. The amount of payments is less than 1 percent of UPC's revenues in each of the fiscal years 2014, 2013, and 2012. 2) The company has sales transactions with DeutscheBank Trust Company Americas ("DTCA") where Dunham serves as an advisory board Member in 2014. The amount of payments is less than 1 percent of DCTA's revenues in each of the fiscal years 2014, 2013, and 2012. (Source: DEF14A, 4/10/15, pp. 9, 11.) |
| Robert D. ("Doug") Lawler | The company engages in transactions with BP p.l.c. ("BP") and SandRidge Energy, Inc. ("SandRidge") in the ordinary course of business. David C. Lawler is CEO of BP's "Lower 48 Onshore" business and previously served as an executive SandRidge. Robert D. ("Doug") Lawler is the brother of D. Lawler. (Source: DEF14A, 4/10/15, p. 16.) |
| Vincent J. Intrieri | The company has sales transactions with Hertz Global Holdings, Inc. ("HTZ") where Vincent J. Intrieri serves as a non-employee director. The amount of payments is less than 1 percent of HTZ's revenues in each of the fiscal years 2014, 2013, and 2012. (Source: DEF14A, 4/10/15, pp. 9, 11.) |
| R. Brad Martin | 1) The company has sales transactions with FedEx Corporation ("FedEx") where R. Brad Martin serves as a non-employee director. The amount of payments is less than 1 percent of FedEx's revenues in each of the fiscal years 2014, 2013, and 2012. 2) The company has sales transactions with Pilot Travel Centers LLC ("PTC") where Martin is a member of board of managers. The amount of payments is less than 1 percent of PTC's revenues in each of the fiscal years 2014, 2013, and 2012. (Source: DEF14A, 4/10/15, pp. 9, 13.) |
| Merrill A. (Pete) Miller Jr. | 1) The company has business transactions with National Oilwell Varco, Inc. ("NOV"). The amount of payments is less than 1 percent of NOV's revenues in each of the fiscal years 2014, 2013, and 2012. Merrill A. ("Pete") Miller, Jr. previously served as an executive officer of NOV. 2) The company has sales transactions with Now Inc. ("DNOW") where Miller is an executive chairman. The amount of payments is 1.4 percent of DNOW's revenues in |

each of the fiscal years 2014, 2013, and 2012. (Source: DEF14A, 4/10/15, pp. 9, 13.)

## Director Employment, Compensation & Ownership

| Name | Primary Employment | Outside Boards | Total Compensation* | Shares Held | 60-day Options | Total | Voting Power (%) |
|---|---|---|---|---|---|---|---|
| **Archie W. Dunham** | Retired | | 541,811 | 1,576,804 | 0 | 1,576,804 | <1 |
| **Robert D. ("Doug") Lawler** | CEO, President - Chesapeake Energy Corporation | | ** | 410,104 | 302,496 | 712,600 | <1 |
| **Vincent J. Intrieri** | Senior Managing Director, Icahn Capital LP - Icahn Enterprises L.P. | Transocean Ltd., Hertz Global Holdings, Inc., Navistar International Corporation | 361,541 | 36,418 | 0 | 36,418 | <1 |
| **John J. (Jack) Lipinski** | CEO, President - CVR Energy, Inc. | CVR Energy, Inc., CVR Partners, LP, CVR Refining, LP | 492,213 | 45,650 | 0 | 45,650 | <1 |
| **R. Brad Martin** | Financial Services | FedEx Corporation, First Horizon National Corporation | 361,541 | 187,588 | 0 | 187,588 | <1 |
| **Merrill A. (Pete) Miller Jr.** | Chairman - NOW Inc. | Transocean Ltd., NOW Inc. | 361,541 | 175,151 | 0 | 175,151 | <1 |
| **Frederic M. Poses** | Other | | 350,034 | 695,345 | 0 | 695,345 | <1 |
| **Kimberly K. Querrey** | Financial Services | | 0 | 342,464 | 0 | 342,464 | <1 |
| **Louis A. Raspino** | Financial Services | Forum Energy Technologies, Inc., Dresser-Rand Group Inc. | 369,212 | 70,066 | 0 | 70,066 | <1 |
| **Thomas L. Ryan** | CEO, President - Service Corporation International | Service Corporation International, Weingarten Realty Investors | 350,034 | 70,565 | 0 | 70,565 | <1 |

*Local market currency; **For executive director data, please refer to Executive Pay Overview.

# Compensation Profile

### EXECUTIVE PAY OVERVIEW

| Executive | Title | Base Salary | Change in Pension, Deferred Comp, All Other Comp | Bonus & Non-equity Incentives | Restricted Stock | Option Grant | Total |
|---|---|---|---|---|---|---|---|
| **R. Lawler** | President and Chief Executive Officer | 1,250 | 207 | 2,721 | 7,854 | 2,844 | 14,875 |
| **D. Dell'Osso, Jr.** | Executive Vice President and Chief Financial Officer | 725 | 344 | 1,315 | 1,851 | 670 | 4,906 |
| **J. Webb** | Executive Vice President - General Counsel | 595 | 72 | 1,088 | 2,244 | 813 | 4,812 |
| **M. Doyle** | Executive Vice President, Operations - Northern Division | 566 | 108 | 1,000 | 1,870 | 677 | 4,222 |
| **M. Pigott** | Executive Vice President, Operations - Southern Division | 519 | 102 | 1,000 | 1,870 | 677 | 4,168 |
| **Median CEO Pay** | ISS Selected Peer Group | 950 | 377 | 2,200 | 7,055 | 0 | 10,774 |
| | Company Defined Peers | 1,296 | 379 | 2,200 | 7,197 | 1,781 | **10,774** |

Source: ISS. Pay in $thousands. Total pay is sum of all reported pay elements, using ISS' Black-Scholes estimate for option grant-date values. Note: Median total pay will not equal sum of pay elements medians. Company Defined Peers are as disclosed. More information on ISS' peer group methodology at www.issgovernance.com/policy-gateway/us-compensation-policy-guidance/.

## OPTION VALUATION ASSUMPTIONS

| For CEO's last FY Grant | Company | ISS |
|---|---|---|
| Volatility (%)* | 48.63 | 41.12 |
| Dividend Yield (%)* | 1.33 | 1.38 |
| Term (yrs)* | 5.90 | 10.00 |
| Risk-free Rate (%)* | 1.93 | 2.88 |
| Grant date fair value per option* | N/A | 11.19 |
| Grant Date Fair Value ($ in 000)** | 2,625 | 2,844 |

*Source: Standard & Poor's Xpressfeed;**Source DEF14A (company value); ISS (ISS value); Difference between ISS and company grant date fair value 8.34%

## CEO TALLY SHEET

| CEO | R. Lawler |
|---|---|
| CEO tenure at FYE: | 1.5 years |
| Present value of all accumulated pension: | N/A |
| Value of CEO stock owned (excluding options): | $5,786,567 |
| **Potential Termination Payments** | |
| Involuntary termination without cause: | $12,598,629 |
| Termination after a change in control: | $27,747,991 |

Source: DEF14A

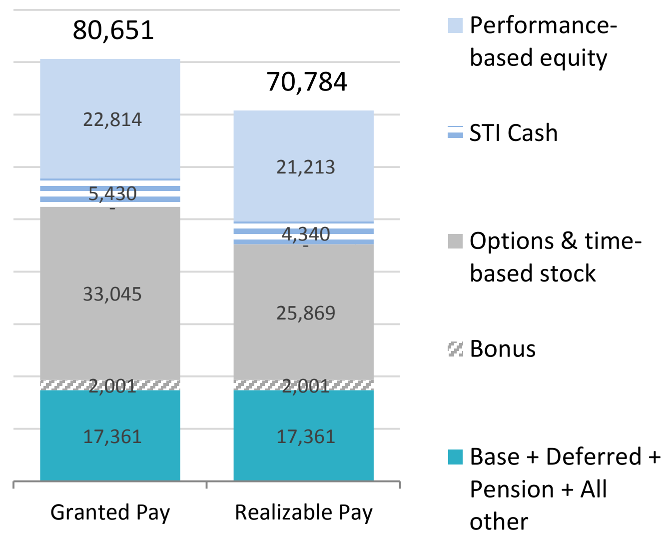
## CEO PAY MULTIPLES

| Compared to | Multiple |
|---|---|
| 2nd highest active executive | 3.03 |
| Average active NEO | 3.29 |
| ISS peer median | 1.38 |
| Company peer median | 1.38 |

Source: ISS

## 3-YEAR GRANTED VS. REALIZABLE CEO PAY

3 year TSR: -0.71%




Source: DEF14A and ISS ($ in thousands)

Granted pay equals the sum of, for all of the three prior fiscal years: (1) Salary, Change in Pension Value/Deferred Compensation and All Other Compensation as reported in the Summary Compensation Table (SCT), (2) paid Bonus, (3) target short-term cash incentives, (4) the target value of long-term cash incentives granted, and (5) the grant-date fair value of equity awards granted.

Realizable pay equals the sum of (1) and (2) above, (3) the sum of short-term cash incentives earned, (4) the earned (or target if not yet earned) value of any long-term cash awarded during the period, and (5) the fair value of all equity awarded (or earned, for performance shares where the performance period has ended) during the prior three fiscal years, all valued as of the most recent FY end date (end of the measurement period).

With the exception of exercised options, which are valued at intrinsic value at the date of exercise, all options are valued with the Black-Scholes model using assumptions as of the valuation date (grant date for grant pay, and most recent FY end date for realizable pay). More information at www.issgovernance.com/policy-gateway/us-compensation-policy-guidance/

## Dilution & Burn Rate

### DILUTION

| | Dilution (%) |
|---|---|
| Chesapeake Energy Corporation | 7.64 |
| Peer group median | 6.89 |
| Peer group weighted average | 4.18 |
| Peer group 75th percentile | 10.70 |

Dilution is the sum of the total amount of shares available for grant and outstanding under options and other equity awards (vested and unvested) expressed as a percentage of total basic common shares outstanding as of the record date. The dilution figure typically excludes employee stock purchase plans (ESPPs) and 401(k) shares. The underlying information for the company is based on the company's equity compensation table in the most recent proxy statement or 10-K.

### BURN RATE

| | Non-Adjusted (%) | Adjusted (%) |
|---|---|---|
| 1-year | 0.92 | 1.68 |
| 3-year average | 1.53 | 2.75 |

Burn rate equals the number of shares granted in each fiscal year, including stock options, restricted stock (units), actual performance shares delivered under the long-term incentive plan or earned deferred shares, to employees and directors divided by weighted average common shares outstanding. The adjusted burn rate places a premium on grants of full-value awards using a multiplier based on the company's annual volatility.

## ISS QuickScore

As of May 7, 2015

### ISS GOVERNANCE QUICKSCORE PILLARS

| Board | 8 |
|---|---|
| Subcategory & Impact: | |
| Board Composition (star) | |
| Composition of Committees | |
| Board Practices (flag) | |
| Board Policies | |
| Related Party Transactions | |
| Controversies | |

| Compensation | 8 |
|---|---|
| Subcategory & Impact: | |
| Pay For Performance (flag) | |
| Non-Performance Based Pay | |
| Use Of Equity | |
| Equity Pay Risk Mitigation | |
| Communications & Disclosure | |
| Termination | |
| Controversies | |

| Shareholder Rights | 1 |
|---|---|
| Subcategory & Impact: | |
| One Share - One Vote | |
| Takeover Defenses | |
| Meeting and Voting Related Issues | |

| Audit | 2 |
|---|---|
| Subcategory & Impact: | |
| External Auditor | |
| Audit & Accounting Controversies (flag) | |
| Other Issues (star) | |

(star) The total number of points in this subcategory is at the top of the possible range.
(flag) The total number of points in this subcategory is at the bottom of the possible range.
No Star or Flag: The total number of points in this subcategory is in the middle of the possible range.

ISS Governance QuickScore is derived from publicly disclosed data on the company's governance practices. Scores indicate decile rank relevant to index or region. While company practices that raise concerns in ISS Governance QuickScore are in many cases factors that weigh against the company in analyzing certain proposals, ISS recommendations are based on situational proposals and the related qualitative aspects of our review at a point in time

Scores on the proxy research report are "As of" the date indicated. QuickScore data and scores are dynamic and updated on a daily basis and available year round. Scores are calculated at each pillar by summing the factor scores in that pillar. Not all factors and not all subcategories have equal weight, and not all factors or subcategories apply to all markets. For more information on ISS Governance QuickScore, visit http://www.issgovernance.com/governance-solutions/investment-tools-data/quickscore/. For questions, please contact: Quickscore@issgovernance.com.

# Vote Results

## ANNUAL MEETING 13 JUNE 2014

| Proposal | Board Rec | ISS Rec | Disclosed Result | Support Including Abstains (%)[1] | Support Excluding Abstains (%)[2] |
|---|---|---|---|---|---|
| 1a Elect Director Vincent J. Intrieri | For | For | Majority | 96.8 | 97.2 |
| 1b Elect Director Robert D. (Doug) Lawler | For | For | Majority | 98.4 | 99.1 |
| 1c Elect Director John J. (Jack) Lipinski | For | For | Majority | 96.6 | 97.4 |
| 1d Elect Director Frederic M. Poses | For | For | Majority | 97.6 | 98.2 |
| 1e Elect Director Archie W. Dunham | For | For | Majority | 97.7 | 98.3 |
| 1f Elect Director R. Brad Martin | For | For | Majority | 97.2 | 97.8 |
| 1g Elect Director Louis A. Raspino | For | For | Majority | 98.7 | 99.3 |
| 1h Elect Director Merrill A. (Pete) Miller, Jr. | For | For | Majority | 96.2 | 96.8 |
| 1i Elect Director Thomas L. Ryan | For | Against | Majority | 80.0 | 80.5 |
| 2 Declassify the Board of Directors | For | For | Pass | 70.0 | 70.0 |
| 3 Approve Increase in Size of Board | For | For | Pass | 69.6 | 69.6 |
| 4 Provide Proxy Access Right | For | For | Pass | 69.6 | 69.6 |
| 5 Eliminate Supermajority Vote Requirement | For | For | Pass | 70.1 | 70.1 |
| 6 Advisory Vote to Ratify Named Executive Officers' Compensation | For | For | Pass | 95.1 | 95.8 |
| 7 Approve Omnibus Stock Plan | For | For | Pass | 93.3 | 93.9 |
| 8 Ratify Auditors | For | For | Pass | 99.0 | 99.3 |

Shaded results reflect a majority of votes cast FOR shareholder proposal or AGAINST management proposal or director election
[1]Support Including Abstains is defined as %FOR/(For + Against + Abstain), as expressed as a percentage.
[2]Support Excluding Abstains is defined as %FOR/(For + Against), as expressed as a percentage, provided if different from For + Against + Abstain.

# Meeting Agenda & Proposals

## Items 1a-1j. Elect Directors — FOR

VOTE RECOMMENDATION

A vote FOR the director nominees is warranted.

BACKGROUND INFORMATION

Policies: Board Accountability | Board Responsiveness | Director Competence | Director Independence | Election of Directors | ISS Categorization of Directors | Vote No campaigns

Vote Requirement: The company has adopted a majority vote standard (of shares cast) for the election of directors with a plurality carve-out for contested elections, and has a director resignation policy in its bylaws/charter.

### Discussion

OVERBOARDED DIRECTOR NOMINEE

John J. (Jack) Lipinski is CEO of a publicly-traded company, CVR Energy Inc., and serves on a total of four public company boards:  CVR Energy, CVR Partners, LP, and CVR Refining, LP, in addition to Chesapeake Energy.

Directors with full-time jobs have even less time to devote to outside board directorships. A CEO, for example, cannot reasonably be expected to serve on more than two public boards at one time in addition to his or her full-time duties as chief executive. Although a board may benefit from the perspective of an outside CEO as a director, the executive must ensure that his or her duties are balanced and that time is not taken away from their primary responsibilities. Neither role will be afforded the necessary diligence if the CEO is over-committed.

However, in this case overboarding concerns are mitigated due to the substantial business overlap and share ownership relationship between CVR Energy, CVR Partners and CVR Refining. Based on CVR Energy filings, it owns 53 percent of CVR Partners and 66 percent of CVR Refining, and the companies share resources as well as executives. Accordingly, a vote against Lipinski for overboarding is not warranted at this time.

## Item 2. Advisory Vote to Ratify Named Executive Officers' Compensation — FOR

VOTE RECOMMENDATION

A vote FOR this proposal is warranted, with caution. Pay for performance misalignment concerns were mitigated by several factors. The CEO's pay decreased from 2013, when he was granted a new hire package. In addition the company's financial performance has been strong. Shareholders should continue to monitor incentive plans to ensure that pay is aligned with shareholder returns and the company sets challenging goals.

BACKGROUND INFORMATION

Policies: Advisory Votes on Executive Compensation

Vote Requirement: Plurality of the votes cast. Abstentions and broker non-votes are not counted

# Executive Compensation Analysis

**COMPONENTS OF PAY**

| *($ in thousands)* | CEO | | | | CEO Peer Median | Other NEOS |
|---|---|---|---|---|---|---|
| | R. Lawler | | R. Lawler | A. McClendon | | |
| | **2014** | **Change** | **2013** | **2012** | **2014** | **2014** |
| Base salary | 1,250 | 0.0% | 1,250 | 975 | 950 | 2,406 |
| Deferred comp & pension | 0 | | 0 | 0 | 0 | 0 |
| All other comp | 207 | 33.3% | 155 | 721 | 191 | 626 |
| Bonus | 0 | -100.0% | 2,000 | 1 | 0 | 423 |
| Non-equity incentives | 2,721 | 68.1% | 1,619 | 0 | 1,800 | 3,980 |
| Restricted stock | 7,854 | -34.1% | 11,926 | 14,000 | 7,055 | 7,835 |
| Option grant | 2,844 | -51.2% | 5,824 | 0 | 0 | 2,837 |
| **Total** | **14,875** | **-34.7%** | **22,774** | **15,697** | **10,774** | **18,108** |
| % of Net Income | 0.8% | | | | | 0.9% |
| % of Revenue | 0.1% | | | | | 0.1% |

## Non-Performance-Based Pay Elements (CEO)

| | |
|---|---|
| *Key perquisites ($)* | CEO Aggregate Perks: 19,228 |
| *Key tax gross-ups on perks ($)* | None |
| *Value of accumulated NQDC* ($)* | 320,556 |
| *Present value of all pensions ($)* | N/A |
| *Years of actual plan service* | N/A |
| *Additional years credited service* | N/A |

*Non-qualified Deferred Compensation

## Disclosed Benchmarking Targets

| | |
|---|---|
| *Base salary* | 50th Percentile |
| *Target short-term incentive* | 50th Percentile |
| *Target long-term incentive (equity)* | 50th Percentile |
| *Target total compensation* | 50th Percentile |

## Severance/Change-in-Control Arrangements (CEO unless noted)

| | |
|---|---|
| *Contractual severance arrangement* | Individual Contract |
| *Non-CIC estimated severance ($)* | 12,598,629 |

*Change-in-Control Severance Arrangement*

| | |
|---|---|
| *Cash severance trigger** | Double trigger |
| *Cash severance multiple* | 2.75 times |
| *Cash severance basis* | Base Salary + Target Bonus |
| *Treatment of equity* | Vest only upon employment termination |

| | |
|---|---|
| *Excise tax gross-up** | No |
| *Estimated CIC severance($)* | 27,747,991 |

*All NEOs considered

## Compensation Committee Communication & Responsiveness

### *Disclosure of Metrics/Goals*

| | |
|---|---|
| *Annual incentives* | Yes |
| *Long-term incentives* | Yes |

### *Pay Riskiness Discussion*

| | |
|---|---|
| *Process discussed?* | Yes |
| *Material risks found?* | No |

### *Risk Mitigators*

| | |
|---|---|
| *Clawback policy** | Yes |
| *CEO stock ownership guideline* | 5X |
| *Stock holding period requirements* | No stock holding period requirements disclosed |

*Must apply to cash incentives and at least all NEOs.

### *Pledging/Hedging of Shares*

| | |
|---|---|
| *Anti-hedging policy* | Company has a robust policy |
| *Anti-pledging policy* | Company has a robust policy |

### *Compensation Committee Responsiveness*

| | |
|---|---|
| *MSOP vote results (F/F+A)* | 2014: 95.8%; 2013: 84.5% |
| *Frequency approved by shareholders* | Annual with 90.7% support |
| *Frequency adopted by company* | Annual (year of adoption: 2011) |

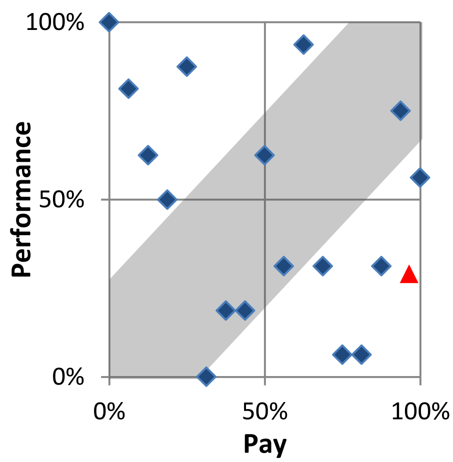
### *Repricing History*

| | |
|---|---|
| *Repriced/exchanged underwater options last FY?* | No |

## Pay for Performance Evaluation

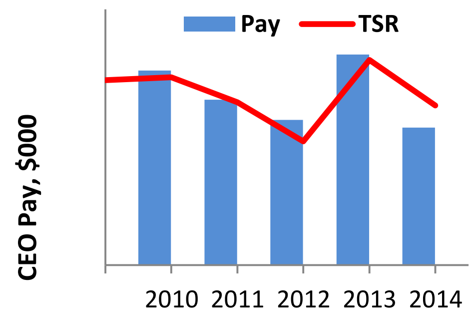
### RELATIVE ALIGNMENT

The chart plots percentiles of the annualized 3-year performance and pay rankings for the company (▲) and ISS' derived peers (◆). The gray bar indicates pay and performance alignment.




### ABSOLUTE ALIGNMENT

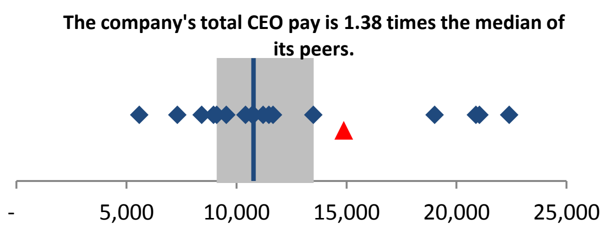
CEO granted pay trends versus value of a $100 investment made on the first day of the five-year period.




| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Pay($000) | 21,045 | 17,882 | 15,697 | 22,774 | 14,875 |
| Indexed TSR | 101.42 | 88.00 | 66.80 | 110.80 | 86.15 |
| CEO | McClendon | McClendon | McClendon | Lawler | Lawler |

### PAY MAGNITUDE

Pay in $thousands. The gray band represents 25th to 75th percentile of CEO pay of ISS' selected peer group, and the blue line represents the 50th percentile.




### PAY-FOR-PERFORMANCE QUANTITATIVE SCREEN

| Measure | Result | Level |
|---|---|---|
| Relative degree of alignment | **-67** | Better than **5%** of Companies* |
| Multiple of peer group median | **1.38** | Better than **26%** of Companies |
| Absolute alignment | **3** | Better than **36%** of Companies |
| Initial Quantitative Screen | High Concern | |

*Constituents of Russell 3000 Index.

For more information on ISS' quantitative pay-for-performance measures, visit http://issgovernance.com/policy/USCompensation

## Peer Groups

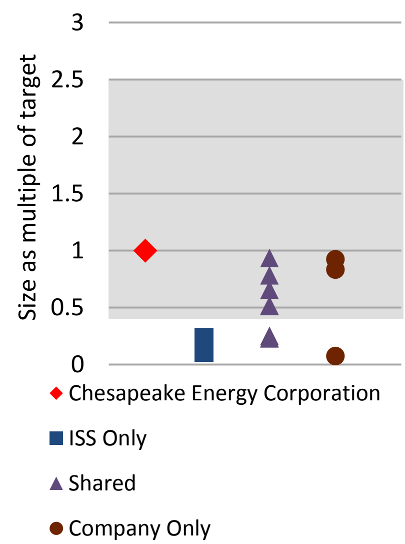
### ISS AND COMPANY DISCLOSED PEER GROUPS

| | | |
|---|---|---|
| ISS-Selected Peers (9) | Cabot Oil & Gas Corporation<br>Concho Resources Inc.<br>Linn Energy, LLC<br>Range Resources Corporation<br>Whiting Petroleum Corporation | Cimarex Energy Co.<br>EQT Corporation<br>Pioneer Natural Resources Company<br>Southwestern Energy Company |
| Shared Peers (8) | Anadarko Petroleum Corporation<br>Continental Resources, Inc.<br>Hess Corporation<br>Murphy Oil Corporation | Apache Corporation<br>Devon Energy Corporation<br>Marathon Oil Corporation<br>Noble Energy, Inc. |
| Company-Disclosed Peers (3) | EOG Resources, Inc.<br>SandRidge Energy, Inc. | Occidental Petroleum Corporation |

The shaded area represents the overlap group of companies that are in both ISS' comparison group and the company's disclosed CEO compensation benchmarking peer group. Excludes company peers for which financial data is not available. For more information on the ISS peer group methodology, visit www.issgovernance.com/policy/USCompensation

### PEER GROUP SIZE ANALYSIS

Size (by revenue) of the ISS, company and overlap peer groups. Gray indicates 0.4- 2.5 times the company's revenue.




## Short-Term Cash Incentives

| CEO STI Opportunities | FY 2014 (R. Lawler) | | FY 2013 (R. Lawler) | |
|---|---|---|---|---|
| | Target | Maximum | Target | Maximum |
| *STI targets ($)* | 1,875,000 | 3,750,000 | 1,017,123 | 2,034,246 |
| *STI targets (calculated)* | 150% of base salary | 300% of base salary | 81% of base salary | 163% of base salary |
| *STI targets (as disclosed)* | 150% of base salary | | | |
| *ISS peer median* | 128% of base salary | | | |
| *Company peer median* | 130% of base salary | | | |

| Actual Payouts ($) | FY 2014 (R. Lawler) | | FY 2013 (R. Lawler) | |
|---|---|---|---|---|
| | Amount | % of base salary | Amount | % of base salary |
| *Bonus* | 0 | 0 | 2,000,000 | 160 |
| *Non-equity incentive* | 2,720,625 | 218 | 1,619,260 | 130 |
| *Total Bonus + Non-equity* | 2,720,625 | 218 | 3,619,260 | 290 |

*STI performance metrics/goals*

| Metric | Form | Weight | Threshold | Target | Maximum | Actual |
|---|---|---|---|---|---|---|
| Adjusted EBITDA/BOE | Absolute | 20% | ND | $21.00 | ND | $19.18 |
| Capital expenditures | Absolute | 20% | ND | $5,500 million | ND | $5,073 million |
| Production growth | Absolute | 20% | ND | 3% | ND | 5.5% |
| Proved reserves | Absolute | 20% | ND | 300 | ND | 367 |

| | | | | | | |
|---|---|---|---|---|---|---|
| organically added (mmboe) | | | | | | |
| Reportable spills (% reduction) | Absolute | 10% | ND | 25% | ND | 4% |
| Reportable incidents (% reduction) | Absolute | 10% | ND | 10% | ND | 35% |

*Other Short-Term Incentive Factors*

| | |
|---|---|
| *Performance results adjusted?* | Yes. A reconciliation of GAAP to non-GAAP financial measures is included on the company website |
| *Discretionary component?* | Yes. Individual performance bonuses may be awarded by the compensation committee. |
| *Discretionary bonus paid?** | No |
| *Future performance metrics* | Adjusted EBITDA per boe, Capital expenditures, Production growth, Reportable spills, Reserve replacement (mmboe), Total recordable incident rate (expressed as a percentage reduction) |

*Based on the Bonus column in the SCT; per SEC rules, amounts disclosed in this column were not based on pre-set goals.

## Long-Term Incentives

| | |
|---|---|
| *CEO's last FY LTI target (%)* | 840% of base salary |
| *NEOs' last FY award type(s)* | Performance-based stock, Time-based options, Time-based stock |

*Most recent performance metrics/goals*

| Metric | Threshold | Target | Maximum |
|---|---|---|---|
| TSR vs. peer group | Rank 9 | ND | Rank 1 |

*Long-Term Equity Grants*

| CEO Equity Awards | FY 2014 | | | | FY 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares (#) | % shares* | Value ($)* | % value | Shares (#) | % shares* | Value($)* | % value |
| *Time-based shares* | 108,253 | 19 | 2,625,017 | 25 | 356,465 | 30 | 7,500,024 | 42 |
| *Time-based options* | 254,145 | 45 | 2,843,883 | 27 | 624,257 | 52 | 5,824,318 | 33 |
| *Performance shares* | 203,373 | 36 | 5,228,720 | 49 | 210,337 | 18 | 4,425,490 | 25 |
| *Performance options* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Total equity* | 565,771 | | 10,697,620 | | 1,191,059 | | 17,749,832 | |

| | |
|---|---|
| *Option/restricted stock vesting* | One-third per year |
| *CEO equity pay mix (by value)** | Performance-conditioned: 48.9%; Time-based: 51.1% |

*Performance shares, if any, are counted and valued at target.

*Other Long-Term Incentive Factors*

| | |
|---|---|
| *Performance results adjusted?* | No |
| *Discretionary component?* | No |

## Executive Summary

| Evaluation Component | Level of Concern | Key Reason |
|---|---|---|

| | | |
|---|---|---|
| *Non-Performance-Based Pay Elements* | **Low** | |
| *Peer Group Benchmarking* | **Low** | |
| *Severance/CIC Arrangements* | **Low** | |
| *Comp Committee Communication/Responsiveness* | **Low** | |
| *Pay for Performance Evaluation* | **Medium** | P4P Misalignment with mitigating factors |
| ***ISS Recommendation:*** **FOR** | | |

## Pay for Performance Analysis

ISS' quantitative screen indicates a high concern level with respect to the alignment of CEO pay and company performance relative to peer group of companies of similar size and industry. Specifically, CEO pay has outranked the company's performance over the past three years, relative to peers. ISS' qualitative review indicates the following:

## Overview

The company reported improved financial performance in 2014. Revenues increased 20 percent, while net income and EPS more than doubled. However, this did not translate to positive shareholder performance, given downturns in the industry. TSR was down 22 percent for the year, and is negative for the three-and five-year periods. Despite these results, the company outperformed its GICS peer group over the one- and three-year period, though the peer group slightly outperformed it over five years.

CEO Lawler's pay decreased $7.9M (35 percent) from $22.8M to $14.9M. Almost the entire amount ($7M) is due to lower equity granted in 2014, following the new-hire equity package during 2013. His salary was unchanged.

The company discloses that it continues to evaluate the compensation program and seek shareholder feedback. Discussions took place before and after the 2014 annual meeting with shareholders representing nearly 60 percent of the company's outstanding shares, according to the proxy.

### ANNUAL COMPENSATION

- ✓ Performance-based plans

- × Difficult to discern goal rigor
- × Some goals lowered
- × Cost multiplier appears to only have potential upside

**Goal payout factors are used to calculate incentive payout**. The company's annual incentive program utilizes a combination of six financial and operational performance metrics. It evaluates performance against achievement as a percentage of each target, and then assigns a goal payout factor to calculate the goal's achievement level. While the metrics are equally weighted, goal payout factors are much wider than actual achievement levels. However, they appear to be equally "stretched" on both ends of the payout scale. For example [limiting] capital expenditures achieved 108 percent of target, and was awarded at 200 percent. At the same time, EBITDA achieved at 92 percent of target did not earn a payout (0 percent).

**Change in goals makes rigor hard to measure.** Most of the goals for the plan are either new or changed measurements from 2013, making it difficult to measure the rigor of the goals. For example, capital expenditures was a new metric for 2014, and it was attained at maximum. The company changed the calculation method for production growth and reserves, making comparisons between years meaningless. The proxy discloses that some goals were set below 2013 "given that the Company had established a more conservative operating budget for 2014." The 2014 budget was designed "to incentivize financially responsible spending and promote efficient drilling activity, which would likely result in (i) lower production growth and (ii) lower proved reserves organically added." The company adds that at the time the 2014 goals were set the committee believed them to be challenging.

**CEO payout above target.** The company's composite achievement was 141.6 percent of target. The company uses a cash cost management (CCM) factor as a multiplier for the program. The company disclosed that the cash multiplier could increase the award up to 10 percent (not to exceed the maximum), though it does not appear this factor could decrease the award. The CCM was 2.5 percent, increasing the payout factor to 145.1 percent of target. The CEO's target was 150 percent of salary and final payment was $2,720,625, or 217.7 percent of base salary. The compensation committee may also make discretionary "individual performance bonus" awards; NEOs Doyle and Pigott received such awards in the amounts of $177,283 and $245,480, respectively, though the CEO did not.

### LONG-TERM COMPENSATION

- ✓ Equity grant value to CEO decreased
- ✓ Approximately half of equity is performance-based
- ✓ "Circuit breaker" cap for absolute TSR

- × TSR ranking of 6 out of 12 companies earns above target number of shares

**PSU plan comprises approximately half of equity value.** The company grants equity in restricted stock units (RSUs), stock options, and performance shares (PSUs), targeting equity value at 25 percent, 25 percent, and 50 percent respectively. RSUs and stock options vest ratably over three years, with options carrying a 10-year term. PSUs are measured over a three-year performance period based on relative TSR against a company selected peer group of 11 companies (for a total of 12 companies). Threshold performance of 9 would earn 56 percent of shares, a ranking of 6 would earn 110 percent of shares, and top ranking would earn two times the target number of shares.

**PSU plan has absolute "circuit breaker" cap.** The company also uses what it terms a "circuit breaker," which caps the number of PSUs earned at 100 percent of target when TSR is negative, regardless of relative TSR.

**Decrease in CEO's equity awards** The CEO's target equity was 840 percent of base salary or $10.5M. ISS values the package slightly higher, at $10.7M. This figure is significantly less than the $17.7M granted in 2013, most of which was due to additional awards granted in conjunction with his hiring, which were not repeated in 2014.

**Performance units vesting in 2014 earned below target.** The company disclosed the attainment of PSUs granted for the 2012-2014 performance period, which were equally based on (1) absolute and relative TSR goals and (2) two operational metrics – proved reserves and production growth. No awards were earned with respect to the TSR goals, and a modifier of 75 percent was applied to the target number of shares based on the operational goals. Only one current NEO was employed when these shares were granted.

**Change to PSU program for 2015**. The company disclosed a change in the award calculation for PSU grants for the 2015-2017 performance period. These awards will be 50 percent based on relative TSR, 25 percent on production growth per debt adjusted share and 25 percent on finding and development costs per barrel of oil equivalent (boe).

## Conclusion

There are some concerns with the incentive programs at the company. For example, the cost multiplier under the annual incentive plan appears to only have an effect of increasing incentives and does not lower incentives when costs are higher. In addition, while the committee believed that certain 2014 goals set below 2013 performance were nonetheless "challenging," it did not exercise negative discretion to lower above-target awards, despite the negative total shareholder returns. Further, 2014-2016 PSUs earn an above target percentage of shares for a TSR ranking 6th of the 12 companies. Though there is no median for an even number of companies, awarding an above target number of shares at this level is not particularly rigorous. Finally it is difficult to determine goal rigor with the changing goals and measurements for the short-term incentive plan.

Nevertheless, several items mitigate pay for performance concerns. First, total compensation was high in 2013, as the CEO was granted a new hire package. Total compensation decreased appropriately in 2014 to more standard levels. Second, the company's stock price declined markedly even though by nearly all financial measures company performance was satisfactory.

In addition, the company's incentive plans seem to be sufficiently performance-based. As the result of the above, a vote for this proposal is warranted, with caution. Shareholders should continue to monitor incentive plans to ensure that pay is aligned with shareholder returns and the company sets challenging goals.

## Item 3. Ratify PricewaterhouseCoopers LLP as Auditors — FOR

VOTE RECOMMENDATION

A vote FOR this proposal to ratify the company's auditor is warranted.

BACKGROUND INFORMATION

Policies: Auditor Ratification

Vote Requirement: Plurality of votes cast (abstentions and broker non-votes are not counted)

### Discussion

The board recommends that PricewaterhouseCoopers LLP be approved as the company's independent accounting firm for the coming year.

| | |
|---|---|
| Accountants | PricewaterhouseCoopers LLP |
| Auditor Tenure | 22 years |
| Audit Fees | $6,485,998 |
| Audit-Related Fees | $482,818 |
| Tax Compliance/Preparation* | $0 |
| Other Fees | $274,407 |
| Percentage of total fees attributable to non-audit ("other") fees | 3.79 % |

*Only includes tax compliance/tax return preparation fees. If the proxy disclosure does not indicate the nature of the tax services and provides the fees associated with tax compliance/preparation, those fees will be categorized as "Other Fees."

The auditor's report contained in the annual report is unqualified, meaning that in the opinion of the auditor, the company's financial statements are fairly presented in accordance with generally accepted accounting principles.

### Analysis

This request to ratify the auditor does not raise any exceptional issues, as the auditor is independent, non-audit fees are reasonable relative to audit and audit-related fees, and there is no reason to believe the auditor has rendered an inaccurate opinion or engaged in poor accounting practices.

## Item 4. Require Director Nominee with Environmental Experience — AGAINST

### VOTE RECOMMENDATION

A vote AGAINST this resolution is warranted, given that Chesapeake Energy has an independent board member with relevant environmental expertise and a board committee with oversight of environmental, health, and safety matters.

Vote Requirement: Plurality of votes cast (abstentions and broker non-votes are not counted)

## Discussion

### PROPOSAL

Mercy Investments has submitted a precatory proposal requesting that Chesapeake Energy (Chesapeake) nominate an independent director candidate with environmental expertise.

The resolution specifically reads:

"THEREFORE, BE IT RESOLVED: Shareholders request that, as elected board directors' terms of office expire, at least one candidate be recommended who shall have designated responsibility on the board for environmental matters with at least the following qualifications:

- has an advanced degree in environmental science or pollution studies, and is widely recognized in the business and environmental communities as an authority on relevant environmental science matters such as preventing, tracking or remediating water pollution with toxic materials, reducing risks from airborne toxicants, and assessing the impact of pollutants on human health, as reasonably determined by the company's board, and
- will qualify, subject to exceptions in extraordinary circumstances explicitly specified by the board, as an independent director under the standards applicable to a NYSE listed company."

### PROPONENT'S STATEMENT

In its supporting statement the proponent states that extracting oil and gas from shale and other formations using hydraulic fracturing has become a controversial public issue. The filer believes that measurement and disclosure of their practices and impacts is the primary means by which investors can gauge how companies are managing risks and rewards of their operations. The proponent argues that "the company does not report to the CDP's climate change and water projects, provides scant information on its greenhouse gas reduction efforts, is silent on management of risks from naturally occurring radioactive materials in its operating areas, and otherwise falls short in disclosing metrics and systematic policies necessary for investors to evaluate how the company is minimizing [related] risks." The filer also reports that the company has been the subject of high-profile federal and state enforcement actions resulting in sizeable penalties.

### BOARD'S STATEMENT

The board states in its opposing response that it would not be in the best interest of shareholders, or an appropriate corporate governance practice, to select a director on the basis of a special purpose. Chesapeake argues that board members should be able to "integrate knowledge about a variety of subjects, often at the same time and affecting different issues." Further, the company contends that the board of directors makes decisions collectively, as a group. Chesapeake notes that concern for the environment is a core value of the company, and that the board "has access to extensive internal and external expertise on environmental matters." The company says the board is briefed by professionals whose main focus is on environmental protection in connection with Chesapeake's operations. Lastly, the company reports its strong environmental performance, stating that it reduced cumulative reportable spill volume by 40 percent during 2014 and recycles hundreds of millions of gallons of produced water each year.

### RELATED SHAREHOLDER ACTIVISM

For an update on the most recent shareholder activism around this issue, refer to the 2015 Proxy Season Preview - U.S. Environmental and Social Issues Report.

## Analysis

### PROXY STATEMENT

Chesapeake's 2015 proxy statement contains information about the "criteria, qualifications, and experience," of current and potential director nominees. Chesapeake reports that its Nominating, Governance and Social Responsibility Committee (Nominating Committee) regularly assesses the skills and experience necessary for the board to oversee the company's business affairs. The company states that the committee looks for directors to collectively have a diverse set of skills, qualifications, and experience. Some of these are listed in the proxy statement as, "business leadership, government/public policy, corporate governance, international, energy exploration and production, legal, energy services, risk management, financial expertise, technology."

Chesapeake reports that, "Pursuant to its charter, the Nominating Committee ensures that diverse candidates are included in all director searches, taking into account race, gender, age, culture, thought, leadership and geography."

### BOARD OF DIRECTORS

On its Board of Directors webpage, Chesapeake lists the skills and experience of its ten director nominees. Among the ten director nominees, one independent director nominee, Kimberly K. Querrey, has environment related work experience in her background:

> "Kimberly K. Querrey has been a member of our Board of Directors since April 2015…Previously she was the President of Querrey Enterprises, a consulting firm focusing on international business operations and environmental, health and safety from 2000 to 2010. From 1990 to 2000, Ms. Querrey held a variety of operational and environmental, health and safety positions at IMCO Recycling (formerly NYSE:IMR) and Occidental Chemical Corporation, a subsidiary of Occidental Petroleum Corporation (NYSE:OXY). From 1984 to 1990, she was the Director of Environmental, Health and Safety at Western Michigan University."

### NOMINATING, GOVERNANCE AND SOCIAL RESPONSIBILITY COMMITTEE

Chesapeake's Nominating Committee charter includes the committee's responsibilities with respect to corporate social responsibility:

> "Review and make recommendations regarding policies, programs and practices respecting matters of corporate social responsibility that impact the Corporation's ability to effectively achieve its business goals, provided, however, that the Board retains oversight responsibility for matters of environmental, health and safety and the Corporation's performance related thereto;"

### ENVIRONMENT

Chesapeake's Environment webpage provides information on the company's commitment to protecting the environment, to its environmental management, and to its environmental programs. The company discusses its Commitment to Environmental Excellence initiative and its environmental programs. These programs include transparency in the use of chemicals, water sourcing and use, managing produced water, preserving air quality, well design and construction, limiting surface impacts, pre-construction environmental assessment, and waste management.

In its 2013 Corporate Responsibility Report, the company discusses its hydraulic fracturing practices and states that it provides a report to FracFocus (fracfocus.org) on the additives, chemicals, and the amount of water used in the hydraulic fracturing process for the wells it operates. Chesapeake also discloses its environmental performance metrics for 2013, which includes information on the company's GHG emissions, energy use, water use, spills, and releases.

The company states that environment health and safety (EHS) issues are of key importance to Chesapeake. The company reports that it made key leadership appointments to help guide its employees to achieve environmental and safety compliance. These appointments include the promotion of Brittany Benko to EHS Vice President in 2014 and the hiring of Miles Tolbert as Associate General Counsel for EHS and Regulatory. Chesapeake informs that Benko has made safety and reducing spills a priority at the company and that Tolbert will be responsible for proper risk mitigation and compliance. The company reports that Tolbert previously served as Secretary of the Environment for Oklahoma from 2003 to 2008, chaired the Environmental Practice Group at Crowe & Dunlevy and served as a trial attorney in the Environment and Natural Resources Division of the U.S. Department of Justice and as Chief of the Environmental Protection Unit in the office of the Oklahoma Attorney General.

## ENVIRONMENTAL VIOLATIONS

Chesapeake's 2013 Corporate Responsibility Report also discusses the Notice of Violations the company has received, the penalties it has paid, and the corrective actions it has taken to avoid future occurrences. The company reports that,

> "In 2013, Chesapeake paid and reported penalties associated with one violation where the penalty exceeded $100,000. This violation was specific to the Ray Baker well pad in West Virginia, where the company was cited for pollution of the waters of the state."

Chesapeake also reports that in December 2013, the company's subsidiary Chesapeake Appalachia entered into a consent decree with the U.S. Environmental Protection Agency (EPA), the Department of Justice (DOJ), and the West Virginia Department of Environmental Protection (WVDEP) to resolve violations of the Clean Water Act and the West Virginia Water Pollution Control Act at 27 sites in West Virginia. The company reports that,

> "The EPA and WVDEP found that Chesapeake had impounded streams and discharged sand, dirt, rocks and other fill materials into streams and wetlands without a federal permit. These actions were taken to construct facilities related to natural gas extraction. The decree, which required Chesapeake to pay a civil penalty of approximately $3 million, was lodged at the end of 2013 and approved in 2014. Chesapeake has paid the penalty and will restore the affected wetlands and streams, monitoring the restored sites for up to 10 years to facilitate restoration success."

## OIL & GAS INDUSTRY GOVERNANCE COMPARISON

Chesapeake's peers, ConocoPhillips and Occidental Petroleum (Oxy), each have an independent board member with environmental expertise.

- John E. Feick has been a director of Oxy since 1998. He is the Chairman of Matrix Solutions Inc., an environmental remediation and reclamation services company, and the former chairman of a petrochemical, refining, and gas processing industry engineering and design firm. He is the chair of Oxy's Environmental, Health and Safety Committee, which is responsible for reviewing and discussing the status of environmental, health, and safety issues with company management, including legal and regulatory compliance matters.
- Jody Freeman has been a director of ConocoPhillips since 2012. She is the founding director of the Harvard Law School Environmental Law and Policy Program, and according to ConocoPhillips, is "a nationally renowned scholar of administrative law and environmental law and an expert on federal energy regulation." She also served as a consultant to the National Commission on the Deepwater Horizon Oil Spill and Offshore Drilling in 2010, and is a member of the American College of Environmental Lawyers.

## CONCLUSION

Mercy Investments is requesting that the company nominate an independent director candidate with environmental expertise. Chesapeake argues that it would not be in the best interest of shareholders, or an appropriate corporate governance practice, to select a director on the basis of a single factor.

Chesapeake provides substantial details regarding its environmental policies, management, and programs on its website. In its 2013 Corporate Responsibility Report, the company provides information on its environmental performance metrics and its hydraulic fracturing practices, noting that it reports on the details of its operations to FracFocus. The company also notes that it has made new appointments to enhance management oversight of EHS issues and Chesapeake's Board of Directors has a Nominating, Governance and Social Responsibility Committee which oversees EHS matters at the company, including its related performance. Furthermore, the board includes a director appointed in April 2015 who has environmental risk oversight experience. Kimberly K. Querrey, who was the president of an international business operations and EHS consulting between 2000 and 2010, and served as a Director of Environmental, Health, and Safety at Western Michigan University from 1984 to 1990. While Chesapeake has faced controversies related to recent environmental violations and associated penalties, and spent company resources to address remediation issues, the current presence of a board member with environmental expertise should help enhance the board's oversight of the remediation of past environmental obligations and future environmental risks, addressing the concern that the proponent raises. Therefore this shareholder proposal merits no support.

## Item 5. Report on Capital Expenditure Strategy with Respect to Climate Change Policy — FOR

VOTE RECOMMENDATION

A vote FOR this proposal is warranted, as shareholders would benefit from additional information about the impact that climate change regulations and a subsequent reduced demand for oil might have on the company and its operations, and the actions that the company is taking to mitigate these risks.

BACKGROUND INFORMATION

Policies: Climate Change/Greenhouse Gas (GHG) Emissions

Vote Requirement: Plurality of votes cast (abstentions and broker non-votes are not counted)

### Discussion

PROPOSAL

The Unitarian Universalist Association has filed a precatory proposal requesting that Chesapeake Energy (Chesapeake) report on the consistency between its capital expenditure strategies and the climate change mitigation goals of policymakers, including a risk analysis of capital intensive projects.

The resolution specifically reads:

"**Resolved:** Shareholders request that Chesapeake prepare a report analyzing the consistency of company capital expenditure strategies with policymakers' goals to limit climate change, including analysis of long- and short-term financial risks to the company associated with high-cost projects in low-demand scenarios, as well as analysis of options to mitigate related risk. The report should be overseen by a committee of independent directors, omit proprietary information, and be prepared at reasonable cost by September 2015."

PROPONENT'S STATEMENT

In its supporting statement, the proponents express concern that policy efforts to mitigate climate change could negatively affect the company's current capital expenditure targets. In particular, the filers cite an estimation that projects with an economic breakeven over $95 per barrel would not be viable if the rise in global temperatures is to be kept below two degrees Celsius, a common target of policymakers. The proponents express their doubt about the sustainability of the company's current business strategy given the predicted societal and government responses to climate change. The filers recommend that the report include breakeven cost assumptions for high-cost projects, a consideration of low-demand scenarios that includes capital allocation and risk management strategies, and the oversight role of the board for climate risk reduction strategies.

### BOARD'S STATEMENT

In its statement opposing the resolution, the board contends that the company's Form 10-K filing and corporate responsibility report already disclose all material risks related to climate change. The company cites sections of its 2014 Form 10-K which discuss risks to the company related to climate change and global warming and potential climate change legislation and regulations. Chesapeake also notes that its corporate responsibility report includes information regarding its operations and activities, "that are central to the evolving discussion related to climate change." In addition, the company contends that the proposal asks it to engage in speculation on matters outside its control, stating that it "has no particular expertise to assess the goals of policymakers…with respect to climate change, and what steps those policymakers would take to achieve those goals." The company believes the report would also be costly and time consuming and not in the best interest of shareholders.

### BACKGROUND AND RECENT SHAREHOLDER ACTIVISM

For more information on climate change, including a discussion of stranded carbon assets, see ISS' Environmental and Social Background Report. For an update on the most recent shareholder activism around this issue, refer to the 2015 Proxy Season Preview - U.S. Environmental and Social Issues Report.

This is the first year that Chesapeake has received a proposal requesting a report analyzing the consistency between capital expenditure strategies and climate change policy goals.

## Analysis

### CHESAPEAKE'S DISCLOSURE

Chesapeake reports on the company's strategic approaches to its capital expenditures and the potential risks to those expenditures in its 2014 Form 10-K. The company also provides information related to its initiatives focused on measuring and reducing its GHG emissions in its 2013 Corporate Responsibility Report.

#### *2014 Form 10-K*

In the discussion of risk factors in its 2014 Form 10-K, Chesapeake addresses several relevant issues. For example, the company explains the factors that could cause a decline in prices for oil, natural gas, and natural gas liquids (NGL) and the possible long-term effects on the company of such a decline. Certain relevant factors include "domestic and worldwide supplies of oil, natural gas and NGL," "changes in the level of consumer and industrial demand," "the price and availability of alternative fuels," and "the effectiveness of worldwide conservation measures." Further, the company notes that lower oil, natural gas, and NGL prices could negatively affect the amount of cash available for capital expenditures and the company's ability to borrow money and raise additional capital. The company says that "a prolonged extension of prices at [low] levels will reduce the quantities of reserves that may be economically produced and will require [the company] to impair the carrying value of [its] oil and natural gas assets."

Chesapeake also acknowledges that potential government legislation and regulations addressing climate change could significantly impact its industry and the company, causing increased costs and reduced demand for oil and natural gas. The company also reports,

> "Even without federal legislation or regulation of greenhouse gas emissions, states may pursue the issue either directly or indirectly. Restrictions on emissions of methane or carbon dioxide that may be imposed in various states could adversely affect the oil and gas industry. Moreover, incentives to conserve energy or use alternative energy sources as a means of addressing climate change could reduce demand for oil and natural gas."

In the company's disclosure of the costs associated with environmental regulation compliance, Chesapeake primarily focuses on laws and regulations that directly govern the company's own environmental impact, rather than those that could affect the return on its capital expenditures. However, the company does recognize that potential climate change legislation and regulations, such as the President's Climate Action Plan, which calls for reducing methane emissions, could result in additional operating costs and adversely affect demand for the oil and natural gas that the company sells. Chesapeake reports these "new or increased" costs as:

> "costs to (i) obtain permits, (ii) operate and maintain our equipment and facilities (through the reduction or elimination of venting and flaring of methane), (iii) install new emission controls on our equipment and facilities, (iv) acquire allowances authorizing our greenhouse gas emissions, (v) pay taxes related to our greenhouse gas emissions and (vi) administer and manage a greenhouse gas emissions program."

In addition, the company reports that it needs significant capital expenditures to replace its reserves and conduct its business. Chesapeake states, "our future oil and natural gas reserves and production, and therefore our cash flow and income, are highly dependent on our success in efficiently developing our current reserves and economically finding or acquiring additional recoverable reserves."

### *2013 Corporate Responsibility Report*

In its 2013 Corporate Responsibility Report, Chesapeake provides some information regarding the company's efforts to reduce its GHG emissions. The company says it has been implementing measurement systems to capture emissions data. The company also reports that it participates in the U.S. Environmental Protection Agency's (EPA) Natural Gas STAR program, and that it has hosted and regularly participates "in workshops on technology sharing and the evaluation of best practices that can drive improved performance related to methane emissions."

Chesapeake reports that it had emissions of 5.28 million metric tons of carbon dioxide equivalent ($CO_2e$) in 2013, and 4.09 million metric tons of $CO_2e$ in gross emissions for calendar year 2012. The company states that this reporting increase is due in part to changes in EPA calculations, specifically an increase in the conversion rate from methane to $CO_2e$.

### *Board Oversight*

Oversight of impending climate change laws and regulations that would affect Chesapeake's business appears to be under the purview of its Nominating, Governance and Social Responsibility Committee's (Nominating Committee) responsibilities. According to its charter, the committee is responsible for, "Review[ing] and mak[ing]recommendations regarding policies, programs and practices respecting matters of corporate social responsibility that impact the Corporation's ability to effectively achieve its business goals, provided, however, that the Board retains oversight responsibility for matters of environmental, health and safety and the Corporation's performance related thereto."

## CONCLUSION

The proponent is requesting that Chesapeake prepare a report on the consistency between the company's capital expenditures and the stated objective of policymakers to mitigate climate change, focusing on the risks of high cost exploration and development projects in low oil demand scenarios. The company believes its existing disclosures already respond to the requests of the proposal, and that this report is unnecessary, speculative, and without material benefit to shareholders.

In its Form 10-K, the company reports that potential government regulations addressing climate change could significantly impact its industry and the company, causing increased costs and reduced demand for the oil and natural gas it sells. The company's Nominating Committee provides board oversight of its environmental matters and the company discusses some of its GHG emissions reduction efforts and its related performance in its corporate responsibility report.

However, shareholders would benefit from more comprehensive information about the impact that climate change regulations and a low oil demand scenario might have on the company, given its capital expenditures to add to, and develop, its existing proven oil reserves. This can include additional information about any polices and strategies that the company plans to implement to manage its acknowledged risks from regulations to mitigate climate change, such as high operating costs and low demand for its products. Such information would allow investors to better assess the risks that climate change regulations may pose to the company and shareholder value, and Chesapeake's management of these risks. This proposal therefore warrants shareholder support.

## Item 6. Report on Political Contributions — FOR

VOTE RECOMMENDATION

A vote FOR this resolution is warranted, as the company could provide additional information on its political expenditures, trade association memberships and payments, and related management level oversight mechanisms.

BACKGROUND INFORMATION

Policies: Political Spending & Lobbying Activities

Vote Requirement: Plurality of votes cast (abstentions and broker non-votes are not counted)

## Discussion

### PROPOSAL

The City of Philadelphia Public Employees Retirement System has submitted a precatory proposal requesting that Chesapeake Energy (Chesapeake) report on its corporate political contributions and trade association expenditures, as well as related policies and procedures.

Specifically, the resolution reads:

"**Resolved**, that the shareholders of Chesapeake Energy ("Company") hereby request that the Company provide a report, updated semiannually, disclosing the Company's:

1. Policies and procedures for making, with corporate funds or assets, contributions and expenditures (direct or indirect) to (a) participate or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office, or (b) influence the general public, or any segment thereof, with respect to an election or referendum.
2. Monetary and non-monetary contributions and expenditures (direct and indirect) used in the manner described in section 1 above, including:
    a. The identity of the recipient as well as the amount paid to each; and
    b. The title(s) of the person(s) in the Company responsible for decision-making.

The report shall be presented to the board of directors or relevant board committee and posted on the Company's website.

Payments used for lobbying are not encompassed by this proposal."

### SHAREHOLDER'S SUPPORTING STATEMENT

In its statement supporting the proposal, the proponent states that it supports transparency and accountability in corporate spending on political activities, and believes disclosure to be in the best interest of the company and its shareholders. The filer states that the company does not disclose its direct or indirect political expenditures. The proponent notes that public records show that Chesapeake has contributed at least $7.9 million in corporate funds since the 2004 election cycle, but that public records do not give the whole picture of the company's political spending. The filer asks the company to disclose all of its political spending, including payments to trade associations and other tax exempt organizations that were used for political purposes. Lastly, the proponent cites specific companies, such as Noble Energy, Exelon Corp., and ConocoPhillips, as leading companies that support political disclosure and accountability and present this information on their websites, and urges Chesapeake to do the same.

### BOARD'S STATEMENT

In its response opposing the proposal, the board believes that the company's long-term value to its shareholders is enhanced by a business environment that protects and supports the oil and gas industry. As a result, the board states that the company supports organizations and trade associations that are active in the public policy and political engagement processes as they affect the exploration, production, and transportation of oil and natural gas. The board says that the company's Federal Political Action Committee, which is funded through voluntary contributions by eligible employees, files its reports of receipts and contributions with the Federal Election Commission (FEC). The board reports that The Nominating, Governance and Social Responsibility Committee monitors the company's participation in, and levels of contributions to, business and trade associations. The board believes that, since the company's primary reason for membership in trade associations is to further business goals, and not to fund political activities, it is not necessary to report all payments to such associations. Lastly, the board believes the requested report outlined in the proposal would be an unnecessary and unproductive use of the company's time and resources.

### BACKGROUND AND RELATED SHAREHOLDER ACTIVISM

For more information on corporate political contributions, see ISS' Environmental and Social Background Report. For an update on the most recent shareholder activism around this issue, refer to the 2015 Proxy Season Preview - U.S. Environmental and Social Issues Report.

This is the first time that Chesapeake has received a resolution asking it to report on its political contributions and expenditures.

## Analysis

### CHESAPEAKE'S POLITICAL CONTRIBUTION RELATED DISCLOSURE

On its Political Participation webpage Chesapeake states that its participation in the political process "reflects strict adherence to high ethical standards and Chesapeake's core values of respect, integrity and trust." The company reports that all company funds used for political expenditures on behalf of the company are in compliance with appropriate laws and regulations. Chesapeake states that it uses these funds to help advance the business goals and interests of the company.

The company states that it complies with all federal, state, and local laws regarding the disclosure of its political contributions, and notes that Chesapeake's Federal Political Action Committee (Fed PAC) files its political contributions reports as required with the FEC.

In its Code of Business Conduct, the company states that it encourages its employees to participate in political activities of their choice on their own time and at their own expense. The company reports that it is a responsible participant in the political process at the national, state, and local levels, and uses company funds for political contributions only when permitted by law. Chesapeake states, "The use of company funds or resources for political activities, including making contributions or gifts to candidates, parties or political committees, is strictly prohibited without obtaining prior approval pursuant to company policy." The company also reports that the contributions made by its PAC are funded entirely through voluntary contributions from eligible employees and are approved according to the Political Participation Policy.

Regarding oversight, the company's Nominating, Governance and Social Responsibility Committee's charter states that it monitors and reviews the company's political spending:

> "Monitor the Corporation's charitable contributions, political spending and lobbying activities, receive and review annual reports detailing charitable contributions, direct and indirect political spending and lobbying activities from corporate officers responsible for such activities, supervise policies and procedures regulating such activities and review the purpose and benefits of such activities;"

### CONCLUSION

The City of Philadelphia Public Employees Retirement System is requesting that Chesapeake report on its corporate political contributions and trade association expenditures, as well as related policies and procedures. The company says that its existing disclosure is compliant with all federal, state, and local laws and that additional reports would be unnecessary and an unproductive use of the company's resources.

In its Political Participation webpage, Chesapeake reports that all its political contributions and related disclosures are in compliance with appropriate laws and regulations. In its Code of Business Conduct, the company discusses its rules on the use of company funds or resources for political activities. The company's Nominating, Governance and Social Responsibility Committee's charter also shows that the company has board oversight of its political spending.

Chesapeake discusses its rationale for participating in the political process and its support of trade associations in its response to the proposal in its proxy statement; however, this information is not made available on the company's website, in its business code of conduct, or in its corporate responsibility report. Furthermore, Chesapeake does not disclose information on its website regarding the amounts or the recipients of its corporate political contributions. The company also does not provide information on its trade association memberships or policies beyond its rationale for supporting them. The company does not disclose the trade associations it supports, or its payments to trade associations or other groups that may be used for political purposes. Nor does the company provide information on its management level oversight used to manage its trade association relationships or its political contributions. Such information would enable shareholders to evaluate the risks and benefits of the company's comprehensive political activities and the company's management and oversight of those risks and benefits. Therefore, this resolution warrants shareholder support.

## Item 7. Establish Risk Oversight Committee — AGAINST

### VOTE RECOMMENDATION

A vote AGAINST this proposal is warranted, as it does not appear that the board's current risk oversight mechanisms are deficient.

### BACKGROUND INFORMATION

Policies: Establish Other Board Committee

Vote Requirement: Plurality of votes cast (abstentions and broker non-votes are not counted)

## Discussion

### PROPOSAL

Robert O. Glaza, on behalf of the Construction Laborers Pension Trust Fund for Southern California, a beneficial owner of 67,450 shares of the company's common stock, has submitted the following non-binding proposal:

"Resolved: Shareholders request that Chesapeake Energy, Inc. ("Chesapeake" or "the Company") establish a Risk Oversight Committee of the Board of Directors."

### SHAREHOLDER'S SUPPORTING STATEMENT

The proponent states that the company's most recent Form 10-K "clearly demonstrates the significant number of risk factors potentially affecting Chesapeake and thus its shareholders," including risks related to "weather conditions, changes in consumer demands, operational and financial risks and liabilities from environmental laws and regulations, litigation risk and cyber security risks that could affect the results of operations." The proponent believes that in light of the importance of risk management, Chesapeake should establish a separate board risk oversight committee, rather than leaving risk oversight to the audit committee, "especially given the numerous other and important responsibilities of the audit committee." The proponent quotes an article published in the Harvard Law School Forum on Corporate Governance and Financial Regulation, to the effect that a risk committee "fosters an integrated, enterprise-wide approach to identifying and managing risk and provides an impetus toward improving the quality of risk reporting and monitoring," and can provide better support for executives with risk management responsibilities, "resulting in a stronger focus at the board level on the adequacy of resources allocated to risk management."

### BOARD'S RESPONSE

The board opposes this proposal, because it believes "it is less effective and efficient to delegate risk oversight related to existing committee matters to a separate board committee." The board has concluded that "it is appropriate for the full board to determine the company's risk profile and risk tolerance for significant risks, such as risks related to commodity price fluctuations and environmental, health and safety matters," because "this allows the full board to analyze the company's material risks and influence the company's business strategies in light of such risks." At the same time, the board has delegated oversight of certain specific risk areas to the existing committees. For example, reputational and social responsibility risks are overseen by the Nominating, Governance and Social Responsibility Committee, while market and financial risks, including those related to commodity hedging, are overseen by the Finance Committee. The Audit Committee oversees risks related to compliance with legal and regulatory requirements, as well as those related to the integrity of the financial statements. The board believes a separate risk oversight committee would be "redundant and unnecessary" because it has "already established a strong risk oversight structure at the board and board committee levels."

## Analysis

ISS generally recommends that shareholders vote against shareholder proposals to establish a new board committee, as such proposals seek a specific oversight structure that potentially limits a company's flexibility to determine an appropriate oversight mechanism for itself. However, we consider the following factors:

- Existing oversight mechanisms (including current committee structure) regarding the issue for which board oversight is sought;
- Level of disclosure regarding the issue for which board oversight is sought;
- Company performance related to the issue for which board oversight is sought;
- Board committee structure compared to that of other companies in its industry sector; and
- The scope and structure of the proposal.

The concept of a standing board committee, separate from the Audit Committee, tasked with oversight of the company's risk management process is not inherently unreasonable. The responsibilities of an audit committee generally extend beyond risk oversight, and a standalone risk committee can signal a company's focus on the issue. It is, however, an unusual phenomenon outside of the financial services industry: according to Deloitte's Risk Intelligent Proxy Disclosures 2011 study, only one percent of the 143 largest non-financial companies in the S&P 500 index had a separate board risk committee in place. Moreover, given that the Audit Committee would retain oversight of the company's financial reporting and audit practices, which have their own associated risks, the creation of a separate risk committee would not completely prevent fragmentation of the board's risk oversight structure.

*Existing Oversight Mechanisms*

Chesapeake appears to have appropriate risk oversight processes in place, whereby certain "significant risks" are overseen by the full board, while other risks related to matters under the purview of the existing board committees are overseen by those committees, which report on such risks to the full board. In addition, internal risk committees, comprised of senior management and subject matter experts, meet regularly to "review and assess the company's risk management processes and discuss significant risk exposures," with their findings "regularly reported to the board for their direction and input."

*Company-Specific Concerns*

The proponent does not cite any specific areas of risk as having motivated this proposal. While it is true that the company's 10-K discloses a variety of risk factors, this is true of nearly every public company, and such disclosure reflects the size and complexity of the company's business rather than a defect in its risk assessment processes. Many of the company-specific concerns cited by ISS in prior years related to former CEO Aubrey McClendon and the "Founder Well Participation Program" (FWPP) through which he personally invested in the company's oil and gas wells, as well as his pledging of company stock for personal loans. However, McClendon has not served as an executive or director of the company for more than two years, and the FWPP has been terminated.

*Previous Vote Results*

A substantially similar proposal was presented at the company's 2013 annual meeting, when it received support from 4 percent of votes cast.

## Conclusion

Given that there is no indication that the board's current oversight mechanisms are deficient, and given the lack of notable concerns over conflicts of interest since the departure of former CEO McClendon, this proposal does not warrant support.

## Equity Ownership Profile

| Type | Votes per share | Issued |
|---|---|---|
| Common Stock | 1.00 | 663,545,394 |

| Ownership - Common Stock | Number of Shares | % of Class |
|---|---|---|
| Southeastern Asset Management, Inc. | 73,868,067 | 11.11 |
| Icahn Associates Corp. | 73,050,000 | 10.98 |
| Capital Research & Management Co. (World Investors) | 48,425,000 | 7.28 |
| The Vanguard Group, Inc. | 29,853,482 | 4.49 |
| Harris Associates LP | 28,760,450 | 4.33 |
| SSgA Funds Management, Inc. | 26,096,272 | 3.92 |
| BlackRock Fund Advisors | 23,072,630 | 3.47 |
| Capital Research & Management Co. (Global Investors) | 21,495,000 | 3.23 |
| Orbis Investment Management Ltd. | 9,628,140 | 1.45 |
| Goldman Sachs Asset Management LP | 8,773,820 | 1.32 |
| Dimensional Fund Advisors LP | 8,216,872 | 1.24 |
| Brandes Investment Partners LP | 7,757,535 | 1.17 |
| Deutsche Bank Securities, Inc. | 6,885,858 | 1.04 |
| Northern Trust Investments, Inc. | 6,452,079 | 0.97 |
| Citadel Advisors LLC | 5,914,558 | 0.89 |
| Investec Asset Management Ltd. | 5,439,169 | 0.82 |
| Mackenzie Financial Corp. | 5,025,526 | 0.76 |
| Norges Bank Investment Management | 4,899,653 | 0.74 |
| Balyasny Asset Management LP | 4,696,671 | 0.71 |
| Fidelity Management & Research Co. | 4,631,615 | 0.70 |



## Additional Information

| | |
|---|---|
| Meeting Location | 6100 N. Western Avenue, Oklahoma City, Oklahoma 73118 |
| Meeting Time | 10:00 |
| Shareholder Proposal Deadline | December 12, 2015 |
| Solicitor | Alliance Advisors |
| Security IDs | 165167107(CUSIP) |

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