

FINAL TRANSCRIPT

Thomson StreetEventsSM

CHK - Chesapeake Energy Corporation Conference Call

Event Date/Time: Dec. 08. 2008 / 9:00AM ET

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

CORPORATE PARTICIPANTS

Jeff Mobley

Chesapeake Energy Corporation - SVP IR, Research

Aubrey McClendon

Chesapeake Energy Corporation - CEO, Chairman

Steve Dixon

Chesapeake Energy Corporation - COO

Marc Rowland

Chesapeake Energy Corporation - CFO

CONFERENCE CALL PARTICIPANTS

David Tameron

Wachovia - Analyst

Michael Hall

Stifel Nicolaus - Analyst

Gilbert Yang

Citigroup - Analyst

Joe Allman

JPMorgan - Analyst

Brian Singer

Goldman Sachs - Analyst

David Heikkinen

Tudor Pickering - Analyst

Tom Gardner

Simmons & Co - Analyst

Biju Perincheril

Jefferies & Co - Analyst

Eric Hagen

Merrill Lynch - Analyst

Wayne Cooperman

Cobalt Capital - Analyst

David Snow

Energy Equities - Analyst

PRESENTATION

Operator

Good day, everyone, and welcome to the Chesapeake Energy conference call. Today's conference is being recorded. At this time, I will turn the conference over to Mr. Jeff Mobley. Please go ahead, sir.

Jeff Mobley - *Chesapeake Energy Corporation - SVP IR, Research*

Good morning and thank you for joining today's conference call. I would like to begin by introducing the other members of management team who are with me on the call today. Aubrey McClendon, our CEO. Marc Rowland, our CFO. Steve Dixon, COO,

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

and Nick Dell'Osso, our CFO of Chesapeake Midstream Partners. Our prepared comments should last about 10 minutes this morning, then we'll move to Q and A. I'll now turn the call over to Aubrey.

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

Thanks, Jeff, and good morning to each of you. My major points today are these. Number one, we continue to have plenty of liquidity. Late last week, I noticed we had \$1.5 billion of cash on hand, and we are still managing to have between \$2 and \$2.5 billion of cash by year-end as we expect to close VPP number four later this month for about \$450 million. Number two, we intend to build cash in 2009 and 2010 by as much as \$4 billion as we continue to profitably monetize additional assets.

Three, if, on the other hand, we cannot monetize any additional assets in the years ahead, then we just live within our cash flow and grow by 10% in 2009 and 15% in 2010. Number four, those of you who do not believe we will ever be able to sell another asset or find another partner, I would simply say that I believe you are wrong and ask everyone on this call what other company in the industry in the past five months has sold \$12 billion of assets for a \$9 billion gain, and still retained assets from those sales valued at \$25 billion? We have created more value in the past few months than any other company in the industry, yet our external value has plummeted by taking all possible liquidity concerns away by today's announcement, we believe the focus in analyzing our Company can return to what are the cash flows and profits we can generate, and the asset values that we control. Number five, despite rumors to the contrary; Chesapeake is extremely well positioned to succeed in a low gas price environment. To remind you, we are 76% hedged at \$8.20 per Mcf for 2009 production and 50% hedged at about \$9.50 per mcf for 2010 gas production. Plus, we expect to add 2.5 tcf to our reserve report in 2009 at a cost of only \$1.20 per mcf. Will there be even one company in the industry who can find US reserves of 2.5 tcf in 2009 at any price? Much less at \$1.20 per mcf. We don't think so.

In addition, we have no senior debt due for almost five years. Moreover, we will generate \$8 per share of cash flow in 2009 at \$7 NYMEX natural gas prices, and we have only \$0.50 per share of operating cash flow downside per \$1 additional decline in gas prices. Or said another way, let's say you somehow believe that gas prices will average \$4 per mcf in 2009. By the way, we think that's about 50% of the long-term break-even price needed to maintain flat production in the US. In that \$4 case, our cash flow per share will be about \$6.50. Is that only worth a stock price of \$11 or \$12? We certainly don't think.

Finally, we have other companies paying for \$2.3 billion of our drilling costs in the next two years. That translates into a gift to our shareholders of about 1.5 tcf of reserve adds at no cost. What other company can offer you that over the next two years? Considering all of the above, and now realizing that our budget is in balance, we hope will you agree with us that Chesapeake is exceptionally well positioned to ride out whatever storms 2009 brings our country and our industry, and that our stock price should return to at least a peer group multiple which we think would take its price from today's price up several times.

Next I would like to acknowledge that we've been very disappointed with our stock price performance for months and hope my discussion above and our press release yesterday afternoon highlights the multiple actions we are taking to bring our cash expenditures in line with our expected cash flow to manage to a cash-neutral budget that does not depend on future asset sales. As announced, we are further reducing our 2009 and 2010 drilling budget by 31% and are reducing our leasehold and acquisition budget by 78% and are also significantly reducing our midstream and other expenditures. Our CapEx has been reduced to a level that will be less than our operating cash flow, which remains largely protected by the hedges I mentioned previously, and again, we'll highlight these are about three-quarters of our natural gas production at \$8.20 per mcf. Additionally, the combination of our drilling carry and a likely 10 to 20% reduction in service costs will lead to drill bit finding and development costs in next year of less than \$1.20 per mcf.

Many investors have questioned whether we are capable enough managers to adjust our spending to live within our cash flow. Honestly, it's much tougher to speed up the machine than it is to slow it down, so I promise that this is within our managerial capabilities. In fact, we have been doing this for months already. Yesterday's announcement was the fourth time in the last four months we have reduced our spending costs in response to further decreases in natural gas and oil prices and uncertainty in

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

the US economy. If conditions require to us reduce our drilling further, we will do so. We have been highly successful in monetizing assets this year, and we still anticipate further monetization of certain mature assets through VPP transactions over the next couple of years, and we still strongly believe that we will be able to bring in additional partners to participate in our attractive leasehold positions. This gives us the opportunity to actually significantly increase our cash resources by up to \$4 billion over the next two years. However, I want to emphasize that we are not counting on these sales or transactions to get to a cash neutral budget. I would also remind you that if we sell these additional \$4 billion of assets, we are still a Company that will grow at least 5% in 2009, and 10% in 2010.

Over the last couple weeks we have been asked numerous questions about our business as our stock price has suffered more than our peer group's has. So for the next few minutes, I will finish up by answering what we believe are some of the most frequently asked questions about Chesapeake recently. Number one, why does your stock price trade at \$11 and \$12 per share given the obvious value embedded in your assets? There's one reason only, and that is the false rumors that Chesapeake does not have sufficient liquidity to be a going concern. This is the only reason investors would value \$25 to \$35 billion of proved reserves -- that's for our 12 tcf of proved reserves -- \$25 to \$30 billion of undeveloped leasehold, and \$5 billion of other assets as being somehow worth less than \$15 billion, which, by the way is inclusive of the market value of our debt. Remarkably, Chesapeake shares are now trading for about 1.4 times next year's projected cash flow, and about four times earnings. Assuming a NYMEX natural gas price of \$7 per mcf, we anticipate generating about \$8 per share of cash flow and approximately \$2.50 per share of earnings for 2009. We are not stock market valuation experts, but suspect those numbers justify a stock price much higher than today. Once investors understand Chesapeake is not going to run out of money we believe attention will again return to our strong asset value, profitability, and exceptionally low finding costs.

Two, another set of questions has arisen surrounding the universal shelf and other stock filings we made the day before Thanksgiving. In retrospect, these filings were a mistake, and we greatly underestimated how the market would react. I apologize for that and ask your forgiveness for it. Our intent was to create broad financial flexibility for an uncertain economic and commodity market environment over the next few quarters. We thought we stated clearly in our follow-up press release that we had no intention in the foreseeable future to use the universal shelf or the at the market or dribble program to sell any stock for cash, but obviously the message was not believed or understood by the marketplace. We will work to correct this mistake immediately by terminating the distribution agreements today. Again, we have no present intention of issuing stock for cash. Also, we will reduce the shares issuable under our S-4 acquisition shelf registration from 50 million shares to 25 million shares. For possible use in resolving certain disputed Haynesville leasehold transactions over the next few months. However, at current stock prices, we have no intention of using stock for those purposes, either.

Three, mentioning Haynesville leasehold transactions, some investors have asked about the leasehold disputes that we may have. Given there is existing litigation on these matters, there is not a whole lot I can say here except to say that we believe our ultimate exposure to renegotiated deals in the Haynesville is less than \$300 million. Last week apparently one small brokerage firm was spreading false rumors that we have \$1.5 billion of unfunded Haynesville deals. That is very far from the truth.

Four, another question centers around our strategy of monetizing leasehold and producing assets. How can that be an important value creation strategy for an E&P company? Because of Chesapeake's unique skill, operating scale, and demonstrated track record, and being able to identify new plays and capture significant early leasehold positions in these plays, we have proven that we can create and capture value through innovative joint ventures. We have also sold producing assets through VPPs for a per mcf value at more than twice what we can easily replace them for through drilling. For example, in the past four months, Chesapeake sold \$11.7 billion of assets through three joint ventures, two VPPs, and one play exit. Actually, that was five months rather than four months. Excuse me. Our cost basis in those transactions was only \$3 billion. So we made a profit of \$8.7 billion. Please stop and think about that for just a second. That's almost \$15 per share of value creation in five months from a company with a stock price below \$15 per share. In addition, our remaining interest in those plays have an indicated value of more than \$25 billion. And if we were motivated to somehow sell them in this environment, we believe they could be sold at fire sale prices of at least \$15 billion or \$25 per share.

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

One more thing. This profit margin of \$8.7 billion from these joint ventures is over four times greater than our anticipated 2008 adjusted net income of over \$2 billion from our traditional business of drilling wells and producing natural gas, which, of course, remains the backbone of our business strategy going forward. It is beyond me how the market can ignore this enormous value creation that occurs in our Company, through our singular ability to find new plays, acquire acreage early and cheaply, and generate billions of dollars in profits and value by bringing in partners to help us develop this leasehold. So as I conclude these remarks, let me remind you that we have approximately \$1.5 billion of cash on hand as of the end of last week and should close the year at between \$2 billion and \$2.5 billion when our fourth VPP is completed. We have no debt maturities until November 2012. Our gas production is 76% hedged in '09, at \$8.20 per mcf, 50% hedged in 2010 at \$9.50 per mcf. We are in full compliance with our revolving credit facility maintenance covenant. We have no senior note indenture maintenance covenants. We should end the year with about \$12 billion in net debt and \$18 billion in shareholders' equity. We have cut our CapEx by nearly 60% in the last few months. We have moved to a cash-neutral budget. We can cut spending further if gas prices fall further. We have very valuable assets so we can monetize. We are working to build up to \$4 billion of additional cash resources over the next two years, and we will still be able to increase our production by somewhere between 5 to 10% in '09 and 10 to 15% in 2010 with no public equity or debt issuance needed for cash. I will be happy to open the call up to your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). And we'll pause for a moment to assemble today's question roster. We'll have our first question from David Tameron, Wachovia.

David Tameron - Wachovia - Analyst

Good morning. Aubrey, can you talk about, how much flexibility do you have with the joint ventures as far as toggling that CapEx program? What are your drilling commitments? Can you talk broadly about that?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Sure, David. Let's just kind of tick through them. The only one of the three joint ventures right now where we have a drilling rig commitment for 2009 would be the Fayetteville where we've told BP that we'll stay above 20 rigs. I guess in the Marcellus. Let me go one by one. In Fayetteville, BP pays 100% of our bills. We've said we'll keep a rig count there above 20. If for some reason it goes below 20 they have the right to go drill wells themselves. I think that's unlikely as it is, incredibly unlikely that we would drop rigs that are costing us nothing in 2009.

That carry, as you will recall, was \$800 million initially. As of last week, we had had used only about \$50 million of it. And we're projected to run out of it in November 2009, but if we're right about service cost reductions, we suspect that that carry will last through 2009, into 2010, but we have not modeled for that. In the Haynesville, we have no requirement to run a certain number of rigs. We have a motivation to drill as quickly as possible and encouragement from Plains to do so. It helps their rate of return by getting the money in the ground more quickly, to remind you that carry is about \$1.65 billion there, and they are paying 50% of our bills in that area.

And then the Marcellus, with StatOil, we are -- Steve, how many rigs are we at today?

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

We're at four rigs today, adding about two a month. They are paying 75% of our bills, and there are yearly use it or lose it concepts there, but there are also makeup provisions and carry-forward provisions, and so we feel very confident that we will be able to capture and use that whole \$2.125 billion carry there. So again, we don't pay a partner if somehow we slow down drilling but given that in those plays we're either 50, 75, or 100% carried, there is absolutely no incentive for us to slow down drilling in those areas. That's a really important point that one huge advantage we have over every other company is if we wanted to cut our rig count to 50, we could do that, and spend only \$500 million a year for the next two years, and we think almost keep our reserves flat just by doing that. So it's an enormous competitive advantage.

David Tameron - Wachovia - Analyst

Let me ask one more, then I'll let everybody else jump on. The production growth for 2009, the 5 to 10% target, if I think about the VPPs, can you talk about the impact on 2009 versus '08 and kind of give me an apples to apples number, '09 to '08?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

I think. So I'll probably turn to the Marc, but quickly, the 5%, to be clear, assumes that we do sell the VPPs in 2009. If we are not successful in selling a couple of VPPs in 2009, then we think our production growth will be just about 10%. I will see if Marc wants to supplement. Go ahead.

David Tameron - Wachovia - Analyst

Is that a fifth -- are you assuming fourth and fifth VPP or fifth and sixth VPP?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

It would be fifth and sixth. The fourth will close this year, although the production impact doesn't hit until January 1st. So actually the budget does assume that three VPPs would kick in, in 2009, and that's why you have a reasonably wide gap between 5% and 10% growth.

Marc Rowland - Chesapeake Energy Corporation - CFO

David, I echo what Aubrey said. The comments are absolutely accurate with respect to the 5 to 10% guidance already having the VPPs taken out. I have not forecast in 2010 what our production would be with no VPPs out of it, to be comparable, but I do have the exact number for third quarter of 2008. Had we not had VPPs, in other words, pro forma for being on a constant basis, our production would have been 23% up year-over-year, without the VPPs it was 15%. So 8 to 10% additional growth, if you were to compare apples to apples, I guess, if that's what you are looking for.

David Tameron - Wachovia - Analyst

Yep, that's it. Thanks a lot. I'll let everybody else jump on.

Operator

Our next question comes from Michael Hall, Stifel Nicolaus.

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Michael Hall - *Stifel Nicolaus - Analyst*

Thanks. Also appreciate the show of prudence, here. I think the market appreciates it, obviously. Just want to, as it relates to the acquisition shelf, is there any intention of using that shelf for any new leasehold transactions or negotiations, or are those all old, still to be closed deals?

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

Just for old deals and our thought was to resolve some disputes we might be able to craft some solutions where people could be happy with stock, where they could be convinced that the stock would increase in value, and maybe they could get the per acre value that they were hoping for, while we at the same time could book the transaction at a per-acre price that we thought reflected current market realities.

Michael Hall - *Stifel Nicolaus - Analyst*

Thanks. And then as it relates to the rig count, looks like, talking about bringing it down even further, you talk about where you're stripping rigs out, then also in that context, to what extent have any what would you call horizontal or maybe shale play rigs been dropped, and maybe as an industry, how do we think about the slowness of maybe reducing shale rigs relative to conventional and how that might impact how quickly declines actually catch up with the industry as we start to reset the cycle here.

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

Well, we've talked for some time that there's -- we see a significant bifurcation emerging between the very best shale plays and the costs associated with developing reserves in those shale plays and frankly everything else.

Michael Hall - *Stifel Nicolaus - Analyst*

Yep.

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

I would identify for you those low-cost shale plays as being the Barnett in Fort Worth, the Fayetteville, the Haynesville, and the Marcellus. We believe all of those have sub \$2 finding costs, and we think all other shale plays and all other conventional plays in general would have finding costs north of \$2. So you will see rigs, I think, come out of those higher cost plays. Also, for our own company, we're dropping rigs where we already have acres held by production and using our rigs more in these shale plays where, A) our costs are being covered by somebody else, or B) we're trying to HBP some leasehold. Remember, in many of these plays, we have 640 acre spacing, and for every well we drill to hold a location we're warehousing up to seven locations for down the road. So I can't speak to what other companies are doing, but for us, obviously the last rigs we'll lay down will be the ones where we're being carried, and the first ones that we're laying down are in plays where we already have leasehold and we can wait for a better day to drill it.

Michael Hall - *Stifel Nicolaus - Analyst*

Would you care to take a stab at maybe what you think the underlying decline is industry wide on US production?

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Oh, there are a lot of different numbers out there, but I would just -- if somehow theoretically you could take the rig counts to zero today, I would expect that after a lag of three to six months, you would end up with production probably 40% lower than where you are today, so I think one of the things that people are probably not thinking about as carefully as they should be is when you are kind of defending production in the US of, say, 58 bcf a day, rather than 52 bcf a day, remember that that incremental six bcf a day all comes from new plays, and when you consider that probably 50% of all production in the US comes from wells newer than 30 months old, we think that this decrease in rig count that's clearly underway will likely accelerate over the next two months will go a long ways towards balancing the gas market, and by the, I'd say the fall, or the beginning of the injection season of 2009, and that assumes the economy stays weak, and I think there's a chance that it doesn't get a whole lot weaker and that gas demand doesn't fall down as much as people think that it will, but when the rigs go down the production will follow quickly there after.

Michael Hall - Stifel Nicolaus - Analyst

Thanks very much.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Thank you.

Operator

We'll have our next question from Gil Yang, Citi.

Gilbert Yang - Citigroup - Analyst

Can you hear me?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

We sure can. Thanks, Gil.

Gilbert Yang - Citigroup - Analyst

Hi. Just going back to the flexibility issue, to slow down activity, at what point, or how much more could you slow down without risking losing leases on the tail end and bumping into rig commitments you might have?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Well, I remind you that many of our rigs are owned by our own company, we have 130 rigs today, we're going down to 110, 115 of those, about 85 are owned right now, today, is that right?

Steve Dixon - Chesapeake Energy Corporation - COO

Yes, sir.

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

And so those would be the last ones to lay over, so we don't really have an issue with having a bunch of long-term contracts on our rigs that would require us to drill things, that we might not otherwise be willing to drill, so we have enormous flexibility with our drilling rig fleet, given the fact that we own the vast majority of the rigs that we're using today.

Gilbert Yang - Citigroup - Analyst

Okay. And do you run into timing issues with respect to leases?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

There's some of that, sure. But mainly it's in places like the Haynesville and the Marcellus and Fayetteville where we already are going to actually increase our rig counts in those areas. We have reduced our Barnett count from a high of 44, and we're now at what?

Steve Dixon - Chesapeake Energy Corporation - COO

32, I think, today.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

We intend to stay in the high 20s in the Barnett. We think that will get us the leasehold that we need HBPed need there. Are there some other random plays where we would have some lease exposure issues? Yes, although in many of those areas, the cost to replace those leases has plummeted as well, and so it's a risk we're willing to take.

Gilbert Yang - Citigroup - Analyst

Okay. And can you give us an update on what your ceiling test write down level would be, given all of the asset transactions that you've had profits on recently?

Marc Rowland - Chesapeake Energy Corporation - CFO

Gil, this is Marc. Clearly the transactions that Aubrey spoke about in his presentation have reduced our full-cost ceiling considerably, the most recent, of course, StatOil just got factored in. I don't have the exact number, because you've got the interplay of those transactions reducing it, you've got the interplay of future development cost numbers going down, and you have the interplay of hedges which you get to count. As a rough guess, right now, I'm estimating just over \$5 NYMEX that would be a trigger point. But if I'm off \$0.25 either way, forgive me.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

I guess the only other thing I would say is, make sure I didn't miss this, Marc, we haven't been able to book the carries, and so actually our ceiling test should go down in 2009 as we add these reserves at \$1.20 during the course of the next year.

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Marc Rowland - Chesapeake Energy Corporation - CFO

That's correct, as we are guiding down our DD&A rate for both '09 and 2010 to reflect adding reserves at a much reduced net cost to us.

Gilbert Yang - Citigroup - Analyst

Okay, so you've been able to book the gains, and that reduced your DD&A rate and your forward cost given the write down levels, but not yet the carries, which will be yet to come?

Marc Rowland - Chesapeake Energy Corporation - CFO

Book the gains in the sense that they really weren't income statement gains, but the cash went into our full-cost pool to reduce that, and that's the gain we're talking about. We have a cash gain because we sold acreage for more than we had invested in it, or sold reserves for more than we had invested in it, and that's true for the VPPs as well. When we talk about gain, though, it's not an income statement gain, it's just a reduction in our balance sheet account for that.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

It's not an income statement gain for us because we're full costs. If we were successful efforts, we would have multibillion dollars of gains from these asset sales.

Gilbert Yang - Citigroup - Analyst

Okay, great. Last question is, how do you think about -- the danger of VPPs is that you are exposed on the hedging, on the production costs. How have you thought about or, what could you do to mitigate if prices start to rise how you hedge the production cost side of the VPP?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Well, Gil, you are accurate in the sense that the retained volumes are not hedged from a cost standpoint, the volumes that you give up if costs were to go up. You would have exposed. But as a percentage of our overall volumes, it's immaterial and not even calculable. You've seen no change in our operating costs for produced mcfe as a result of the three VPPs we've done to date. These are extremely minor volumes given our 12 to 13 tcf of proven reserves. It's kind of ironic you are asking about increased costs. The only way increased costs are going to come about is if you have substantial inflation in the revenue model. Right now obviously costs are going down dramatically. Fuel costs in the field, ad valorem costs, which are two of the biggest costs will be dramatically reduced for both the retained volumes and our own volumes, so it's an interesting theoretical question, but it really, I don't think in this environment is too relevant.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

And I wanted to highlight that for our production cost estimates for 2009, 2010, we have not anticipated any per unit cost reductions, but I will be extremely disappointed if we don't see unit decreases of 15 to 20% and -- in our production operations and probably that much in drilling operations as well. So there's lots of up side in this downside environment in terms of our cost structure.

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Gilbert Yang - Citigroup - Analyst

All right, thank you very much.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Thank you.

Operator

Our next question comes from Joe Allman, JPMorgan.

Joe Allman - JPMorgan - Analyst

Thank you. Good morning, everybody.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Good morning, Joe.

Joe Allman - JPMorgan - Analyst

Hey, Aubrey, could you talk about your cost decline assumptions in schedule A, the new guidance, versus the prior guidance? I think you are looking for 10 to 20% service cost declines. How does that compare to schedule B?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Well, Joe, we haven't really -- we anticipate those savings, but we have not driven them into our model. The only schedule A cost change we made is we estimated production taxes in 2009 would be \$0.30 to \$0.35 per mcf versus on November 3rd, we had them at \$0.35 to \$0.40. That's just because we lowered our expected 2009 gas price forecast of \$7 from \$8. So I think what you'll see is when we release our year-end numbers, which I guess will be towards the end of January, first part of February, at that point we hope we'll have some more transparency or clarity into what our production cost forecast could be and what our operating and drill bit cost reductions can be. So we have in our gross numbers for drilling costs, we have anticipated about 10% of cost reduction, but not anything above that, and again, I think we have upside there, probably another 10% reduction.

Joe Allman - JPMorgan - Analyst

Okay, that's helpful. Then could you talk about any recent results in the Haynesville or the Marcellus or Fayetteville or the Barnett or any other interesting places?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

In the Fayetteville we have let Southwestern take the lead here. Every time they put out a release about good things that are going on in the field, that's the same thing as what's happening to us. We are a non-operator in something like 80% of the wells that they drill, and that's a significant part of our program. We're both doing essentially the same thing over there, so as they talk about increasing EURs and decreasing costs per unit of production, or reserves developed, we are experiencing the same thing. In the Haynesville, Steve, I guess we're at about 80 million a day of production?

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Steve Dixon - Chesapeake Energy Corporation - COO

No, we'll actually be above 90 with these last two wells.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

So two wells coming on over the last weekend. We expect when they clean up this week probably both will be around 15 million day if they meet what the last handful of wells have done when they come on. So we should be well north of 100 million by the end of the month because I think we have another four to five or six wells --

Steve Dixon - Chesapeake Energy Corporation - COO

Maybe six.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Maybe six wells to get completed between now and the end of the year. So we're very pleased with what's going on there in the Haynesville, and are at 14 rigs today, 15 rigs. What's our number?

Steve Dixon - Chesapeake Energy Corporation - COO

14.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

14 today, and I think we're going to how many by the end of '09? 30.

Steve Dixon - Chesapeake Energy Corporation - COO

Upper 30s.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Think 34, 35 by the end of 2009. So still a great play. And again, very, very pleased with what we're finding there. And, receiving confirmation from many other companies as well about their results also. In the Marcellus, we have not completed any wells lately, but we will start completion work on a handful of new wells towards the end of this month and into January. Let's see, you didn't mention -- I didn't mention Barnett. Barnett continues to rock on, I guess is the way to say it. We set a new production record last week of 800 and something million a day gross. Low 800s, 820, 825, something like that so doing exceptionally well in the Barnett even as we scale back our activity.

Joe Allman - JPMorgan - Analyst

Looking back at 2008, if you had to do it all over again, just company-wide, what do you think you might do differently?

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Joe, from an operating perspective, I couldn't imagine a better year for our company. We were early to new plays, such as the Marcellus and the Haynesville. We completely pulled off transactions that nobody on this call thought we could do. We generated \$9 billion of profits from those. We have retained assets of \$25 billion. I think we had our best year of value creation ever in our company in 2008 and our stock price goes from \$70 a share to \$10 or \$11 in five months. So I think it sets up the kind of mother of all recoveries, and I don't know how many other stocks in the large cap universe you can hope to get a three or five-bagger on in the next year or two, but Chesapeake can because we have the demonstrated asset value, we have the cash flows, we have the earnings capability, we have the hedges, we have the carries.

We just have distinctive and unique competitive advantages that been completely overshadowed by this concern that somehow we're going to spend every last dollar and go bankrupt. And those were the rumors. Those have been the rumors over the last couple weeks. So all I can do is point to a track record of 15 years as a public company of starting with not much and building a pretty substantial enterprise from a pretty talented management team, I believe, and I'm proud of our operating track record. I'm sorry that we -- our stock price has trailed that of our peers, but that is not as a consequence of any operational issues we had. It's been a bizarre year for sure, but 2010 I think can be exceptionally rewarding for investors as they get comfortable with the fact that we are capable of living within our cash flow, and as they look to see the strong assets and cash flow that we are generating. I said 2008?

Marc Rowland - Chesapeake Energy Corporation - CFO

You said 2010.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

I am sorry, 2009, not 2010. A pretty bizarre year but look forward to better days ahead in 2009 and 2010.

Joe Allman - JPMorgan - Analyst

Aubrey, just financially, do you think -- would you have maybe sold assets sooner than you did this year just to have cash on hand before you went out and bought a whole bunch of stuff?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Well, Joe, I mean, I know you've referred to us as drunken sailors in regard to that as potential insult to drunken sailors. So I'll ignore that and not respond in kind, but I would say that we did hit pretty much top of the market for some of our transactions. If you look at our Fayetteville transaction, Haynesville transaction, it's hard to argue that we did those at prices that were not attractive to us. They are still very fair to our counter parties, and they are going to make a lot of money in those transactions, but we didn't wait until things fell apart. We started to work on these transactions in April or May. Of course, the Marcellus transaction did reflect a reduced gas price market, and Stat Oil I think got a very attractive deal, but at the same time, if you consider the deal from our perspective, it's very attractive as well. So I'm pretty proud that over five months we put together things that during that five months virtually nothing went right in the gas market or in the stock market or in the US economy. I think it's an achievement that will stand the test of time as one of the best five months in the history of the industry in terms of value creation.

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Joe Allman - JPMorgan - Analyst

Appreciate it. Lastly, Aubrey just on cash. How long do you plan to stockpile cash, and what do you plan on doing with all the cash?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Well, my hope is that the bank market gets strong enough that we can start paying down our revolver and not be worried about being able to pull it back some day. I'll turn it over to Marc.

Marc Rowland - Chesapeake Energy Corporation - CFO

Joe, the obvious and correct use, in our opinion, of that is just as Aubrey mentioned, we have nearly \$3.5 billion outstanding on our bank line today. You will recall we drew that at the end of September when we were, along with, I think a lot of other companies, fearful that the bank market would just disintegrate, and, in fact, that weekend, one bank got taken over and one bank got bailed out, that constituted about \$400 million of our bank line. So as we entered that weekend we weren't sure what was going to happen. When we see that the market has calmed down and perhaps it has already, and we're being over conservative, we'll simply start to take cash and apply it against our bank lines outstanding, and hopefully here within a year those will be down to zero, or close to it and cash will actually mean liquidity and undrawn bank credit facilities instead of truly meaning cash.

Joe Allman - JPMorgan - Analyst

Very helpful. Thank you, everybody.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Thank you, Joe.

Operator

We'll have our next question from Brian Singer, Goldman Sachs.

Brian Singer - Goldman Sachs - Analyst

Thank you. Good morning.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Good morning Brian.

Brian Singer - Goldman Sachs - Analyst

Can you talk about the midstream side about where you are more specifically reducing capital and your thoughts on what that means for growth in the key areas where you may be reducing and any midstream constraints?

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Marc Rowland - Chesapeake Energy Corporation - CFO

Sure, Brian. The areas that we have been out talking to the industry about, we have discussions going on with a couple of strategics regarding the Barnett Shale, and there are parts of that system that are mature enough we think to sell to interested parties. That would substantially reduce the amount of net CapEx we would have there. Certainly in our StatOil transaction that reduced the Marcellus capital expenditures, because they will participate with us in those midstream investments that we make up there by roughly a third, and then finally, we have -- we have some discussions still with some infrastructure kind of funding sources that could help us, and then going forward in the Mid-Continent, we have had a number of people contact us with regard to participating in traditional third-party build outs rather than us taking on the entire CapEx ourselves. So like many of our initiatives, we've got huge amount of variation in what we'll try and do in different areas, and it won't be one single thing that will fit all as we expand from the Mid-Continent through Barnett, Haynesville, Fayetteville, Marcellus and other areas, there's different solutions in each one of the areas that we're pursuing.

Brian Singer - Goldman Sachs - Analyst

Great. So your expectation is that ultimately the capital will be spent, just not by you as opposed to, these are projects that are coming off the table?

Marc Rowland - Chesapeake Energy Corporation - CFO

Some of it will be spent by us. Some of it will be funded by external sources. Some of it will be done by other people. That's the same as it is today. We do not exclusively connect to our own built systems. Many of our wells are hooked to third-party systems, and I think just like our initiatives in the sale of part of our assets and joint ventures, there is the time when these systems reach more of a mature stage where it's not so operationally important for us to control everything about the design and build out, and it makes a lot of sense to monetize those in some way, either by long-term financing, which we're working on still, or by actual asset joint ventures or sales even.

Brian Singer - Goldman Sachs - Analyst

Okay, and then more broadly, if we're sitting here six months from now, capital markets have improved, commodity prices have improved, how should we expect strategically, if at all, you could shift in terms of capital spending interest in acquiring acreage, et cetera?

Marc Rowland - Chesapeake Energy Corporation - CFO

I suspect -- and I'll let Aubrey jump in on this -- I suspect within six months, even if we had a radical shift, and I don't think I expect that necessarily, I don't think our business strategy would be radically different or maybe even any different. We're still going to execute on -- still going to execute on basically the same business plan that we've laid out here. I know we will be cash flow neutral at the worst and perhaps be building up cash, and I don't see us reloading a bunch of rigs or particularly acreage expenditures, given the landscape as I see it today.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Yeah, Brian, the only thing I would jump in on is, I don't view that there are big new shale plays out there waiting for us to go spend billions of dollars of leasehold on. Again, this year was an exceptional year, a bizarre year I described it, and will go down in annals of the industry's history as one of the most fascinating to study, I think, in years to come. But what did we learn during the year? We discovered kind of out of nowhere the Haynesville. The Marcellus came into its own. But remember, plays like the Floyd didn't work out. It does it not look like there's going to be vast amounts of gas produced from the Conasauga. West Texas

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

shale plays have been disappointing. We have some other discoveries in that area that are going to create big value for us out there but it won't likely be from shale. So I think the dye is cast, the players have all been identified, and at this point, higher gas prices are not going to change our cash flows very much because of how hedged we are, and secondly, I think the industry has found at least in the US all of the major shale plays that are likely to ever be prospective. So now the shift moves away from spending billions of dollars to lock in kind of once in a generation leasehold positions to going out and just drilling those, and we can moderate the intensity of that drilling effort to fit our own cash resources as well as what overall gas prices are doing.

Brian Singer - *Goldman Sachs - Analyst*

Thank you.

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

Thank you.

Operator

We'll have our next question from David Heikkinen with Tudor Pickering.

David Heikkinen - *Tudor Pickering - Analyst*

Good morning, guys. One question, thinking about each of your major shale plays, how much of your acreage is held by production, and then as I look at your rig count over the next two years, what's the split of rigs that are just going in, drilling one well on a 640, trying to hold acreage, versus rigs that are in development, trying to think about a scale of how your acreage is held by production over time?

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

David, I don't have the exact numbers in front of me, but let me just talk about some generalities, as I understand them. In the Barnett, about half of our rigs are drilling new acreage, about half are drilling on HBP acreage. In the Haynesville, 100% of our rigs are drilling on non-HBP leasehold, and that will be the case really for the next three years or so, and at this point, we believe that with our planned drilling over the next three or four years, that we will be able to HBP 80 to 90% of what we have today, and it's possible that with some third-party drilling, in which we'll be a non-operator, we might be able to be at 100%, but for right now, the vast, vast majority of Haynesville we will get to.

In the Fayetteville, it's about half and half as well in terms of non-HBP and HBP, and I think we're just about done in the next 24 months on HBPing acreage in the Fayetteville. In the Marcellus, it will be like the Haynesville, we'll be drilling wells there for years and years to come to hold leases but remember, most of our leasehold in the Marcellus has got seven to ten year term on it, and I think about 20% of our leaseholds there are already HBP anyway. We really don't have exposure to vast tracts of acreage that is going to expire. The good news, even if we have a little acreage that's going to expire here and there, its replacement cost today is much lower than it would have been six months ago. Obviously nobody is giving any value to it in our stock price anyway.

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

David Heikkinen - *Tudor Pickering - Analyst*

I notice you think about acreage costs six months ago to now. Can you walk us through dollar per acre or lease terms that you are seeing and then in the Haynesville specifically, how much -- how many acres are in dispute in your total acreage? Just trying to get to the numbers there.

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

I'm not going to go into detail on where acreage values are. I think the fact that we are in all of these plays and the only company in all these plays, I really don't want to reveal from a competitive perspective what we've been able to do in terms of driving current leasehold costs down, but they're down pretty substantially, and we're quite pleased with that. With regard to Haynesville, I don't have the total net acres, but it's a small part of our overall position there, and again, I will just reiterate that we think our ultimate exposure here is probably less than \$300 million, and we'll spend the next few months trying to get those cleaned up.

David Heikkinen - *Tudor Pickering - Analyst*

So if I ball parked 30 to 60,000 acres, that would be reasonable, or is that not even in the ballpark, with the \$300 million exposure?

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

I know what you are wanting to get to and I'm just going to say that the dollars involved are, in our opinion, less than \$300 million.

David Heikkinen - *Tudor Pickering - Analyst*

Okay. And then we've had questions on the VPP side of who are the buyers of those VPPs? What's their financial position? Kind of the risk of the other side of the transaction. Can you talk about who is buying those, Aubrey or Marc?

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

Marc did, but believe it or not, there are some financial institutions in the US that are still in business and still thinking about doing business. So I'm sure Marc won't probably specifically identify who they are, but there are a handful.

Marc Rowland - *Chesapeake Energy Corporation - CFO*

Yeah, I'm not sure I completely understood your question. Are you referring to the buyers that have already executed the transactions and what their --

David Heikkinen - *Tudor Pickering - Analyst*

Just kind of looking forward at four, five, and six, who are the prospective buyer types, or just kind of broad-brush --

Marc Rowland - *Chesapeake Energy Corporation - CFO*

Broadly, they're the same type of institutions that have done them in the past. Believe it or not, as Aubrey said, there are some financial institutions that are still looking for quality investments or loans. Obviously the rates have changed. There are other types of funds that are around that are -- we're in negotiation with and have expressed interest. There are still foreign banks

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

also that look to this, and remind you what this is. This is a -- an investment grade transaction that's fully hedged from a price-risk standpoint and the volumes that we're providing have large cushions of comfort, both on the producing side and on the tail end, such that most people view this as an investment grade investment or loan, depending on how you want to look at it, and I believe the rating agencies would view that as well. Now that the whole market has changed, the interest rate or the implied cost of those funds has increased, but nonetheless, it has increased to the point where for an investment grade type of investment, it's viewed as being better than many of the investments that they make.

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

The one common thread that you could tie all of the potential buyers together with would be that they all have active commodity hedging arrangements or commodity hedging desks, so that kind of tells you the financial institution that's playing it.

David Heikkinen - *Tudor Pickering - Analyst*

On the implied cost, your last VPP had a \$6.60-\$6.80 and M value, now talking kind of \$4.50, is that an implication of 30 to 40% increase in implied costs, or is it just the longevity of the asset and term of the production profile?

Marc Rowland - *Chesapeake Energy Corporation - CFO*

Certainly the profile of the asset and the average half-life of it is a component of it, but generally speaking, just to broad-brush it, I would say that the investment thresholds are generally at least 500 basis points over LIBOR, where our very first one that we did a year ago was 157 or 167 over.

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

Also, the biggest determinant in value, David, is the future gas price deck. So if we're at \$4.50 today, it is because gas prices are lower today, and I want to remind you that - think about \$4.50 per mcf. When we can sell for that, we're finding it in 2009 at \$1.20 per mcf, and Chesapeake is valued at \$1.50 an mcf, with giving no value to any of our other assets. So pretty attractive arbitrage, or said another way, I mean, if we couldn't find a counter party today that would do VPP for ten times bigger than what it's scheduled to be we would end up selling only about 20% of our production, and yet we could have bought 80% of our company on Friday with those proceeds. So that seems like pretty good math to us, and we'll continue to pursue these, because while we can't do them on a 10x scale, if we continue to do them and use -- and arbitrage the difference between how our company is valued and what we're able to get from the cash market, it seems like pretty good finance to us.

David Heikkinen - *Tudor Pickering - Analyst*

Thanks, guys.

Operator

Our next question comes from Tom Gardner with Simmons & Company.

Tom Gardner - *Simmons & Co - Analyst*

Good morning, guys. Hey, Aubrey, I had a question regarding your production growth forecast. Is the increase in the 2010 guidance relative to '09 entirely due to an increase in CapEx, or do you have additional drilling efficiencies worked into that estimate?

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

No, no drilling efficiencies. It would simply be the mix of drilling and the CapEx, and, of course, the '09 base is somewhat suppressed because of the impact of the VPPs as well. So that's why you get a little bit of percentage bump there.

Tom Gardner - *Simmons & Co - Analyst*

Going forward, how do you think about efficiency gains? When does the, I guess increase in gains due to lower drilling times and higher initial rates start to be counteracted by, let's say, infill drilling and other, I guess, diminishing asset quality?

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

Tom, I understand the kind of theoretical basis of the question, but we really have not seen that over time. All we continue to see are improving efficiencies, and on the shale plays we're finding that even if you put wells 500 feet apart, there's not an enormous amount of cannibalization of reserves. There's some for sure, but right now we don't -- we book reserves, or we assume booking of reserves based on the fact that the tighter the spacing, you will lose -- you will lose per well reserves. That's the way we think about reserve adds. But in terms of thinking about drilling efficiencies and thinking about frac job improvements over time, we really never anticipate that. That's just kind of a dividend or icing on the cake for us.

Tom Gardner - *Simmons & Co - Analyst*

Okay. Great. One other question. Your new guidance includes an increase in fourth quarter '08 CapEx. Can you talk about what were some of the factors that drove that number higher?

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

Oh, yes, just kind of -- the spill-over from reducing your rig count, it always seems to run a little slower than what you would like, and there's always a little bit of hangover or slop-over from bills that come in late. So, just a lag process from the time that you spud a well until you get a bill and you book it, get it billed out, and get your bills collected, all that. And likewise, in terms of leasehold, we started to ramp down on leasehold earlier this fall, and I think I saw that if you look at our fourth quarter 2008 leasehold CapEx expectation, I believe only about 6 or 7% of that is likely to be in the month of December, with the vast majority of it being in October and November. So things are coming down quickly, but as we got more clarity in how the numbers are flowing together, we went ahead and bumped up where we had to but again, it's just a lag factor from dropping rigs and dropping brokers.

Tom Gardner - *Simmons & Co - Analyst*

Thank you, Aubrey.

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

Thank you.

Operator

We'll have our next question from Biju Perincheril of Jefferies & Company.

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Biju Perincheril - *Jefferies & Co - Analyst*

Good morning. Your acquisition budget of \$300 million, is that on top of equity issue that the 25 million shares, or is that inclusive of that?

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

No, Biju, that \$300 million assumes that that is met with stock, but again, as I said in my remarks, we're not interested in issuing any stock at today's price for whatever purpose, and so again, it is our view that we can use equity to resolve some of the value disagreements that we have underway right now, but if we don't get a cooperative stock price we'll probably just manage it out over time for cash and work with it, but do not stack those two numbers, the \$300 million twice.

Biju Perincheril - *Jefferies & Co - Analyst*

Thanks for that clarification. And then if you look at your drilling budget, and you are looking at a 50% reduction, in '09, versus '08, if you look at your workforce, we know each dollar spent, there's tremendous amount of engineering and geologist work that needs to be done. Is there need for adjusting your workforce?

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

No, not really. We have 7,500 employees. The vast majority of those are over on the service side of our business. I think our E&P operation is, I think, around 3,000 employees or so. The company is going to continue to be growing. We're just not growing at 20 or 25%, at least on a reported basis. Remember that -- and when we do these VPPs, it reduces our reported production to you, but we are operating these wells still with essentially a zero working interest. So there's still plenty of work to do. You have a growing enterprise here, where we will be cutting back is in third-party land brokerage usage. We've already eliminated about 1,000 contractors.

I think last month I heard that we had laid off 1,500 employees in Arkansas. I think we have 100 employees in total in Arkansas, and what we did -- [multiple speakers]. The rumor was that we laid off 1,500 employees, and we only had 100 employees. So like most rumors about us, not true. We were laying off several hundred brokers, and we'll continue to do that going forward. So we've got a right-sized enterprise. We're still -- will be the most active driller in the country. We'll still be growing production.

If you were to add the VPPs back in at north of 10%, and that requires actually more people over time, we're certainly being more careful with costs all across the board. Time like this is really enjoyable in many ways because of the ability to get control over your costs. And I would remind you that guys like Marc and myself have been in this business since the early '80s, and the majority of our careers have been spent in a declining cost environment, rather than inclining cost environment. I think we're capable of managing a growing concern in a declining cost environment and delivering a lot of value to shareholders as a result of taking advantage of those cost reductions, and we are talking of every single vendor we have right now, working hard to get cost reductions aggressively across the board.

Biju Perincheril - *Jefferies & Co - Analyst*

Okay. Thank you.

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

Thank you.

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Operator

we'll have our next question from Eric Hagen of Merrill Lynch.

Eric Hagen - Merrill Lynch - Analyst

Good morning, Aubrey. Quick question on joint ventures. Are you pretty much where you are -- are you pretty much satisfied with where you are right now in terms of your joint ventures in major plays? Would you consider additional ones?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Yeah, sure, Eric. We're thrilled with where we are. I'm exceptionally proud of who my partners are, Plains, StatOil, BP. Do we have other companies calling us for joint ventures? We do. Do we have other areas that we could work them into? We do. And that's why, despite no confidence apparently in the marketplace, and in this management team's ability to bring in another partner, I think that we will find the opportunity in 2009, and probably in 2010, to bring additional partners in.

There are European companies that want to establish a leasehold in the US natural gas business, this is a great place, this is a great time to do so. And it's handy to be the number one gas producer in the US, number one leasehold owner in the US. If you are looking to establish a position in the US, it would seem like your first phone call is likely to be to us, particularly given the stamp of approval that companies like StatOil and BP have put on our company, our technical abilities and the quality of our assets.

Eric Hagen - Merrill Lynch - Analyst

At what level do you -- are you done selling down and what are your major plays? Is it when you get down to 50%, or is it just kind of --

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

It really depends on where the company is. If last week I could have sold an asset for \$5 billion, and just to make it up, say it's the Fayetteville, if I could have sold the other three-quarters of the Fayetteville for \$5 billion and bought back 80% of our stock, I think that would have been a pretty good move, and we'd still be producing over 2 bcf a day, still have over 11 tcf of reserves and still have 15, 16 million acres of leasehold. The extraordinary gap between the true value of our assets as demonstrated by asset sales through the year versus what the stock market says they're worth is such an enormous gap that it would be crazy for us not to try and take advantage of that. So as long as our stock price remains at a ridiculous price, we're going to continue to consider asset alternatives that allow to us take advantage of what I think is the biggest mismatch in asset value -- true asset value versus asset valuation that I have ever seen. We'll take advantage of it, and shareholders will benefit.

Eric Hagen - Merrill Lynch - Analyst

That's a realistic scenario. We shouldn't be surprised if you were to do another major transaction, say in the Fayetteville, and repurchase a bunch of shares?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Is it's possible. And I wouldn't limit it to the Fayetteville. Everything we have is essential valued at zero in our stock price today that's not a proved reserve. So it certainly would behoove us to continue to make additional transactions, I think.

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Eric Hagen - *Merrill Lynch - Analyst*

My other question was on internationally, now with StatOil as a partner, are we going to hear any data points internationally next year, any plays you are interested in?

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

We're just rolling into that with StatOil. I would imagine if and when -- I wouldn't say if. I guess when we find something to work on together, I doubt we will trumpet it as I think the combination of their international stature and presence and our knowledge of gas shale would do nothing but attract competition so I imagine we'll be reasonably silent on any international news for the next couple of years.

Eric Hagen - *Merrill Lynch - Analyst*

Thanks, Aubrey.

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

Eric, thank you.

Operator

Our next question comes from Wayne Cooperman with Cobalt Capital.

Wayne Cooperman - *Cobalt Capital - Analyst*

Hey, guys. I was just curious if you had any sense of just the gas market for the next couple years given what you have heard and what is your view on demand and supply, just hoping we'll get some clarity.

Marc Rowland - *Chesapeake Energy Corporation - CFO*

Sure, Wayne, this is Marc. I guess we think about that about 23 hours of every day. Clearly, the inventory levels and the production increases in the economy with resultant demand destruction has caused a short-term problem, is why we're so heavily hedged going into this winter and spring, and why we've converted so many of our kick-out levels to either collars or straight swaps. Honestly, our belief is it probably drops from here. It will set up the seeds of tremendous bull run, probably for the 2010 -- 2009-10 winter season as rigs lay down and we've talked publicly about that being 600, 700, 800 rigs potentially going down and the result of the declines, but that won't immediately affect production. There will be a lag, then a decline period. My best guess, and if Aubrey or Jeff have a different opinion, they can jump in, but my best guess is we see gas lower from here in the short term, and that sets up tremendous increase potential for gas in the 2009-2010 period.

Wayne Cooperman - *Cobalt Capital - Analyst*

Do you have a number of how much you think production will be down in '09 based on kind of your intelligence on rigs coming out?

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

I don't know if we're saying production will necessarily go down. I just think that the rate of increase certainly will slow in the market -- and the market will catch up to itself. I would also point out that last time I checked, at least the the NYMEX futures were 74, 75% short. So there would be a pretty massive short recovery rally if you ever got any positive data points. I would also remind everybody that I think the entire world oil business is sub economic at \$42 or \$43 a barrel. I think the entire US gas business taken in its entirety is sub economic at today's gas price as well. So --

Wayne Cooperman - Cobalt Capital - Analyst

I guess I'm not sure why I don't think you'll see a big decline in production next year unless guys just keep producing at sub-economic levels.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Well, I mean, you say big decline. First of all, people do produce gas for a time in sub-economic levels, because they don't necessarily replace it. They just produce it, and, of course, the variable costs of producing it is relatively low. So I'd just say that everything you want to see happen to balance the supply-demand part of the market is underway right now. Again, assuming the economy stays where it is, lower gas prices will stimulate some incremental demand. I was talking to a coal buyer actually yesterday afternoon who knew of some switching that was actually going on now. The Obama administration is going to be very tough on coal. We're very excited about that. I think gas is going to pick up a lot of market share over the next four to five years. So it's been a crazy year, a brutal year for investors in natural gas, but I think over the next three, four, five years, people are going to make a whole lot of money being long on natural gas rather than being short.

Wayne Cooperman - Cobalt Capital - Analyst

Thanks a lot.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Okay, Wayne, thank you.

Operator

Our next question comes from David Snow, Energy Equities.

David Snow - Energy Equities - Analyst

Hi. I was wondering, I had heard there's the credit default swap market was active in some of your debt. Wondered if you could give us any idea of what that might be and if there are any payment schedules that are involved.

Marc Rowland - Chesapeake Energy Corporation - CFO

David, I'm not sure I completely understand the question. Our debt, which is publicly traded, has had credit default swaps that have been traded by third parties for a long time. The company doesn't have anything to do with that. We don't trade in our own credit, in the credit default swap market. That's all third parties away from us. There's no obligation no, payment. We have

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

no risk. We have no involvement. We are the issuer of the debt and what someone does away from us is, we don't follow it, and we don't have anything to do with it.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

I would remind you, we have about \$12 billion of gas -- well of, senior notes, about \$10 billion of outstanding senior notes, none of it's due for just about five years, and some of it is not due for about 10 years, and so for us to repay \$10 billion of senior notes would require our proved assets to be worth about \$0.80 mcf. So if somebody wants to go bet money that we are going to default and our assets are going to be worth less than \$0.80 mcf, I guess they're free to do that. But I wouldn't view it as a very intelligent trade, given the asset values that we have. It does appear, from what I read in the papers, that it's a market pretty easily manipulated and a market that once manipulated is used to create fear among stockholders, so I suspect there's been a fair amount of that has gone on.

David Snow - Energy Equities - Analyst

Okay. Wondering, do you see any evidence yet of any slowdown in supply in the areas that you are operating in, or is it still to come?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Well, I mean, places like the Barnett I think are going to reach a lower peak than we would have thought of six months ago, three months ago, if for no other reason than our own slowdown. So I think you will see lower peaks in production and probably a longer plateau, and I think that's good news for the gas market, and gas markets adjust themselves pretty quickly, both up and down, and we're going through that today. So there will be a nice snap-back. I think when the economic news gets a little better and at that point we hope to have some more hedging opportunities for 2010, 11, and 12.

David Snow - Energy Equities - Analyst

I was thinking more near term. I see that DOE is looking at the hurricane as having the only impact on supplies through September. Is there anything you see slowing down or is it all pretty much as it had been?

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Other than hurricanes, the only thing I see is reduced rig count being likely to slow things down. There's one other wild card out there which is Representative Waxman seems to have an issue with hydraulic fracturing, and it is quite possible that the governor of production growth going forward could be it's just tougher to frac wells, given that about 99% of American wells have to be fraced these days, that's certainly something that nobody is calculating the impact of, but if there was somehow -- it became more difficult to fracture treat wells, it would definitely improve gas prices pretty dramatically.

David Snow - Energy Equities - Analyst

That would make life very difficult for you, I suspect, as a nonconventional gas producer.

Aubrey McClendon - Chesapeake Energy Corporation - CEO, Chairman

Actually, I would disagree. I would disagree - we have a very large HSC department. I would think it would be much harder on smaller companies that aren't used to dealing with regulators. Frankly, the more challenging the regulatory environment, the

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

more we like it, and the more we think we'll be able to differentially perform going forward. So I think that's -- I would not necessarily agree with that.

David Snow - *Energy Equities - Analyst*

Excellent. Thank you very much.

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

Dave, we appreciate your questions. I think we have time for one more. Is that right, Jeff? Whoever is next, fire away.

Operator

That final question will come from Biju Perincheril with Jefferies & Company.

Biju Perincheril - *Jefferies & Co - Analyst*

Question on potential joint ventures. The existing agreements with Plains or BP or StatOil, for that matter, does that -- is it clear that that does not preclude you from pursuing similar type JVs for those assets?

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

No, does it not, Biju. If somebody showed up tomorrow and wanted to buy 20% of the Haynesville, or for that matter, 20% of Fayetteville or 20% of something else we have, if the price were right and the embedded discount in our assets being sold were such that we could arbitrage the big difference between what the assets are really worth and what the stock market says they're worth, we'd be very inclined to do just that.

Biju Perincheril - *Jefferies & Co - Analyst*

Okay. Perfect. And then have you had discussions with the strategic buyers for assets other than shale properties for some of your more conventional properties? Are you seeing interest from large international buyers for those kind of assets?

Aubrey McClendon - *Chesapeake Energy Corporation - CEO, Chairman*

Yeah, we haven't really pursued them yet, because we've been so focused on finding partners in these big shale plays, and now kind of have them put to bed. We've already been working on some other things. We already have a nice deep Anadarko basin joint venture with BP that doesn't get talked about very much but we are partners in a Deep Springer program that's 18 to 20,000 feet deep, and the Anadarko drilling those kind of wells in the Anadarko basin. I'm very excited about some new projects that we have underway, and the Permian Basin, and I think those are going to create some opportunities for us to bring in some additional partners in new plays, and then our long established plays can be somewhere like Sahara and Oklahoma where we have 900,000 acres, we've drilled 1500 wells, another 10,000 to go. 0.6 of a bcf or \$800,000. Would that be attractive to some company to come in and buy a quarter of that? I think it's quite possible.

So, again, first-class asset base, a company that has shown itself to be attractive to some of the biggest companies in the world, and a management team that knows how to reduce concepts to value-added transactions for our shareholders, and I would expect that you would see more of that, although again, we're not budgeting for any of that, but I see no reason why we shouldn't do that, given that we make a lot more money doing that. Said another way, and I'll finish with this comment, if you just took

Dec. 08. 2008 / 9:00AM, CHK - Chesapeake Energy Corporation Conference Call

our three joint ventures away from the company, and made it its own E&P company, it would be the most profitable E&P company in the sector this year. I don't think anybody else is going to make \$9 billion this year in profits. Yet we'll do it just by selling some leasehold and three transactions. I think that's pretty impressive.

Appreciate the fact that I think we had over 600 people on the call today. Appreciate your interest in Chesapeake. If you have additional questions, please let us know. Thank you very much.

Operator

that does conclude today's conference. You may disconnect at this time. We do appreciate your participation.

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2008, Thomson Financial. All Rights Reserved.