



NATURAL GAS SERVICES GROUP, INC.

A N N U A L R E P O R T 2 0 0 6



ABOUT NGS



Headquartered in Midland, TX, NGS maintains a rapidly growing rental fleet of high quality rotary screw and reciprocating compressors in the 50-500 horsepower range. At the end of 2006 our rental fleet totaled 1,111 compressor units...the largest rental compressor fleet in our U.S. market segment. We provide repair and maintenance services of our rental fleet units through our network of district offices in Midland, TX, Farmington, NM, Bridgeport, TX, Tulsa, OK, and Lewiston, MI. We maintain fabricating facilities in Midland, TX and Lewiston, MI for the construction of rental fleet compressor packages.

Our engineered products subsidiary, Screw Compression Systems, Inc. (SCS), designs, fabricates and sells highly engineered rotary screw and reciprocating compressor packages ranging up to 1500 horsepower. They also fabricate compressors for additional rental fleet requirements.

NGS manufactures our own proprietary reciprocating compressor product line. The CiP (Cylinders in Plane) reciprocating compressor is a unique and efficient, small horsepower design that is utilized in our rental fleet and sold to compressor packagers and distributors throughout North America.

We design, fabricate, sell, install and service technologically advanced and patented industrial flare and ignition systems through our Flare King product line for use in onshore and offshore oil and natural gas production facilities.

Additional services include a compressor rebuild and exchange program and compressor parts sales.

Executive Officers and Directors

Stephen C. Taylor

Chairman of the Board, President and Chief Executive Officer
Natural Gas Services Group, Inc.

Earl R. Wait

Vice President – Accounting and Treasurer,
Natural Gas Services Group, Inc.

Jim Hazlett

Vice President – Technical Services,
Natural Gas Services Group, Inc.

Paul Hensley

Director, Natural Gas Services Group, Inc.
President, Screw Compression Systems, Inc.

Alan A. Baker

Director, Natural Gas Services Group, Inc.
Former President, Chairman and Chief Executive Officer
of Halliburton Company's Energy Services Group

Charles G. Curtis

Director, Natural Gas Services Group, Inc.
Retired, Former President and Chief Executive Officer
of Curtis One Inc., dba Roll Stair

William F. Hughes, Jr.

Director, Natural Gas Services Group, Inc.
Co-owner, The Whole Wheatery, LLC

Gene A. Strasheim

Director, Natural Gas Services Group, Inc.
Retired, Former Chief Financial Officer,
Skyline Electronics Products

Richard L. Yadon

Director, Natural Gas Services Group, Inc.
Owner and Operator, Yadeco Pipe & Equipment
President and Co-owner, Midland Pipe & Equipment, Inc.

John W. Chisholm

Director, Natural Gas Services Group, Inc.
Founder, Wellogix, Inc.

Independent Auditors

Hein + Associates, LLP
14755 Preston Rd, Suite 320
Dallas, Texas 75254

Legal Counsel

Lynch, Chappell and Alsup
Midland, Texas

Jackson Kelly PLLC
Denver, Colorado

Investor Relations

Creative Options Communications IR & PR
3204 Merrimack Lane
Flower Mound, Texas 75022
(972) 355-6070
www.jdcreativeoptions.com

Transfer Agent & Registrar

Computershare Trust Company, Inc.
Golden, Colorado

Annual Meeting of Shareholders

Date: June 19, 2007, 9:00 A.M. CST
Hilton Hotel – Midland
117 West Wall Avenue
Midland, Texas 79701

Form 10-K Filing

Earl R. Wait
Vice President – Accounting and Treasurer,
Natural Gas Services Group, Inc.

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Screw Compression Systems, Inc.
5725 Bird Creek Avenue
Catoosa, Oklahoma 74015
(918) 266-3330
(918) 971-1818 fax

West Texas

4925 SCR 1303
Odessa, Texas 79765
(432) 617-5051
(432) 617-5050 fax

TO OUR SHAREHOLDERS



*Stephen C. Taylor
Chairman of the Board, President
and Chief Executive Officer
Natural Gas Services Group, Inc.*

Dear Fellow Shareholders,

For the fifth consecutive year, Natural Gas Services Group, Inc. (NGS) reported record results. Our revenue increased 27% to \$62.7 million. This reflects a 42% increase in our rental revenues and 26% growth in our fabricated sales volume. Net income after taxes grew 71% to \$7.6 million.

We continued to vigorously grow our rental compressor fleet and had 1,111 units at the end of 2006. This was an addition of 246 net units, or 28%, through the year. This growth in the fleet was in addition to the 466 units we added over the prior two years. According to industry reported data, we operate the fifth largest rental compression fleet in the U.S.

Our compressor sales and fabrication business also grew quite well this year. Our backlog continued to be steady and increased towards the end of 2006. We ended the year with orders booked into October 2007. Our combined sales businesses, including flare sales, parts sales, CiP compressor frame sales and compressor rebuilds, grew to a combined \$38.2 million in 2006, a 26% increase.

In March 2006, we completed the sale of 2,895,500 shares of our common stock in a public offering and received net proceeds of just over \$47 million. From these proceeds, we retired \$5 million of long-term debt and used the balance, in addition to our internally generated cash flow, to add compressors to our rental fleet. We spent \$27.7 million in 2006 on capital expenditures, with 94% going directly to rental compression and associated rental service additions, such as service trucks and tools.

Our additional equity increased the number of outstanding shares by 34%, but we were still able to grow our earnings per common share. We earned 52 cents per diluted share in 2005 and 66 cents per diluted share in 2006, a 27% increase.

Our balance sheet is in the strongest shape it has been in the company's history. Long term debt was reduced to \$18.4 million at the end of 2006, a \$9.8 million reduction compared to year-end 2005. Shareholders' equity increased from \$45.7 million to \$101.2 million year-over-year and our long-term debt-to-equity ratio went from 62% to 18% in the same period. Our credit facilities were increased under more favorable terms. The reduction in long-term debt levels and corresponding enhancement of our borrowing capacity positions us to capitalize on opportunities that may present themselves and to weather any potential market disruptions that might occur in the future.

In 2006 we successfully implemented the processes necessary to comply with applicable parts of the Sarbanes-Oxley Act of 2002 pertaining to internal control over financial reporting. This was very time-consuming and expensive, but we implemented new controls in a timely manner and can now report on our internal controls in accordance with the SEC mandated safeguards.

In October 2006, for the second year in a row, NGS was named to the Forbes magazine list of 200 best managed small companies in the US. We are proud of this recognition and the progress we are making while we continue to build our business.

Our strategy of concentrating on the small-to-medium horsepower, wellhead rental compression market, particularly in unconventional natural gas plays, continues to drive strong growth for NGS. Natural gas from unconventional reservoirs is now the single largest and fastest growing gas source in the US and is a resource that particularly lends itself to the need for gas compression equipment. We continue to be confident of the future as it relates to your company and the industry as a whole.

Our success is the result of the contributions of many, whether they are shareholders, employees, customers or suppliers and I want to thank all for their part in making 2006 a record year. I look forward to continued success for our Company in the years ahead.

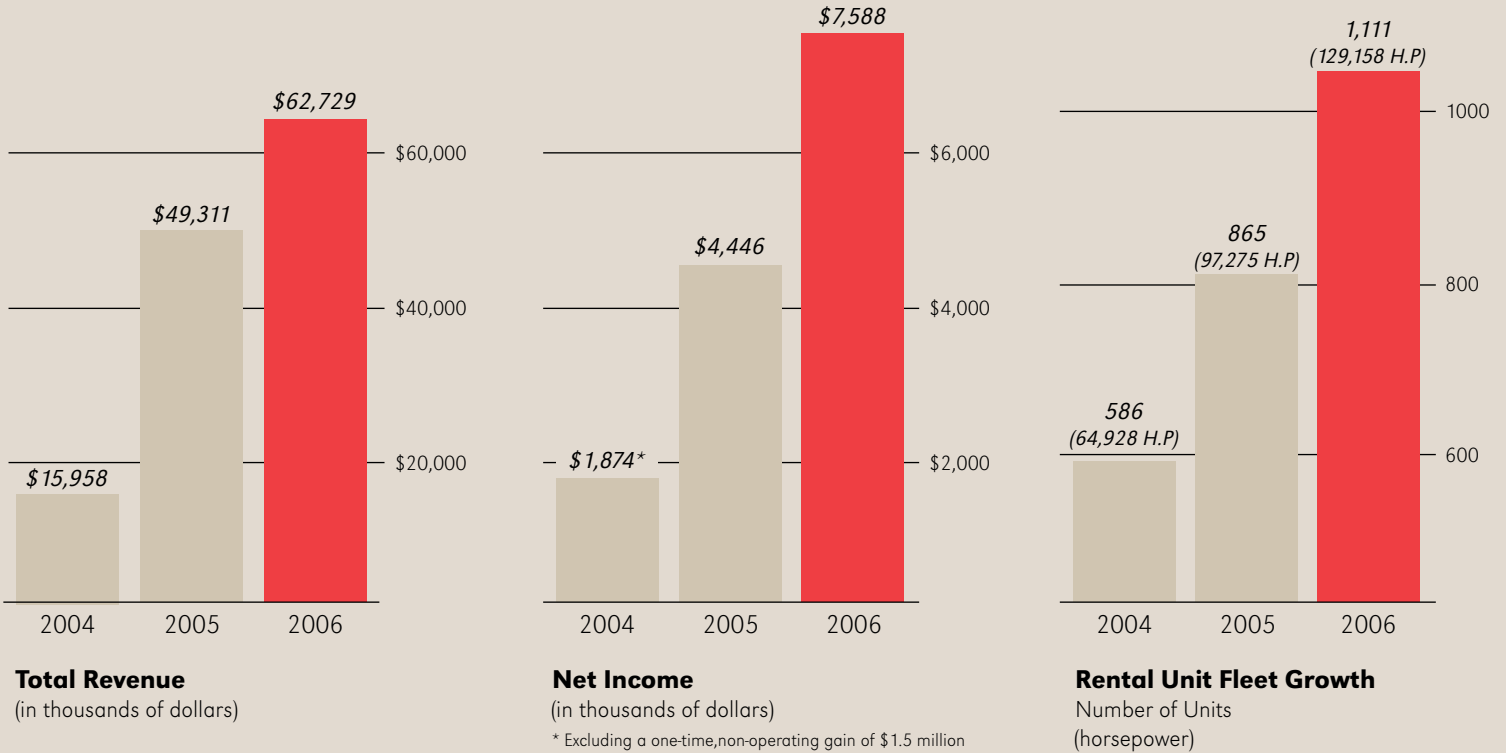
Sincerely,

A handwritten signature in black ink, appearing to read 'S. Taylor', written in a cursive style.

Stephen Taylor

Chairman, President and CEO

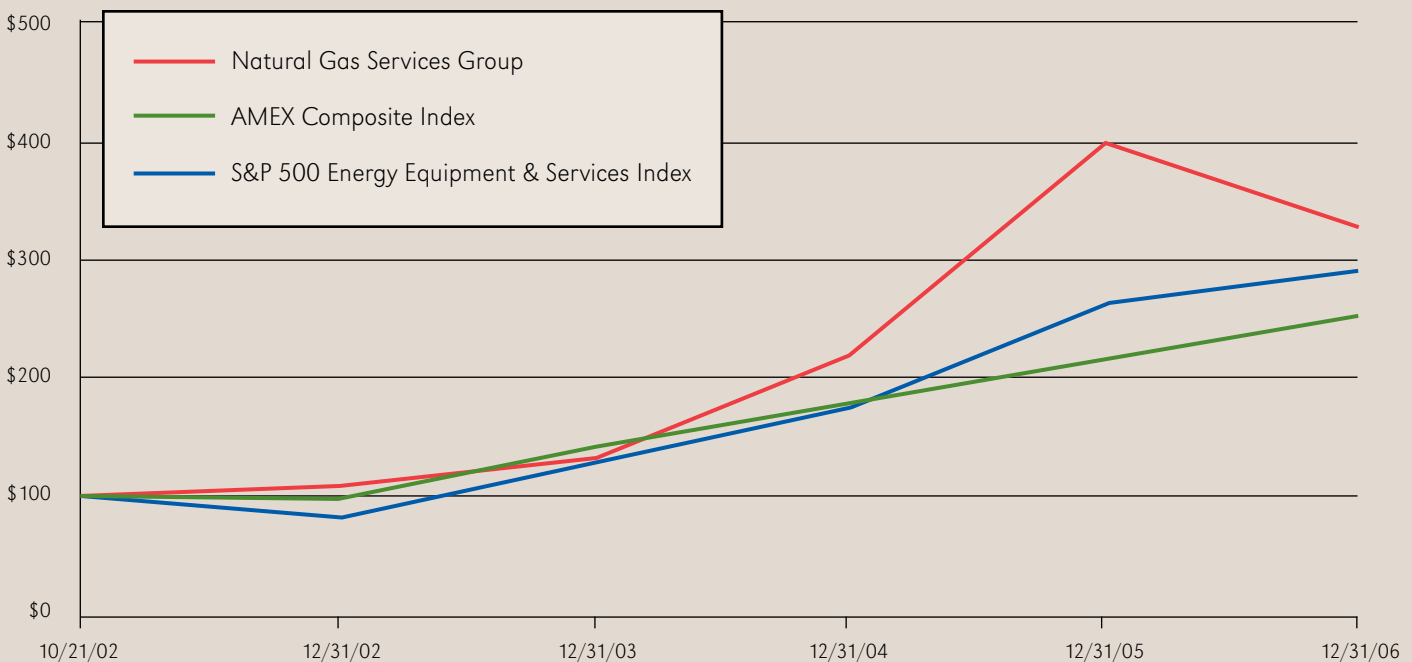
FINANCIAL HIGHLIGHTS



“Our strategy of concentrating on the small-to-medium horsepower, wellhead rental compression market, particularly in unconventional natural gas plays, continues to drive strong growth for NGS”

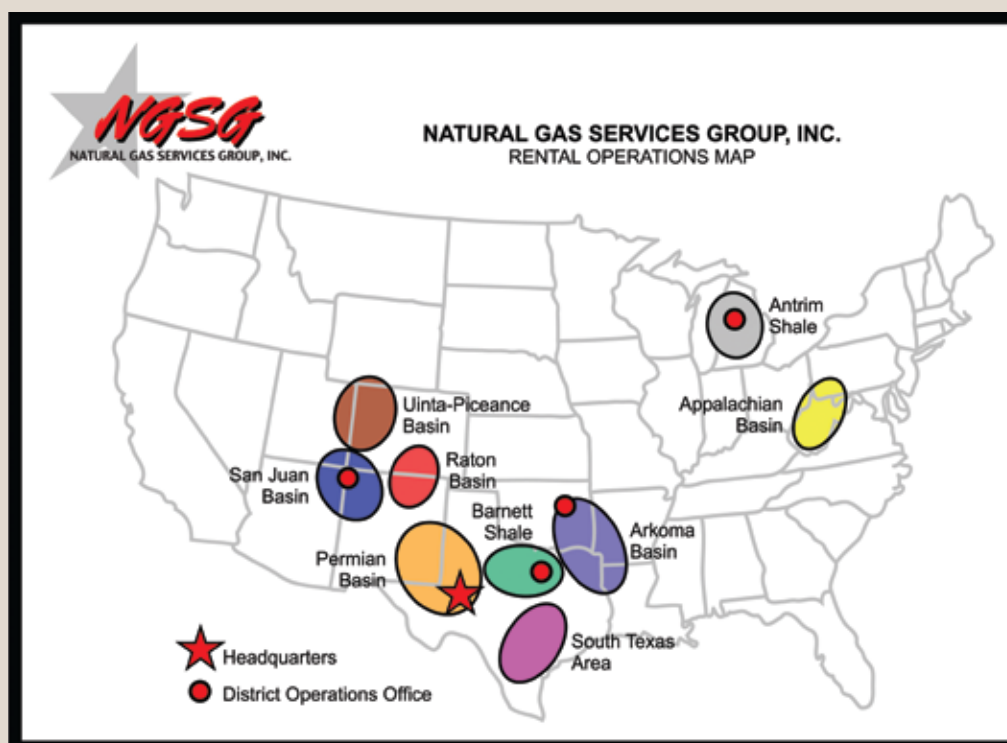
Comparison Of Cumulative Total Return*

Among Natural Gas Services Group, Inc., The AMEX Composite Index And The S&P 500 Energy Equipment And Services Index



* Assumes that the value of the investment in our common stock and each index was \$100 on October 21, 2002, the date of our initial public offering, and that all dividends were reinvested. Historical stock performance during this period may not be indicative of future stock performance.

OPERATING AREAS



Financial Highlights

(In thousands, except for per share data)

	2004	2005	2006
Total Revenue	\$ 15,958	\$ 49,311	\$ 62,729
Rental Revenue	\$ 10,491	\$ 16,609	\$ 23,536
Net Income	\$ 1,874*	\$ 4,446	\$ 7,588
Capital Expenditures-Rental Fleet	\$ 10,663	\$ 16,184	\$ 25,935
Earnings Per Diluted Share	\$ 0.29*	\$ 0.52	\$ 0.66
Weighted Average Shares Outstanding (Fully Diluted)	6,383	8,481	11,472
Cash Flow Provided by Operations	\$ 3,198*	\$ 3,789	\$ 16,076

* Excluding a one-time, non-operating gain of \$1.5 million

Stock Data

	2004		2005		2006	
	Low	High	Low	High	Low	High
First Quarter	\$ 5.41	\$ 7.20	\$ 9.08	\$ 11.11	\$ 16.57	\$ 22.80
Second Quarter	\$ 7.20	\$ 10.04	\$ 9.51	\$ 11.85	\$ 13.77	\$ 18.00
Third Quarter	\$ 7.12	\$ 9.45	\$ 11.55	\$ 36.00	\$ 12.01	\$ 16.69
Fourth Quarter	\$ 8.07	\$ 9.43	\$ 15.67	\$ 39.99	\$ 12.76	\$ 16.43



www.ngsgj.com

Offices

Headquarters

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