



NATURAL GAS SERVICES GROUP, INC.
ANNUAL REPORT 2007

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 sixth consecutive year, Natural Gas Services Group, Inc. (NGS) reported record results. Our total revenue increased 16% to \$72.5 million and net income grew 62% to \$12.3 million.

Earnings before interest, taxes, depreciation and amortization increased 40% between 2006 and 2007 and ran 38% of revenue in 2007, an enviable record itself. We earned 66 cents per diluted share in 2006 and \$1.01 per diluted share in 2007, a 53% increase.

Our capital expenditures in 2007 were a bit over \$25 million, with 98% allocated directly to growth capital, e.g., in support of expanding our rental compression services. Included in that amount was approximately \$2 million for the purchase and improvement of another facility for the fabrication of rental compression units. This facility more than doubled the floor space and acreage available to us for rental fabrication. We also invested approximately \$500 thousand into a significant upgrade of our information technology infrastructure.

We continued to vigorously grow our rental compressor fleet and had 1,353 units in it at the end of 2007. This was an addition of 242 net units through the year. We have added 767 compressors to our rental fleet during the 2005-2007 period and, according to industry reported data, we operate the fifth largest rental compression fleet in the U.S.

Our balance sheet continues to be strong. Total debt was reduced to \$14.6 million at the end of 2007, a 21% reduction compared to year-end 2006. Our total debt-to-equity ratio decreased from 18% to 13% in the same period and we ended the year with cash/cash equivalents of almost \$19 million. In today's disruptive credit markets we continue to have the luxury and flexibility to grow the business in an aggressive manner.

NGS's diluted earnings per share have grown 45% per year compounded annually between 2002 and 2007 while our market capitalization has increased 72% over the same period.

On June 30, 2007 we merged our wholly owned subsidiary, Screw Compression Systems, into NGS. While we are able to benefit from some nominal tax savings with the new structure, our driving force was to create one corporate entity and eliminate burdensome internal accounting processes required by the separation. We will retain the former subsidiary names as brand names, i.e., SCS Engineered Products will represent our custom fabricated sales out of Tulsa and CiP Compressors will continue to refer to our proprietary small-medium horsepower compressor frame

Again, in October 2007, for the third year in a row, NGS was named to the Forbes magazine list of 200 best managed small companies in the US.

From a market perspective we see continued opportunity for our business.

Over 31,000 development gas wells were drilled in 2007 in the US, but the supply of natural gas is projected to grow by an average of only 3% per year from 2007-2009 while it is estimated that we will consume an average of 4% per year over the same period. All of the bullish factors from the last 2-3 years continue, e.g., supply/demand imbalance, declining Canadian imports, increasing commodity prices, higher well decline rates, increasing capital budgets by our customers and continued active drilling in unconventional gas plays. Although there are market pressures that we have to contend with, primarily the increasing scarcity of skilled workers, constrained supplier deliveries and rising costs, NGS is optimally positioned in our market of choice and we should continue to grow steadily.

December 2008 will mark the 10th anniversary of the founding of NGS. The Company has come a long way in that short amount of time and it is attributable to the contributions of many, whether they are shareholders, employees, customers or suppliers. I want to thank all for their part over the past few years and particularly for making 2007 another 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 "Stephen Taylor". The signature is fluid and cursive, written over a white background.

Stephen Taylor

Chairman, President and CEO

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 2007 our rental fleet totaled over 1,350 compressor units...the largest rental compressor fleet in our U.S. market segment. We provide repair and maintenance services on our rental fleet units through our network of district offices in Midland, TX, Farmington, NM, Bridgeport, TX, Tulsa, OK, and Lewiston, MI. We maintain rental compressor fabrication facilities in Midland, TX and Lewiston, MI.

We design, fabricate and sell highly engineered rotary screw compressor packages through our SCS Engineered Products line in Tulsa, OK. This equipment ranges up to 1500

horsepower per unit and can be natural gas engine or electric motor driven.

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, distributors and end-users throughout North America.

The Company designs, fabricates, sells, installs and services 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.

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.
Senior Vice President of Technology

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 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
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Legal Counsel

Lynch, Chappell and Alsup
Midland, Texas

Investor Relations

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Transfer Agent & Registrar

Computershare Trust Company, Inc.
Golden, Colorado

Annual Meeting of Shareholders

Date: May 28, 2008, 9:00 A.M. CST
Hilton Hotel – Midland
117 West Wall Street
Midland, Texas 79701

Form 10-K Filing

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

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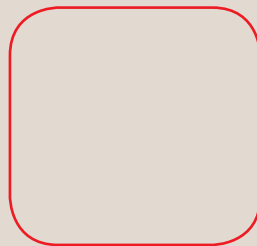
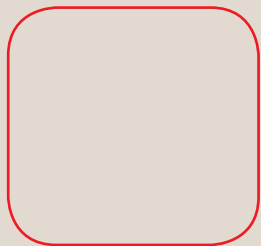
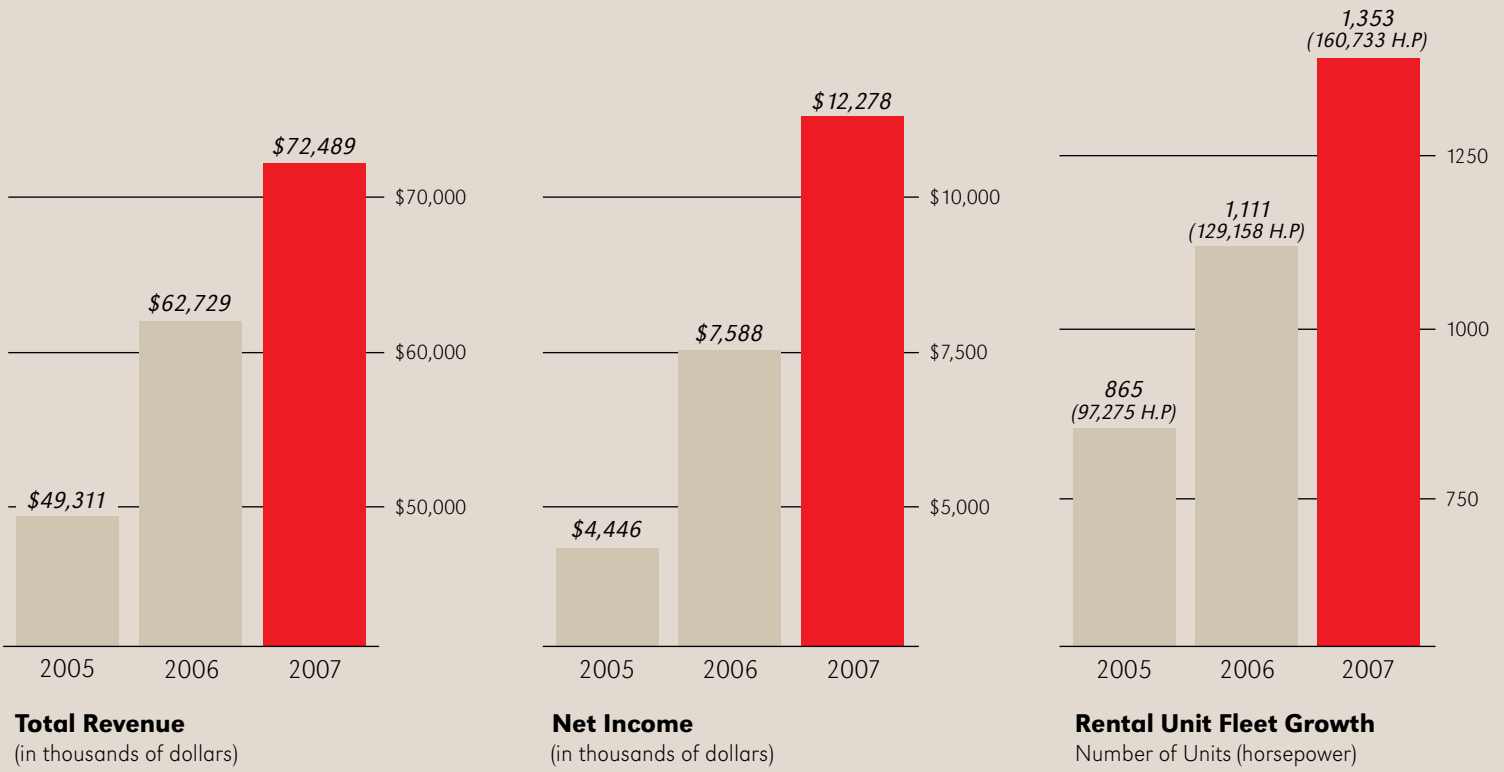
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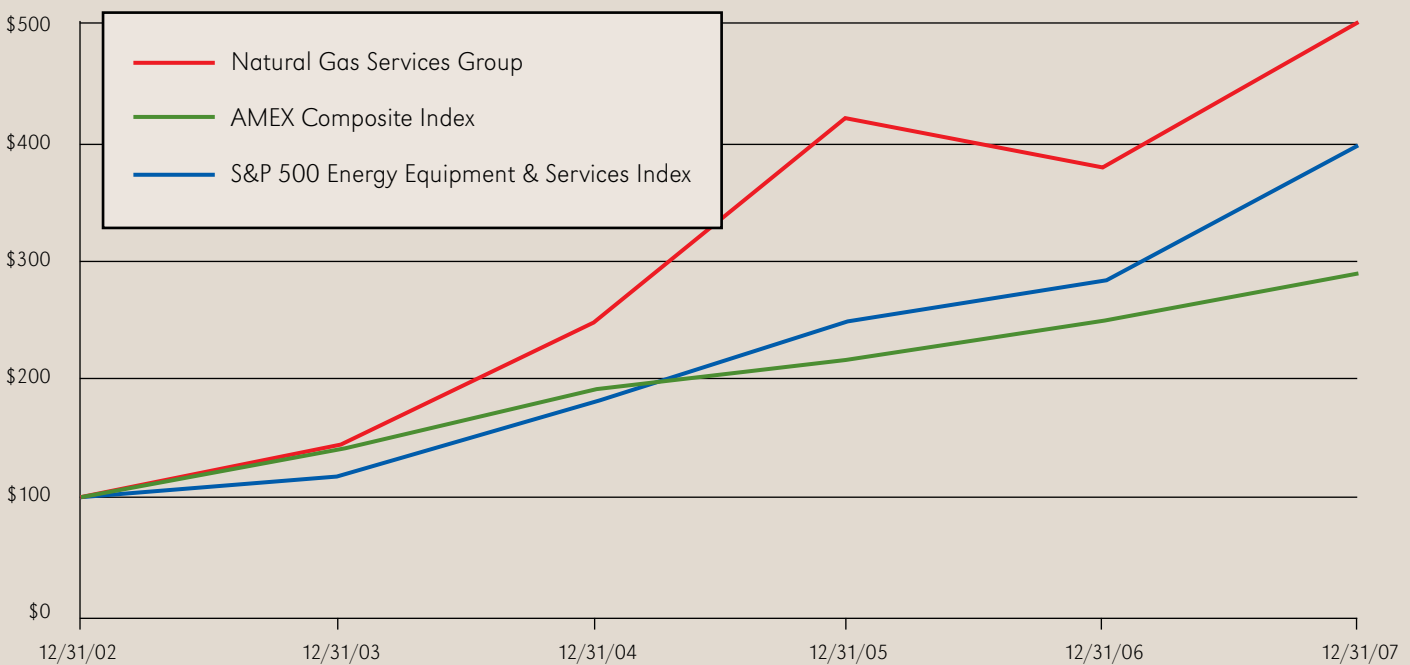
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FINANCIAL HIGHLIGHTS



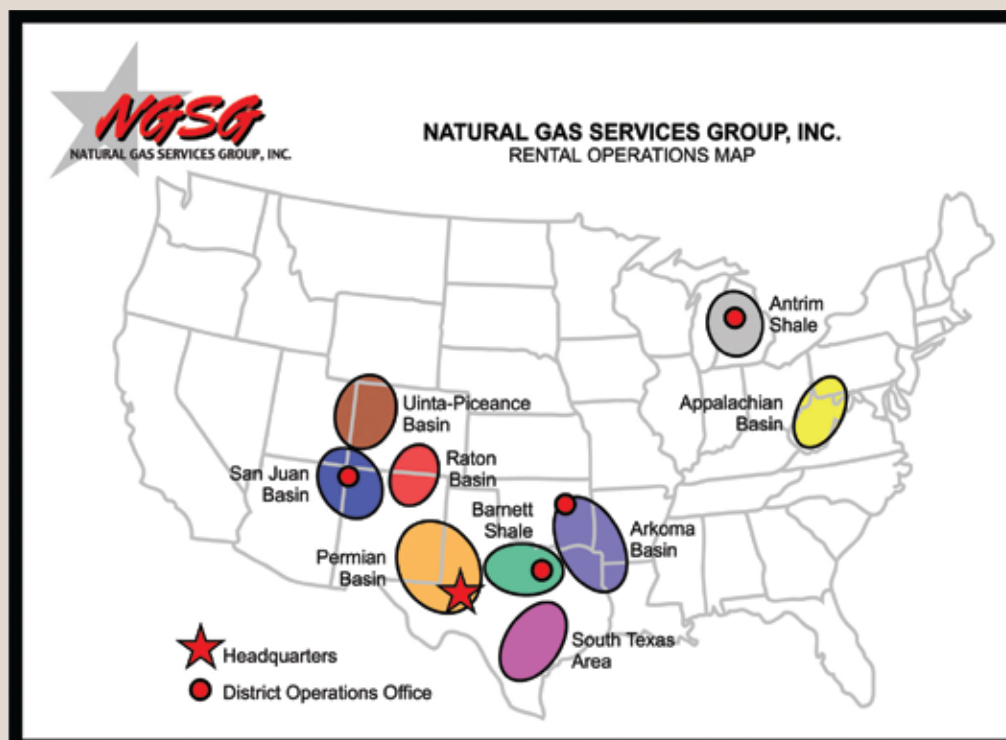
Comparison Of Cumulative Total Return*

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

	2005	2006	2007
Total Revenue	\$ 49,311	\$ 62,729	\$ 72,489
Rental Revenue	\$ 16,609	\$ 23,536	\$ 30,437
Net Income	\$ 4,446	\$ 7,588	\$ 12,278
Capital Expenditures—Rental Fleet	\$ 16,184	\$ 25,935	\$ 21,739
Earnings Per Diluted Share	\$ 0.52	\$ 0.66	\$ 1.01
Weighted Average Shares Outstanding (Fully Diluted)	8,481	11,472	12,114
Cash Flow Provided by Operations	\$ 3,789	\$ 16,076	\$ 18,269

Stock Data

	2005		2006		2007	
	Low	High	Low	High	Low	High
First Quarter	\$ 9.08	\$ 11.11	\$ 16.57	\$ 22.80	\$ 12.68	\$ 14.81
Second Quarter	\$ 9.51	\$ 11.85	\$ 13.77	\$ 18.00	\$ 13.81	\$ 19.65
Third Quarter	\$ 11.55	\$ 36.00	\$ 12.01	\$ 16.69	\$ 13.98	\$ 18.78
Fourth Quarter	\$ 15.67	\$ 39.99	\$ 12.76	\$ 16.43	\$ 16.69	\$ 19.61



www.ngsgi.com

Offices

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