



2008 ANNUAL REPORT

TO OUR SHAREHOLDERS



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

2008 Letter to Shareholders

Although 2008 was a record year for Natural Gas Services Group (NGS), the energy markets that we serve have experienced a dramatic decline in activity, as demonstrated by the drop in the number of gas drilling rigs and the corresponding deterioration of prices that our customers receive for their natural gas product. Drilling rig count in the U.S peaked in September, 2008 and now, a short 7 months later, activity has declined to less than half that amount.

2009 will be a year during which we stay particularly in tune with our customer's actions and activity. We do not anticipate being able to maintain the growth this year that we have experienced in the past, but we are exceptionally well positioned to traverse this downturn. Coinciding with that, we have announced our intention to limit capital expenditures to match our internally generated cash flow available from operations. We have also slowed our level of fabrication activity to match depressed markets, but we will continue to ensure that we work through our backlog according to our customer's requirements. We have aggressively paid down our debt over the past four years and the vast majority of our present capital structure is equity based. Our gross margins have been very strong, our overhead expenses have been controlled at very low levels and our market share has grown annually, all of which enable NGS to weather any storm that might develop. As evidenced by our margins, revenue growth and market penetration, we continue to be the preferred provider of small to medium horsepower compression in the fast growing unconventional gas basins of the U.S.

Our solid position going into 2009 is due to the excellent results we have had as a company in the past years, including 2008. In this recent year our revenue increased 18% to \$85.3 million with EBITDA (earnings before interest, taxes, depreciation and amortization) growing to \$34.9 million, a 28% increase and measuring a record 41% of revenue. Rental revenue alone grew 41% and comprised one-half of our total revenue stream while delivering two-thirds of our gross margin. This is exactly aligned with our strategy of increasing our rental revenue business component. Net income was up 27% as were our earnings per diluted share which ended the year at \$1.28. We added 377 compressor units to our rental fleet for a total of 1730 units at year end, making NGS the fourth largest rental fleet operator in the industry.

Going forward, NGS will emerge from this downturn in a relatively stronger position than our competition. We believe there are chances to increase our presence in various markets and we have begun to capitalize on them. We intend to maintain our service excellence, i.e., response and runtime, knowing that is the root of our success. Your management team has experience in up and down markets and the knowledge to match our defensive and offensive tools to situations as they arise and as markets dictate. We intend to maintain our excellent financial condition and look forward to a recovery in our markets in late 2009/early 2010.

In 2008 NGS experienced two significant milestones in the history of the company. Our common stock was listed on the New York Stock Exchange in October and we reached our 10th anniversary as a company in December. Additionally, for the fourth year in a row Forbes magazine named NGS as one of the best small companies in the U.S., ranking us at #38, our highest placement so far. While gratified by these accomplishments, we are beholden to our employees, customers, suppliers and shareholders for their hard work and support this past year. The opportunities for our company continue to be exceptional and I look forward to the future.

Regards,

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 Chief Executive Officer

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 2008 our rental fleet totaled over 1,730 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.

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Golden, Colorado

Annual Meeting of Shareholders

Date: June 16, 2009 A.M. CST
Hilton Hotel – Midland
117 West Wall Street
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Form 10-K Filing

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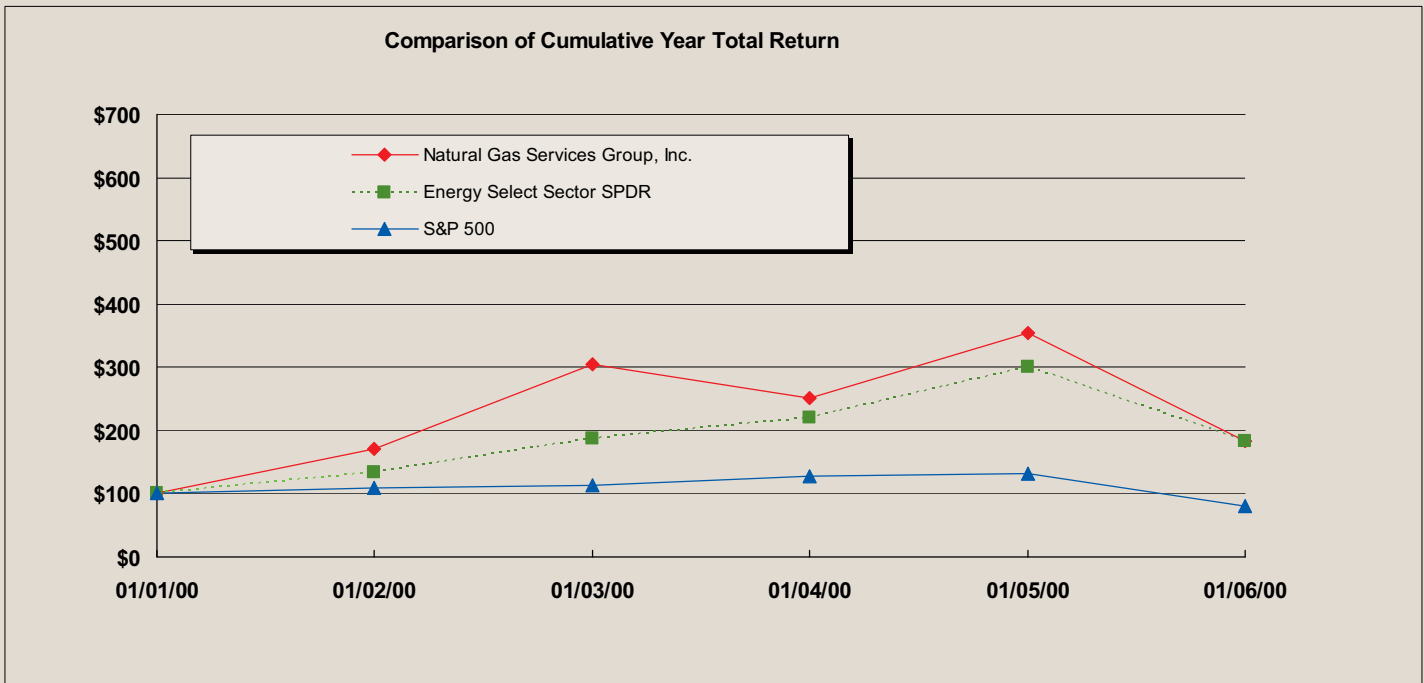
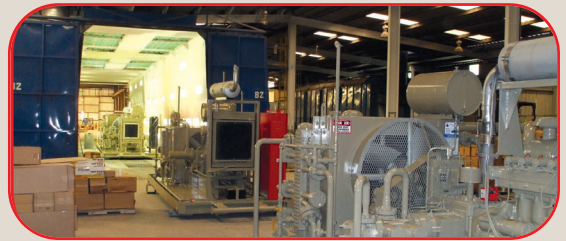
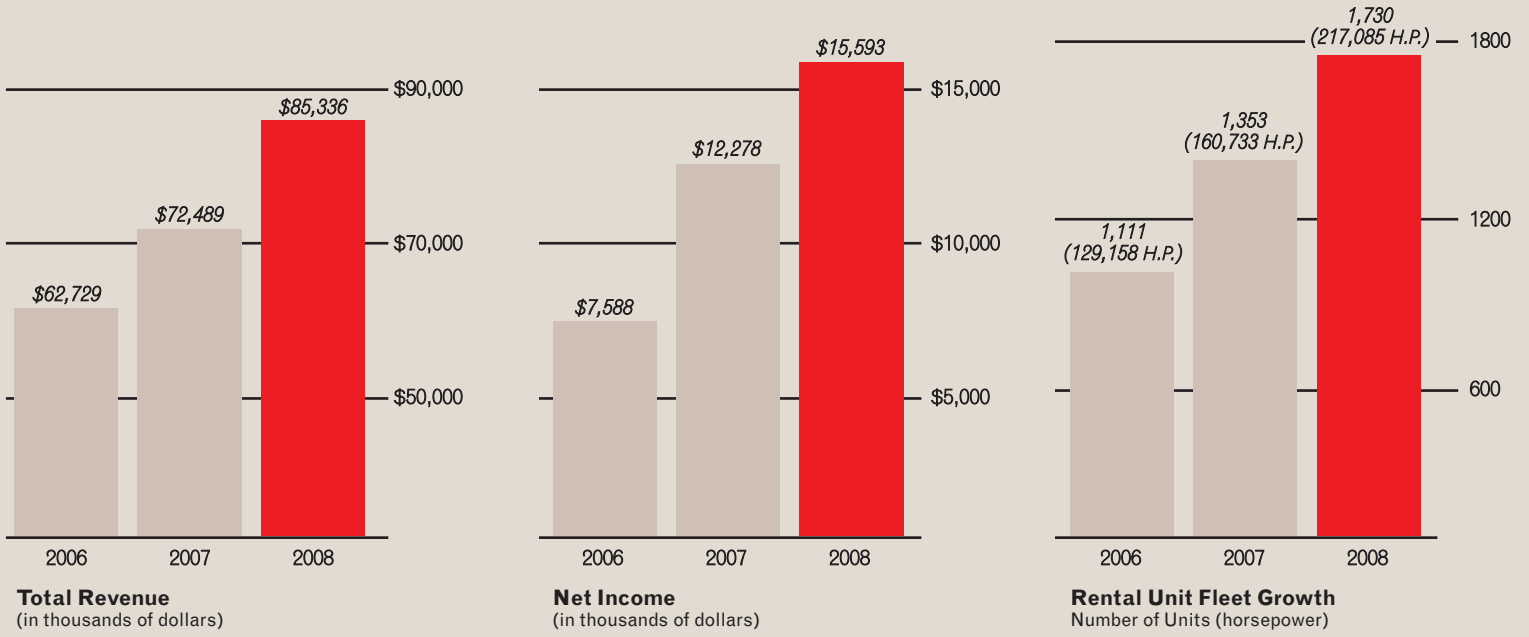
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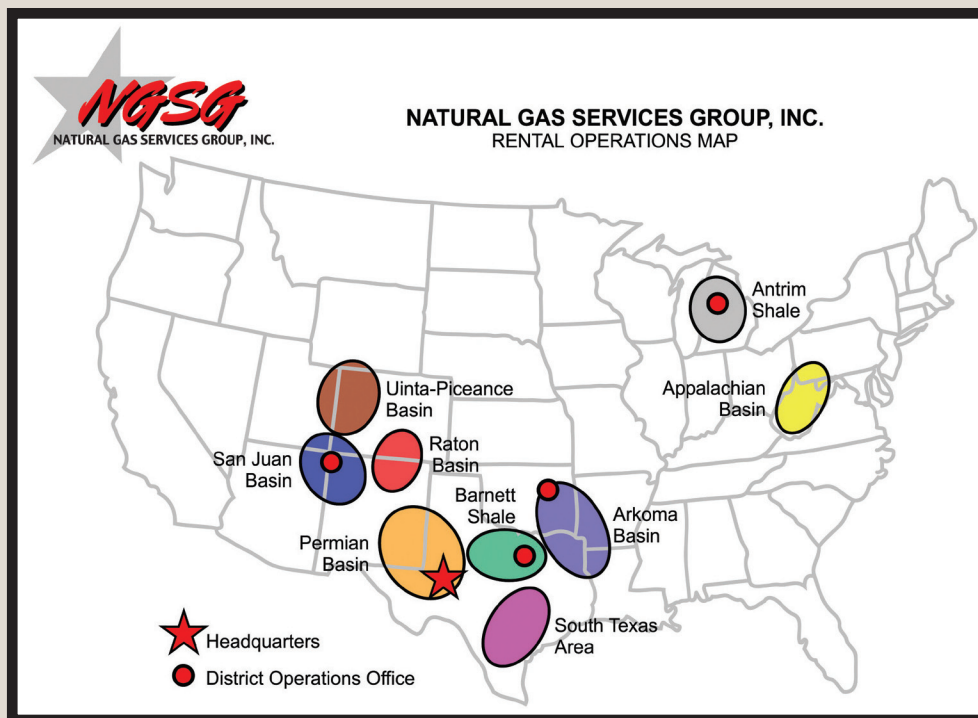
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FINANCIAL HIGHLIGHTS



OPERATING AREAS



Financial Highlights

(in thousands, except for per share data)

	2006	2007	2008
Total Revenue	\$ 62,729	\$ 72,489	\$ 85,336
Rental Revenue	\$ 23,536	\$ 30,437	\$ 42,864
Net Income	\$ 7,588	\$ 12,278	\$ 15,593
Capital Expenditures—Rental Fleet	\$ 25,935	\$ 21,739	\$ 44,057
Earnings Per Diluted Share	\$ 0.66	\$ 1.01	\$ 1.28
Weighted Average Shares Outstanding (Fully Diluted)	11,472	12,114	12,143
Cash Flow (Used In) Provided by Operations	\$ 16,076	\$ 18,269	\$ 28,250

Stock Data

	2006		2007		2008	
	Low	High	Low	High	Low	High
First Quarter	\$ 16.57	\$ 22.80	\$ 11.68	\$ 15.00	\$ 16.63	\$ 23.35
Second Quarter	\$ 13.77	\$ 18.00	\$ 13.55	\$ 19.90	\$ 22.28	\$ 32.56
Third Quarter	\$ 12.01	\$ 16.69	\$ 13.55	\$ 18.81	\$ 15.77	\$ 29.70
Fourth Quarter	\$ 12.76	\$ 16.43	\$ 16.45	\$ 19.61	\$ 6.60	\$ 16.81



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