



2011 ANNUAL REPORT

NGS
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NYSE

2011 Letter To Our Shareholders



Stephen C. Taylor
Chairman of the Board,
President & Chief Executive
Officer, Natural Gas Service
Group, Inc.

Fellow NGSG Shareholders,

2011 was a year of growth in a challenging atmosphere. Against a backdrop of stagnant natural gas prices NGSG was able to grow our rental fleet and, along with it, rental and sales revenues. Fleet utilization grew to 75% at year-end and our sales segment showed improvement with a significant contribution coming from production flare revenues. On the challenging side, competitive pressures held price increases to a lower level than desired and field operating costs continued to climb due to higher labor and maintenance costs. In spite of all this, NGSG's margins and growth rates continued to outperform our industry as a whole.

Total revenues for NGSG in 2011 were \$65.2 million, a 21% increase over 2010 with operating income growing by 31% to \$14.9 million. Sales, general and administrative expenses fell to 9% of revenue and net income increased 39% to \$9.8 million. I'd also like to highlight the fact that our rental revenues in the fourth quarter of 2011 were at a record high level. This performance was primarily driven by our ability to quickly reorient our rental operations towards the emerging oil shale and liquids-oriented plays. As our customers shifted away from dry natural gas drilling and production towards oil and liquids areas and activities and its associated gas, NGSG followed suit. We continued to place equipment into

the Barnett Shale, but also saw increasing volumes of associated gas business in the Granite Wash of Texas and Oklahoma and the Utica Shale in Ohio. As an indication of the speed at which we moved into these new operating areas; at year-end 2011 approximately 20% of our active rental fleet was installed in oil shale areas whereas in 2009 we had no exposure at all. Reorienting a material portion of our fleet while moving into new operating areas within two years attests to our ability to quickly identify trends and effectively and profitably act on them. With oil prices at a record price differential with respect to natural gas we expect the trend towards liquids and associated gas production to continue.

Now that 2012 is here we have seen a further deterioration in the price of natural gas. The very warm weather across the country this winter upset the supply/demand balance that prevailed during most of 2011 and has sent commodity prices down almost a third just since the beginning of the year to a ten year low. Along with this, the gas-directed rig count is also at its lowest level in ten years and storage levels are running at least 30% higher than last year. From this it is obvious that the dry-gas (non-liquids associated) markets will not provide any potential for growth this year and our challenge will be to continue our penetration of the liquids oriented markets while maintaining our preferred position in the traditional dry-gas areas of operation. The newer operations we have established over the past couple of years hold a promise of future growth and we are currently evaluating other geographic areas for additional expansion. Our strategy is solid, our ability to execute proven and we look forward to delivering added value and performance for our shareholders and employees this year.

We were also happy to welcome two new directors to our board this year with both of them having extensive experience in the oil and gas operating and service businesses. Ken Huseman, President and CEO of Basin Energy Services and David Bradshaw, former Chairman and CEO of Tipperary Corporation, joined us in 2011 and will be able to bring additional industry knowledge and insight to NGSG.

As always, we invite you to NGSG's Annual Shareholders Meeting to be held in Midland, TX on June 13, 2012 at 8:30 am at the DoubleTree Hotel at Midland Plaza.

Sincerely,
Stephen Taylor
Chairman, President and Chief Executive Officer

Cover Illustration: New NGSG wellhead compressors moving from the Midland fabrication facility to the Granite Wash of Texas.



EXECUTIVE OFFICERS & DIRECTORS

Stephen C. Taylor

Chairman of the Board,
President and Chief Executive
Officer

John W. Chisholm

Director, Founder, Wellogix,
Inc.; President, CEO, Chairman
of the Board, Flotek Industries

David L. Bradshaw

Director, Oil and Gas Investor,
Former Chairman and CEO,
Tipperary Corporation

G. Larry Lawrence

Vice President and Chief
Financial Officer

William F. Hughes

Director, Co-Owner, The
Whole Wheatery, LLC

Kenneth V. Huseman

Director, President and CEO,
Basic Energy Services

James R. Hazlett

Vice President –Technical
Services

Charles G. Curtis

Director, Retired, Former
President and Chief Executive
Officer of Curtis One Inc. dba
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Independent Auditors

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Annual Meeting of Shareholders

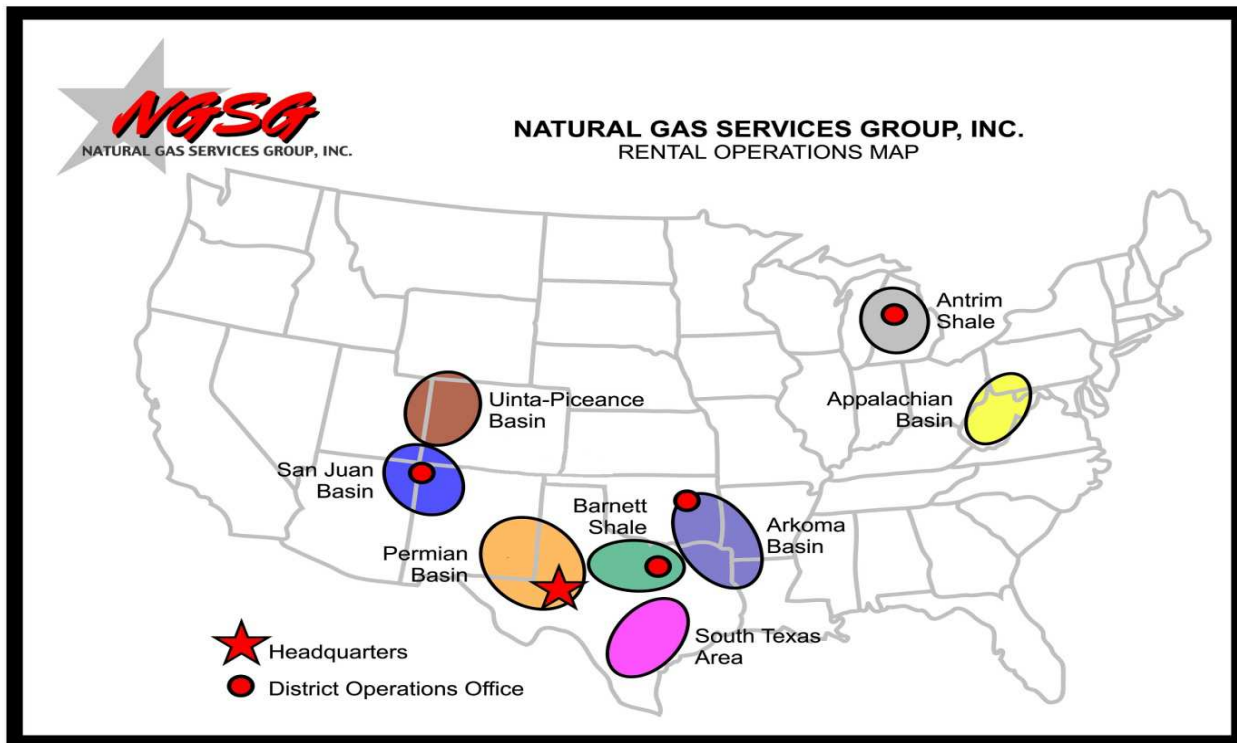
June 13, 2012
8:30 A.M. CDT
DoubleTree Hotel
117 West Wall Street
Midland, Texas 79701

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Investor Relations Coordinator
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Golden, Colorado



About Natural Gas Services Group, Inc.

Headquartered in Midland, TX, Natural Gas Services Group (NGS) maintains a growing rental fleet of high quality rotary screw and reciprocating wellhead compressors in the 50-500 horsepower range. At the end of 2011 the rental fleet totaled 2120 compressor units...the largest rental compressor fleet in the U.S. dedicated to the small-medium horsepower, wellhead market and the third largest overall. Repair and maintenance services for rental fleet units is provided through a network of district offices in Midland, Bridgeport and Godley, TX, Farmington, NM, Vernal, UT, Tulsa, OK, and Lewiston, MI, including the Appalachian and South Texas areas. Rental compressor fabrication facilities are located in Midland, TX. NGS designs, fabricates and sells custom engineered rotary screw and reciprocating compressor packages through our Engineered Products line in Tulsa, OK. This custom equipment ranges up to 2,500 horsepower per unit and can be natural gas engine or electric motor driven. NGS also designs, manufactures and fabricates a 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. Additionally, 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. NGS is a public company listed on the New York Stock Exchange (NYSE:NGS).

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