

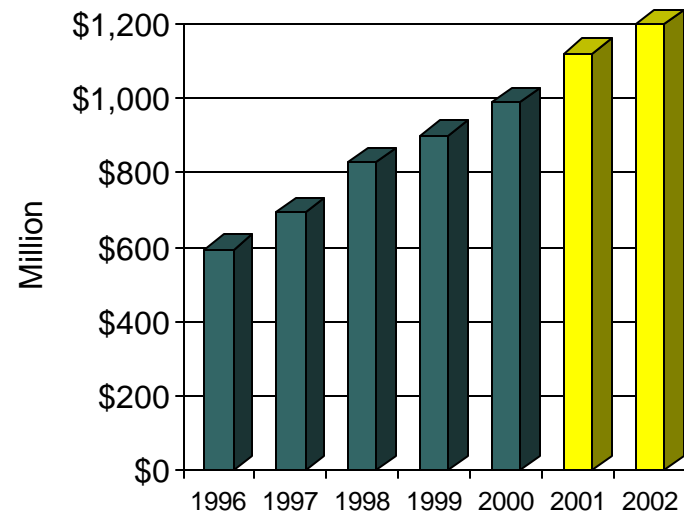
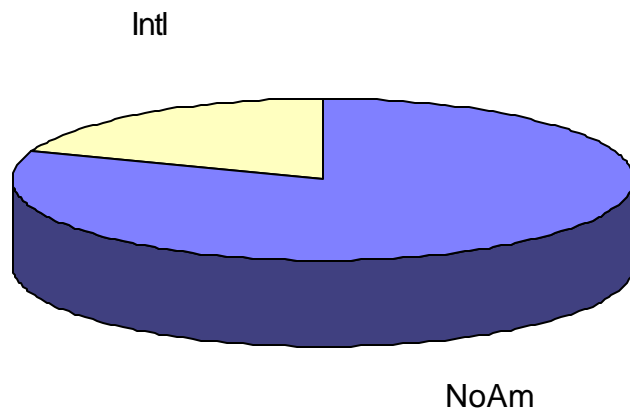
Example Report Segment

Contract Compression Services

Definition of Market Segment

All compression prior to the transmission line is considered field compression. There are three segments to the field compression market: **Wellhead, gas gathering and plant inlet.**

Contract compression services is the only market segment Spears & Associates tracks that has grown each year since 1996. While the market is indeed growing internationally and the assets of operators are transferring into the hands of service companies, most of the growth continues to come from the US market as gas demand, despite higher prices, climbs. At some point the gas producers will have transferred all the compression they want to to the service companies and at that point this market will rise and fall in like with gas supply/demand forces, but for now, the industry will continue to grow. Since 1996 contract compression revenues have almost doubled. We expect another 10% growth in 2002:



Example Report Segment

Definition of Market Segment (Continued)

- Wellhead:** Gas compression is required to boost the pressure of natural gas from the wellhead for subsequent reinjection for pressure maintenance or gas lift operations. Typically these applications require skid-mounted, low horsepower units located at the wellsite. Compression is particularly well suited for gas fields that are in the latter stages of depletion and require compression to extend their economic lives. Constantly changing conditions over the life of the field require that the compression requirements be continually modified, making equipment rental a viable alternative to equipment purchase. Reciprocating units are the dominant type of compressor used for in-field compression applications, but screw compressors have seen very strong demand growth in the last 3 years.
- Gas gathering:** Compression is required to combine gas flowing from several wells into a gathering line headed for a transmission line. Often gathering lines are undersized and not well planned, requiring compression to flow the combined production rates of several wells. Typically these applications require larger, higher horsepower which are candidates for rental due to gradually changing field conditions.
- Plant inlet:** Compression is required to combine the output of several gathering lines for final gas processing and treating and to boost pressure to enter the transmission pipeline system. Plant compression is rarely rented, but we believe there is a trend in that direction.

Operators and pipeline companies have four basic choices for meeting their in-field gas compression requirements: (1) owning and operating purchased equipment for their own account; (2) operating leased equipment; (3) contracting with a third party to operate equipment owned by the producer or pipeline company; or (4) contracting with a third party that both owns and operates the equipment. Options 2, 3, and 4 represent the contract compression market.

Producer owned and operated units account for about yy% of the fleet, or about ww million horsepower and zz,000 units (z,y00 hp/unit on average), while contract compression accounts for about Z million horsepower and ZZ,000 units (YYY hp/unit on average).

No one knows how much horsepower remains in the hands of producers. Compression turned out to be a good investment in 2001, so lots of units were sold directly to operators, reversing the trend of the last few years. We do not expect producers to continue buying horsepower like they did in 2000-2001.

Typically, plant inlet compressors are high horsepower units that are not rented due to the relatively consistent flow of gas and the need for only one type and size of compressor for the duration of the project. Compression fleet owners do not differentiate between in-field units, gathering units, and plant inlet applications when managing their equipment.

Example Report Segment

The Marketplace

Pricing structure

Compression service contracts typically include annual per horsepower increases in the monthly rental rate . However, average rental rates for a fleet of equipment are less sensitive to inflation adjustments than to changes in the mix of business. International units have per horsepower rental rates that are now approaching domestic rates as competition develops in South America. Contract operation of producer-owned equipment typically has lower monthly rates than company-owned units.

EBITDA profit margins approach 60% when utilization is high. At 100% utilization, for example, a typical rental unit can generate \$zz0/year in revenue per horsepower and \$zzz/year per horsepower in EBITDA profits. New compression equipment costs about \$xx0 per horsepower.

Rental fleet utilization is generally in the yy%-zz% range. During periods of gas price weakness compressor rental utilization does not usually decline, but pricing moves down. Domestically, average monthly rental rates have softened over the past few years.

Market drivers

The U.S. accounts for about z0% of the contract compression market. Longer-term, contract compression horsepower in the U.S. is expected to rise faster than the increase in gas production, which is expected to grow w%-w% per year in the future, as operators increasingly rely on outsourcing. The contract compression fleet has risen every year as a number of contract compression companies have significantly increased fleet size. Internationally, the market is driven by increases in gas production and compression requirements, and the trend toward outsourcing.

Outsourcing is a significant driver for the contract compression market. Producers and pipeline companies have found they can lower operating costs and improve efficiency by outsourcing compression requirements. Some operators have sold and leased-back their compressor fleets to rental firms in order to lower their investment in older fields. Producers continue with staff reduction programs that frequently include in-house compression and processing personnel.

Example Report Segment

Suppliers

Hanover Compressor and Universal Compression are consolidating the market and currently operate about 75% of the rental fleet.

Contract compression is the only oilfield segment that grows year in and year out. While the market grew at a robust 13% in 2001 due to unusually high gas prices, we expect to see growth continue at 10% per year for several more years.

	Revenues (Millions)							Ownership
	1996	1997	1998	1999	2000	2001	2002	
Hanover Compressor	\$zzz	\$zzz	\$zzz	\$zzz	\$zzz	\$zzz		Public
Universal Compression	\$zzz	\$zzz	\$zzz	\$zzz	\$zzz	\$zzz		Public
Compressor Systems, Inc.	\$zz	\$zz	\$zz	\$zz	\$zz	\$zz		Warren Eqpt.
J-W Operating, Inc.	\$zz	\$zz	\$zz	\$zz	\$zz	\$zz		Private
Weatherford/GSI	\$zz	\$zz	\$zz	\$zz	\$zz	\$zz		Weatherford Intl
Henry Production, Inc.	\$z	\$z	\$z	\$z	\$zz	\$z1		Private
Energy Industries	\$z	\$z	\$z	\$z	\$zz	\$zz		Precision Drilling
Enerflex Systems, Ltd.	\$z	\$z	\$z	\$z	\$z	\$z		Public
Others	\$zz	\$zz	\$zz	\$zz	\$zzz	\$zzz		
Total Market	\$zzz	\$zzz	\$zzz	\$zzz	\$zzz	\$z,zzz	\$z,zzz	

The leading companies all fabricate compressor packages and sell parts to support compressor operations. Fabrication can double the annual sales of many of these companies, although it dilutes gross margins.

Example Report Segment

Market Trends and Recent Events

Consolidations + Acquisitions

The contract compression market continues to be consolidated by Hanover and Universal. Some of the more significant transactions over the last few years include:

Summary of Recent Transactions

<u>Date</u>	<u>Acquirer</u>	<u>Company Acquired</u>	<u># Units</u>	<u>Horsepower</u>
1997	Camco	Production Operators	uuu	uu0,000
1997	Equity Compression	Ouachita Energy	uuu	uu0,000
1997	Castle Harlan	Tidewater Compression	uuu	uu0,000
1998	Schlumberger	Camco/POI		
1999	Weatherford	Global Compression		Joint Venture
2000	Hanover Compressor	CSI (SSSS)		
2000	Hanover Compressor	OEC		
2000	Hanover Compressor	Dresser-Rand		
2000	Universal Compression	Spectrum Rotary Comp.		uu,000
2000	Universal Compression	Weatherford Global		uuu,000
2000	Universal Compression	Gas Compressor Services, Inc.		uuu,000
2001	Universal Compression	IEW Compression		uu,000
2001	Universal Compression	KCI		uuu,000
2001	GE Power Systems	A-C Compressors		
2001	Hanover Compressor	Production Operators		uuu,000
2001	Collicut Hanover	Daval Industries	uu	

In addition to compression companies, Hanover is acquiring field process equipment (FPE) manufacturers and automation controls companies.

Market Trends

Midland-based Rotary Compressor Systems Inc., owned by CSI, has developed with Frick a very successful and efficient large rotary compressor that is enjoying rapid growth in the market.

Canada is not a significant rental market. Tax laws create the incentive to own, rather than rent, compression.