

True. Blue. News.

News from Valerus

July 2009



True. Blue. Opportunity.

Valerus Announces New Facility in Weatherford. See page 6 for full story.

Valerus Builds on 2008's Momentum for Continued Success in 2009

By Chet Erwin and Mike McGhan

With 2008 complete, we want to take this opportunity to review Valerus's priorities for the year ahead and share our thoughts about the key topics on everybody's mind, including industry trends and economic conditions, our competitors and our service strategy.

First, we want to thank our employees for the hard work and dedication you have exhibited during the last 12 months. 2008 was a milestone year for Valerus. Our revenue grew by more than \$200 million in an economy that presented significant

challenges. These outstanding numbers are the direct result of your commitment to Valerus's priorities, including customer service, improved processes and diligence in utilizing our assets.

Moreover, our profitability increased disproportionate to the increase in revenue, which puts us in an elite group. Our growth and success have earned us recognition on the "Chronicle 100," the *Houston Chronicle's* list of top 100 private companies in Houston, for both 2008 and 2009.

continued on page 2

Valerus Named Among Best Places to Work in Houston Once Again

Valerus was designated as one of "**Houston's Best Places to Work**" among companies with 101 to 500 employees by the *Houston Business Journal* for 2009, and previously in 2007.

To be considered for the honor, companies must be nominated. Nominations can be submitted

continued on page 7

Our industry continues to evolve; however, our fundamental strengths, challenges and strategic goals remain the same. As a result, our priorities are largely consistent with those communicated in 2008. In 2009, we must continue to:

Devote our efforts and resources to the right opportunities

The Valerus business model offers the unique advantage of being able to adapt to industry demand. As our customers experience capital limitations in 2009, Valerus is poised to provide contract compression. Further, our international expansion to include offices in Argentina and Brazil has positioned Valerus to maximize profitable international business opportunities in South America and around the world.

Expand system transparency and purchasing practices to reduce inventory and manufacturing costs

In 2008, Valerus was awarded the Infor Customer of the Year Award. This third-party endorsement of our Enterprise Resource System acknowledges its superiority and our ability to proactively manage our business. As we continue to improve our system transparency and purchasing methods in 2009, we will utilize our resources and inventory in the most cost-effective manner.

Drive safety and customer satisfaction

Valerus's commitment to safety and customer service continues to take priority. In 2008, we were the recipient of \$645,000 in funding from the states of Louisiana and Texas for our comprehensive training program. "Best in Class," our training program under the direction of Lou Boothe, continues to advance the skills and opportunities for our field services team.

Embrace our comprehensive EPS business model, as it offers value for customers and maximizes the synergy of our products and services

Maximizing opportunities to provide our customers with a turnkey solution creates value for our customers and for Valerus. Our complementary line of equipment, supported by expert sales, engineering, manufacturing, construction and operations teams, increases the company's market share. This profitable line of business is an added service to address the requirements of a capital-constrained industry.

V Focus on employee excellence

Paramount to the execution of our strategic goals is the empowerment of our team. We believe our people are what sets Valerus apart from our competitors. We proudly announce that, for the second year, Valerus has been recognized by the *Houston Business Journal* as one of Houston's best places to work. We are dedicated to our employees' personal and professional success. Our leadership team is committed to maintaining employee benefits such as the 401K match and health insurance coverage. In this time of downsizing and reduced benefits, we are proud of the enhancements we have been able to make to our benefit program during the past 12 months, including:

- Flexible Spending Accounts (FSAs): This pre-tax benefit was added in 2009 for medical and child-care reimbursement
- Employee Assistance Plan (EAP): This program provides employee assistance for legal and financial needs as well as dependency issues, will preparation, professional counseling and more
- Vision and Dental Coverage: Existing plans were improved to increase benefits at a lower rate structure
- Blue Cross Assist Programs: This benefit provides discounts on smoking-cessation and weight-loss programs or services (Curves®, Jenny Craig®, dieticians, gym memberships and the like)

By focusing on these five priorities, we will better serve our customers, while maintaining consistent revenue, increasing profit and expanding our market share.

Our company is the best in the industry for manufacturing, operations and providing a nimble and responsive approach to customer service. That doesn't mean we can't improve by holding ourselves to a higher, firmly established set of internal standards. But nobody works harder than we do. Nobody is more tenacious than we are. That's why we do what we do better than anybody in the industry and will strive to continue our record of exceptional quality and service. Our opportunities to transform the industry have never been greater.

We look forward to working with all of you as we focus on our five priorities during the 2009 fiscal year.



All Hail Shale:



In oil and gas exploration, shale used to be considered the rock that was drilled through to get to a reservoir rock. Not anymore. Shale has become an increasingly important asset to the United States and is now considered a treasure trove of oil and gas locked away in rocks buried deep underground.

Over the past 20 years, shale has come to the forefront as a major productive formation, primarily due to three factors: 1) a production stimulation technique known as hydraulic fracturing (“fracking”); 2) horizontal drilling; and 3) escalating oil and gas prices. As clean energy solutions and reducing dependency on foreign oil continue to play ever-increasing roles in meeting U.S. security and energy requirements, the shale plays have far-reaching significance. Valerus plays an integral part in the production and distribution of clean-burning natural gas, which will continue to be vital to meeting the growing energy demand in the United States and worldwide. According to the Energy Information Administration’s (EIA) 2009 Annual

Energy Outlook (AEO2009), U.S. natural gas supply is expected to be derived increasingly from domestic gas-filled shales. The AEO2009 predicts that production of natural gas from shale formations will increase from 1.2 trillion cubic feet in 2007 to 4.2 trillion cubic feet, or 18 percent of total U.S. production, by 2030.

There are an estimated 18 major shale gas basins in the United States. Among the most established are the Barnett shale, covering approximately 5,000 square miles in North Central Texas, and the Woodford shale in Oklahoma. Existing North American shale gas production is more than 5 bcf/d (billion cubic feet per day), with 70 percent attributable to the

The Bright Future of Shale Plays and Valerus’s Comprehensive Solutions for the Unconventional

Barnett shale.¹ Ramping up in 2008, the Haynesville shale (Northern Louisiana) was the hottest thing in the industry. Today, despite the economic downturn, this play remains one of the most active basins and is the source of more than \$56 million in revenue for Valerus, year to date. Among other emerging shales, the Marcellus shale, located in the Appalachian basin, has received increased attention as a result of promising production and its relative proximity to the highly populated East Coast. While shale plays are different in depth, characteristics and major players, the Valerus product portfolio, which includes compression, gas services, production equipment and engineering procurement services, is essential to the development of the field universally. As such, Valerus has strategically located offices in the most active basins including the Barnett, Haynesville, Piceance, Appalachian, Woodford, Devonian and Fayetteville regions.

The equipment employed in shale natural-gas production will be a part of the landscape for a generation. During production, besides natural gas, other fluids are brought to the surface of gas wells. These fluids are a mixture of natural gas, other gases, water and hydrocarbon liquids. Valerus production

equipment manufactured in our Schulenburg, Victoria and New Iberia facilities is utilized in the initial phase of production. The fluid mixture is first sent to a separator unit, which reduces the pressure of the fluids and separates the natural gas and other gases from any entrained water and hydrocarbon liquids. The gases are collected off the top of the separator, while the water and hydrocarbon liquids fall to the bottom and are then stored onsite in storage tanks. The tank battery, fabricated in our Longview facility, can serve one or several wells. As gas flows from the well-head to the separator, it is redirected, and water or other fluids are pumped into the tanks. The tank battery is surrounded by a containment system, a low wall designed to contain any liquid that escapes from the tanks. Other Valerus production equipment is utilized in oil and gas production facilities and gas-gathering systems, including heater treaters and glycol dehydrators. The heater treater prevents the formation of water, ice and natural gas hydrates, which can plug the wellhead and lines. A glycol dehydrator is utilized in oil and gas production facilities to dry or condition the natural gas before its sale to the gathering system or pipeline.

Continued on page 6



Rayne Compressor Station Expansion: Engineering Procurement Services (EPS) project during its initial construction phase. Project began with greenspace.



During Construction Phase: Valerus provided foundation design, engineering, construction, interconnect, the control system including emergency shutdown and 3300 Hp of compression equipment, pumps, tanks and vent system.



Final Location: Fast-track project, completed in just five months.

Map Source: Energy Information Administration based on data from various published studies. Updated: May 28, 2009



New Weatherford Facility Completed

Valerus recently opened a new facility just south of Weatherford, Texas, at 1303 Azle Highway. Covering five acres with a total square footage of 11,400, the facility includes a 3,000 square foot district office and an 8,400 square foot shop equipped to provide quick overhauls of small wellhead and plunger lift compressors.

Developed with customers in mind, the new facility is conveniently located away from high-traffic areas to allow easy access. In addition, the fully stocked onsite warehouse features a convenient parts counter for customers to drop by, get their parts and have a cup of coffee. A large inventory of Ariel™, GE and Ajax products is in stock, along with other primary compressor and engine components and parts.

Located at the Weatherford facility is a highly trained and experienced staff of compressor and production-equipment field technicians, positioning the new facility as a one-stop shop for customers in the Fort Worth basin and Barnett shale regions.

Natural gas is transported from wells in mostly underground gathering lines, referred to as a gathering system. These lines form networks that can eventually collect gas from hundreds of thousands of well locations. Gas is transported in pipeline networks from wells to processing plants, compressor stations, storage formations and/or the interstate pipeline network for eventual delivery to customers. Compressors assist in the production of natural gas from wells, pressurize natural gas from wells to lateral lines, and power the transport of natural gas in large pipelines to and from processing plants and through the interstate pipeline network.

The Valerus Engineering Procurement Services (EPS) model provides a value-added solution for customers and has been particularly well received in the Haynesville shale. Operators have found that by optimizing the experience of Valerus process and treating specialists to design, fabricate, install, operate and maintain their process plant, they are able to secure accelerated delivery, reduce the overall cost of their project and ensure operations reliability.

¹ Ziff Energy Group, Shale Gas Outlook, March 2009

Valerus Participates in 2009 Mexican Petroleum Congress



Valerus recently took part in the 2009 Mexican Petroleum Congress, held during the second week of June in Veracruz City in the state of Veracruz, Mexico. This is the single most important annual event for the oil and gas industry in Mexico. It provides a forum for the sharing

of technology among key players in the industry and offers technical workshops that set the tone for the industry and provide attendees information on the latest technological advances.

A private dinner event was hosted by the Valerus team to celebrate the

customers and suppliers who have helped make us a success in Mexico. Valerus is a strong player in the contract compression market in Mexico and is committed to growing our market share there through consistent service to our neighbors to the south.

Valerus Completes Brazil Station in Record Time

Valerus recently announced the completion of its first EPS project in Brazil, a compressor station located in the Minas Gerais state in the southeastern region of the country. The entire station was completed on budget and ahead of schedule, in a record 100 days.

Valerus completed the project in conjunction with Geoterra, its joint-venture partner in Brazil, for customer Transportadora Associada de Gas (TAG), a company of the Petrobras Group. The booster station will be a key component of the infrastructure that powers distribution through the GASBEL pipeline, which links

Rio de Janeiro to Belo Horizonte, the capital city of Minas Gerais.

“Completing the new station so quickly and efficiently demonstrates our EPS capabilities and positions us to embrace new opportunities and have a significant impact on the region,” said Todd Rutherford, vice president of International for Valerus.

Best Places to Work continued from page 1

by anyone – employees, customers or third parties. Employees of nominated companies then fill out a survey of 35 to 40 questions, rating their company’s performance in a variety of categories. The categories focus on critical organizational issues such as the effectiveness of upper-level management, trust in senior leaders, management’s treatment of, and respect for, employees and the work ethic of co-workers, to name a few.

Survey questions are designed to encourage employees to reflect on their own contribution to the company, as well as that of colleagues and managers. In addition, they are asked their opinion on a number of other intangibles that set the overall tone and personality of a company’s work environment.

The awards ceremony, where companies learned their official ranking on the list, took place the evening of June 24th at the Hilton Americas Hotel in downtown Houston.

100 DAYS FROM START TO FINISH



March



April



May



June

VALERUS EMPLOYEES SOUND OFF ON WHAT MAKES VALERUS SO GREAT

"Valerus is one of those places where you wake up in the morning and want to come to work ... everyone gets along and there are many opportunities to take your career further if you want to." -**Yolanda Becerra, Accounts Payable**

"Our people are intelligent, creative thinkers, kind, funny, empowered and motivated. In good times or stressful times, you can count on our team to work hard, find solutions and have fun doing it." -**Suzanne Ogle, VP of Marketing & Investor Relations**

"After two and a half years, it still feels like the first day on the job." -**Glynn Waguespack, Sr. Project Manager**

"Valerus is the best place to work because we have the smartest, friendliest, most dedicated employees, the most advanced information infrastructure in our industry and a relaxed and flexible work environment. The most unique thing about the company is our enthusiasm, which has enabled us to sustain impressive growth, going from scratch to being a \$400 million-plus-per-year major player in our industry in just seven years."
-**William D. Wuertz, II, Report Developer**

"Valerus is the best place to work because we care."
-**Mike Paris, VP of Engineering & Manufacturing**

"Valerus incorporates a comfortable, family-oriented and professional environment into the workplace ... and offers all employees a sense of self-worth and admiration when new ideas to make our company more efficient are brought to the table." -**Chamesha Randall, SRO Coordinator**

"Valerus provides an energetic, team-oriented culture that inspires the best in each employee." -**Dawn Born, SVP, General Counsel**

"The most important qualities to be a Valerus employee are positive energy, flexibility, imperfection, a sense of humor and an understanding that not only are we a team at Valerus, we are also on the same team as our customers."
-**Robyn M. Underwood, Sr. Legal Assistant**

"Valerus is the best ... because of its entrepreneurial environment, self-motivated teams and work flexibility. Each individual has the ability to take ownership of their function and make a difference in the organization." -**Jim Nicholson, VP of Human Relations**

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