

Corporate Governance Principles



Corporate Governance Principles and Committee Charters

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HANOVER COMPRESSOR COMPANY

CORPORATE GOVERNANCE PRINCIPLES

The following principles have been approved by the Board of Directors (the "Board") and, along with the charters of the Board committees, provide the framework for the governance of Hanover Compressor Company (the "Company"). The Board recognizes the evolving nature of corporate governance principles and standards, and it will review these principles and standards and other aspects of the Company's governance program annually or more often if deemed necessary.

Respective Roles of Board and Management

The Company's business is conducted by its employees, managers and officers, under the direction of the chief executive officer ("CEO") and with oversight from the Board, as part of the overall effort to enhance the long-term value of the Company for its shareholders with the Chairman serving as the Lead Independent Director. Consistent with its oversight responsibilities, as it deems appropriate the Board relies on the completeness and accuracy of the information provided to it by management and by outside advisors to the Company.

The Board is elected by the shareholders to oversee management and to set a tone from the top that all facets of the Company's business must be conducted with integrity and in a manner consistent with the highest standards of business ethics, and in the best interest of shareholders. The functions of Chairman of the Board and CEO are distinct, and the Board has determined that such functions at this time should be performed by separate individuals. If the Chairman is determined to be "independent" in accordance with these Principles at the time of his or her election as Chairman, the Chairman shall also be the Lead Independent Director and all references to the Lead Independent Director shall mean the Chairman. If the Chairman is not determined to be "independent" in accordance with these Principles at the time of his or her election as Chairman, the Board shall designate a different director to serve as the Lead Independent Director.

The Board

Size of Board The Company's bylaws provide that the Board shall have flexibility in determining its size from time to time. The Board currently believes that the best size for the Board is eight to twelve members, and that no more than two of such members should be employees of the Company.

Selection Process Directors are elected each year by the shareholders at the annual meeting of shareholders. Shareholders may propose nominees for consideration by the nominating and corporate governance committee (consisting solely of independent Directors), within the time frame published in the Company's proxy statement, by submitting the names and supporting information :

Secretary, Hanover Compressor Company, 12001 North Houston Rosslyn, Houston, Texas 77086. Any shareholder nominated director will be evaluated in the context of the Company's director qualification standards, the existing size and composition of the Board and board balance interests. The Board proposes, based on the recommendation of the nominating and corporate governance committee, a slate of nominees to the shareholders for election to the Board. The Board determines the number of Directors on the Board. Between annual shareholder meetings, the Board may elect to fill any vacancies on the Board to serve until the next annual meeting.

Qualifications Directors should possess the highest personal and professional ethics and integrity and should have outstanding judgment, skill and expertise in matters relevant to the business of the Company. The Board, as a whole, through its individual members, seeks to have competence in areas of particular importance to the Company such as finance, accounting, international business, and relevant technical expertise. Directors must be committed to enhancing the long-term interests of the shareholders as a whole and should not be biased toward the interests of any particular segment of the shareholder or employee population. Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively. Directors should be prepared to travel to personally attend meetings of the Board and its Committees and should be ready to dedicate sufficient time to prepare in advance of such meetings to allow them to make an effective contribution to the meeting. Board members should ensure that they are not otherwise committed to other activities to make a commitment to Hanover's Board impractical or unadvisable. In addition, Directors are encouraged to attend Annual meetings of shareholders where at all possible, although such attendance is mandatory only for the Chairman and Lead Director. Directors should offer their resignation in the event of any significant change in their personal circumstances, including a change in their principal job responsibilities, that may interfere with their ability to fulfill their duties and responsibilities to the Board.

Directors who also serve as CEOs or in equivalent positions should not serve on more than two boards of directors of public companies in addition to the Board, and other Directors should not serve on more than four other boards of directors of public companies in addition to the Board. Current positions in excess of these limits may be maintained unless the Board determines that doing so would impair the Director's service on the Board. Directors should notify the Lead Director promptly upon assuming a position on a board of directors in excess of that permitted by these Corporate Governance Principles.

Director Orientation and Continuing Education The Chief Financial Officer and General Counsel, under the direction of the CEO and Chairman, are responsible for director orientation and continuing education and training for directors. The Chief Financial Officer and General Counsel shall be responsible for providing an orientation for new Directors, and for periodically providing materials or briefing sessions for all Directors on subjects that would assist them in discharging their duties. Each new Director shall, within six months of election or appointment to the Board, spend a day at corporate headquarters for personal briefing by senior management on the Company's strategic plans, its financial statements, and its key policies and practices. The Board encourages all of its members to participate in director education programs.

Retirement Directors will not be nominated by the Company for election to the Board after their seventy-second (72nd) birthday.

Functions of Board and Director Responsibilities The Board shall have at least four scheduled meetings a year at which it reviews and discusses reports by management on the performance of the Company, its plans and prospects, as well as other issues facing the Company. As discussed below, the Chairman of the Board sets the agenda for, and presides over, each Board meeting. Directors are expected to attend all scheduled Board and, as applicable, committee meetings and to review materials provided to them in advance of such meetings. In addition to its general oversight of management, the Board also performs a number of specific functions, including:

1. reviewing, approving and monitoring fundamental financial and business strategies and major corporate actions, including those related to financing, capital management and liquidity matters;
2. assessing major risks facing the Company and reviewing options for their mitigation;
3. ensuring processes are in place for maintaining the integrity of the Company, its financial statements, and its compliance with law and ethics;
4. selecting, evaluating and compensating the CEO and overseeing CEO succession planning; and
5. providing counsel and oversight on the selection, evaluation, development and compensation of senior management.

Compensation of Board The nominating and corporate governance committee shall have the responsibility for recommending to the Board compensation and benefits for non-employee Directors; provided, however, that if the Chairman of the Board is a member of such committee, he shall recuse himself from all discussions and recommendations relating to his compensation as Chairman of the Board. In discharging this duty, the committee shall be guided by three goals: compensation should fairly pay Directors for work required in a company of the Company's size and scope; compensation should align Directors' interests with the long-term interests of shareholders; and the structure of the compensation should be simple, transparent and easy for shareholders to understand. At the end of each year, the nominating and corporate governance committee shall review non-employee Director compensation and benefits.

Report of Chief Financial Officer At each regularly scheduled Board meeting, the Company's Chief Financial Officer or his designee shall provide a report that includes year-to-date financial results and quarterly or quarter-to-date financial results that include the Company's financial condition and prospects, including but not limited to, as appropriate under the circumstances, a discussion of all reasons for material increases in expenses and liabilities, if any, and material decreases in revenues and earnings, if any, including any modification or adjustment of reserve accounts or contingencies and management plans for ameliorating or reversing such negative trends and the success or failure of any such plans presented in the past.

Independence of Directors A majority of the Directors will be "independent" Directors as defined under applicable law, regulation and the rules of New York Stock Exchange ("NYSE").

To be considered independent, the Board must affirmatively determine that a Director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). For the purpose of these provisions, "immediate family member" means a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-laws and anyone sharing the person's home (except domestic employees); provided that immediate family members shall not include persons who have died, are incapacitated or are divorced or legally separated from the director. The Board has established the following guidelines, all of which must be satisfied for a director to be presumptively independent, to assist the Board in determining Director independence:

1. Employment: A Director who is an employee, or whose immediate family member is an executive officer, of the Company is not "independent" until three years after the end of such employment relationship. In addition, a Director that has been employed, or whose immediate family member has been employed, as an elected officer of the Company or its subsidiaries (direct or indirect) or affiliates (defined as any individual or business entity that owns at least 12.5% of the securities of the Company having ordinary voting power) is not independent until five years after the end of such employment relationship.
2. A Director who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the Company, other than Director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not "independent" until three years after he or she ceases to receive more than \$100,000 per year in such compensation.
3. A Director who is a current partner, or whose immediate family member is a current partner, of a firm that is the Company's internal or external auditor is not "independent"; a Director who is a current employee of such a firm is not "independent"; a Director who has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice is not "independent"; and a Director or a Director whose immediate family member was within the last three years (but is no longer), a partner or employee of such a firm and personally worked on the Company's audit within that time is not "independent."
4. A Director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's present executives, or present executives of an affiliate of the Company, serve on that company's compensation committee is not "independent" until three years after the end of such service or the employment relationship.
5. Other Business Dealings. A Director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues, is not "independent" until three years after falling below such threshold.

In addition, a Director is not "independent" if the Director, or an immediate family member of the Director, received, during the current calendar year or any of the three immediately preceding calendar years, remuneration, directly or indirectly, other than *de minimis* remuneration, as a result of service as, or compensation paid to an entity affiliated with the Director that serves as, (i) an advisor, consultant, or legal counsel to the Company, an affiliate of the Company or to a member of the Company's senior management; or (ii) a significant customer or supplier of the Company or an affiliate of the Company; provided, however, that any Director who was a member of the Board on May 13, 2003 and within the last three years has retired from an entity that would otherwise fit the definition included in (i) or (ii) of this paragraph shall not be rendered non-independent by virtue of remuneration he or she received prior to joining the Board.

A Director is deemed to have received remuneration (other than remuneration as a Director, including remuneration provided to a non-executive Chairman of the Board, Committee Chairman, or Lead Director), directly or indirectly, if remuneration, other than *de minimis* remuneration, was paid by the Company, its subsidiaries (direct or indirect), or affiliates, to any entity in which the Director has a beneficial ownership interest of five percent or more, or to an entity by which the Director is employed or self-employed other than as a Director. Remuneration is deemed *de minimis* remuneration if such remuneration is \$60,000 or less in any calendar year or, if such remuneration is paid to an entity, it (i) did not for the calendar year exceed the lesser of \$5 million, or five percent (5%) of the gross revenues of the entity and (ii) did not directly result in a material increase in the compensation received by the Director from that entity.

6. A Director is not "independent" if the Director or the Director's immediate family member has any personal services contract(s) with the Company, any affiliate of the Company or any member of the Company's senior management.
7. A Director is not "independent" if the Director or the Director's immediate family member has been affiliated with a not-for-profit entity that receives significant contributions from the Company or any affiliate of the Company;
8. A Director is not "independent" if the Director or the Director's immediate family member, during the current calendar year or any of the three immediately preceding calendar years, has had any business relationship with the Company or any affiliate of the Company for which the Company or any affiliate of the Company has been required to make disclosure under Regulation S-K promulgated under the Securities Act of 1933, other than for service as a Director or for which relationship no more than *de minimis* remuneration was received in any one such year; provided, however, that the need to disclose any relationship that existed prior to a Director joining the Board shall not in and of itself render the Director non-independent.
9. A Director is not "independent" if the Director or the Director's immediate family member has been employed by a public company at which an executive officer of the Company or any affiliate of the Company serves as a director.

10. The Board will annually review all commercial, charitable and other relationships of Directors in order to assess the materiality of any such relationship both to the Company and to the other commercial or charitable organization and allow the Board to make a determination regarding each Director's independence. Any Director who fails to meet the guidelines set forth above shall refrain from assessing the independence of the other members of the Board.

Director Share Ownership The Company has adopted share ownerships guidelines for its directors, which it will evaluate from time-to-time, that are designed to align the interests of the Board with those of shareholders. At least 50% of Directors' annual fees are paid in stock, provided that this amount may be reduced by any restricted stock award granted to a Director.

Personal Loans The Company will not make any personal loans or extensions of credit to Directors or executive officers.

Lead Independent Director The Board has designated (and will designate from time to time) an independent director to act in a lead capacity (the "Lead Independent Director") to coordinate the other non-management directors, as described below. The Lead Independent Director may also serve as Chairman of the Board. The Lead Independent Director is responsible for coordinating the activities of the non-management directors. In addition to the duties of all Board members (which shall not be limited or diminished by the Lead Independent Director's role), the specific responsibilities of the Lead Independent Director are to advise the Chairman of the Board (if the Lead Director is not also the Chairman of the Board) and to undertake the following:

1. determine an appropriate schedule of Board meetings, seeking to ensure that the non-management directors can perform their duties responsibly while not interfering with the flow of the Company's operations;
2. prepare agendas for the Board and committee meetings;
3. assess the quality, quantity, and timeliness of the flow of information from the Company's management that is necessary for the non-management directors to effectively and responsibly perform their duties, and although the Company's management is responsible for the preparation of materials for the Board, the Lead Independent Director may specifically request the inclusion of certain material;
4. direct the retention of consultants who report directly to the Board;
5. ensure that the governance committee oversees compliance with and implementation of the Company's governance policies and ensures that the chairman of the nominating and governance committee oversees the process to recommend revisions to the Company's corporate governance policies;
6. coordinate, develop the agenda for, and moderate executive sessions of the Board's non-management directors, and act as principal liaison between the non-management directors and the Chairman of the Board and/or CEO on sensitive issues;

7. evaluate, along with the members of the management development and compensation committee and the full Board, the CEO's performance and meet with the CEO to discuss the Board's evaluation; and
8. recommend the membership of the various Board committees, as well as to recommend the selection of the committee chairs.

The Lead Independent Director shall have the authority to retain such counsel or consultants as the Lead Independent Director deems necessary to perform his or her responsibilities whose reasonable fees and expenses shall be paid by the Company.

Setting Board Agenda The Lead Independent Director shall be responsible for the Board's agenda. Prior to each Board meeting, the CEO will discuss the specific agenda items for the meeting with the Lead Independent Director and jointly determine the nature and extent of information that shall be provided to the Directors before the Board meeting. Committee chairmen shall work with management to determine the nature and extent of information that shall be provided before each committee meeting. Directors are urged to make suggestions for agenda items, or additional pre-meeting materials, to the CEO, the Lead Independent Director, or appropriate committee chairman at any time.

Board Meetings At each regularly scheduled Board meeting, there will be a session for the non-employee Directors to meet without management present. The Directors have determined that the Lead Independent Director will preside at such meetings, and will serve as the presiding Director in performing such other functions as the Board may direct, including advising on the selection of committee chairs and advising management on the agenda for Board meetings.

Board Committees

In General The Board has established the following committees to assist the Board in discharging its responsibilities: (i) audit; (ii) management development and compensation; (iii) nominating and corporate governance and (iv) finance. The Company also maintains a disclosure control committee, composed of officers and other specialists and managers employed by the Company. The current charters of the audit, management development and compensation, nominating and corporate governance, finance and disclosure control committees are included as exhibits hereto, are published on the Company's website, and will be mailed to shareholders at no cost on written request. The committee chairs report material matters discussed or reviewed during their meetings to the full Board (or, in the case of the disclosure control committee, to the CEO and CFO) following each meeting of the respective committees.

Independence of Committee Members In addition to the requirement that a majority of the Board satisfy the independence standards, all members of the audit committee, management development and compensation committee and nominating and governance committee must also satisfy the independence requirements established by law, regulation, the rules of the NYSE (including any additional requirements imposed with respect to audit committee members) and these governance principles.

Board's Relationship with Management

Access to Senior Management Non-employee Directors have unlimited access to senior managers of the Company outside the presence of their supervisors. Directors are encouraged to contact members of senior management at any time. Various members of management will be invited to attend Board and committee meetings from time to time, in order to expose Directors to the Company's management team.

Annual Compensation Review of CEO and Senior Management The management development and compensation committee shall annually recommend the goals and objectives for compensating the CEO and senior management. That committee shall evaluate the CEO's performance in light of these goals before recommending for approval by the Board the CEO's salary, bonus and other incentive and equity compensation. The committee shall also annually approve the compensation structure for the Company's officers, and shall evaluate the performance of the Company's senior executive officers (i.e., those individuals designated by the Company as its officers under section 16 of the Securities Exchange Act of 1934) before recommending their salary, bonus and other incentive and equity compensation. During its consideration of the compensation of the CEO, the committee shall meet in executive session, without the CEO.

Succession Plan At least annually, the CEO will present a succession plan to the Board for top management. The Board shall approve and maintain a succession plan (including succession in the event of an emergency or retirement of the CEO) for the CEO and senior executives, based upon recommendations from the management development and compensation committee.

Ethics and Conflicts of Interest

The Board expects the Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the policies comprising the Company's guide to ethical business conduct and other applicable policies. It is the policy of the Board that Directors, officers and employees should avoid conflicts of interest between the individual and the Company. Waivers of conflicts of interest will only be granted in exceptional circumstances and only by the Board with appropriate disclosure to shareholders. If an actual or potential conflict of interest arises for a Director, the Director shall promptly inform the Chairman (or, in the case of an actual or potential conflict involving the Chairman, the chairman of the audit committee). If a significant conflict exists and cannot be resolved, the Director should resign. All Directors will recuse themselves from any discussion or decision affecting their personal, business or professional interests. The Board shall resolve any conflict of interest question involving the CEO, a vice chairman, an executive vice president or a senior vice president, and the CEO shall resolve any conflict of interest issue involving any other officer or employee of the Company.

The Company shall maintain a written code of ethics that applies to Directors, officers and employees that is appropriate for the Company's business and affairs and satisfies the standards of the SEC and the NYSE. Such code of ethics shall be reviewed at least annually and senior management shall, at least annually, present the code of ethics and changes thereto (including changes adopted during the year) for the Board's review. The code of ethics will be published on the Company's website, and will be mailed to shareholders at no cost on written request.

Self-Evaluation

The Board and each of the committees will perform an annual self-evaluation.

Reporting of Concerns

Anyone who has a concern about the Company's conduct, or about the Company's accounting, internal accounting controls, or auditing matters, may communicate that concern by contacting the Audit Committee Chairman or in any other manner provided in the Company's guide to ethical business conduct. The audit committee shall be responsible for establishing procedures for the (i) receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing matters; and (ii) confidential anonymous submission by employees of concerns regarding questionable accounting or auditing matters. No retribution or adverse reaction to an individual reporting a concern shall be tolerated.

Access to Independent Advisors

The Board and its committees shall have the right at any time to retain independent outside financial, legal or other advisors.

Communication with Public

The Board believes that formal annual written communication to the shareholders and the public should be through a joint letter from the Chairman of the Board and the CEO and included in the annual report. The CEO (and other members of management at the direction of the CEO) is responsible for all other communications with the public, assisted when appropriate by the Chairman of the Board, in areas such as analyst functions. Accordingly, Board members are to refrain from making public statements regarding the Company unless specifically requested to do so by the CEO. All external inquiries received by Directors relating to the Company should be directed to the CEO.

Shareholders may communicate with the Board or any individual Director by writing to the Company, care of its General Counsel, with a request that information be conveyed or provided to the Board or Director thereof, as appropriate.

CEO Certification of Compliance with NYSE Listing Standards

The CEO shall advise the Board that he has provided the required certification to the NYSE that he is not aware of any violations by the Company of the NYSE corporate governance standards, including the review conducted to make that certification, or, if applicable, why the certification cannot be made. In addition, the CEO shall promptly notify the Board of any notice provided to the NYSE of material non-compliance of the NYSE corporate governance standards.