



MAKING CONNECTIONS



2016 Annual Report



Natural gas meters measure natural gas usage for millions of customers throughout the ONE Gas footprint.

ONE Gas, Inc. is a 100-percent regulated natural gas utility, and trades on the New York Stock Exchange under the symbol “OGS.”

ONE Gas is included in the S&P MidCap 400 Index, and is one of the largest natural gas utilities in the United States.

WHY WE EXIST

Our mission is to deliver natural gas for a better tomorrow.

WHAT WE WANT TO BE

Our vision is to be a premier natural gas distribution company creating exceptional value for our stakeholders.

WHAT WE BELIEVE IN

Our core values are:

Safety

We are committed to operating safely and in an environmentally responsible manner.

Inclusion and Diversity

We embrace and promote diversity and collaboration; every employee makes a difference and contributes to our success.

Ethics

We are accountable to the highest ethical standards; honesty, trust and integrity matter.

Service

We set a standard of exceptional service and make continuous improvements in our pursuit of excellence.

Value

We create value for all stakeholders, including our employees, customers, investors and communities.

www.onegas.com



We provide natural gas distribution services to more than 2 million customers in Oklahoma, Kansas and Texas.

We are headquartered in Tulsa, Okla.

Our divisions include: Oklahoma Natural Gas, the largest natural gas distributor in Oklahoma; Kansas Gas Service, the largest in Kansas; and Texas Gas Service, the third largest in Texas, in terms of customers.

Our largest natural gas distribution markets by customer count are Oklahoma City and Tulsa, Okla.; Kansas City, Wichita and Topeka, Kan.; and Austin and El Paso, Texas.

We serve residential, commercial, industrial, transportation and wholesale customers in all three states.

To Our Fellow Shareholders:

At ONE Gas, making connections comes naturally for us. Every day, our employees make connections with our customers and with the communities where we live and serve. We connect our customers with the natural gas service they need to warm their homes, dry their clothes, cook their meals and heat their water. Connecting with our communities also helps shape the better tomorrow that guides our overall mission.

We continually set goals that help us strive for our vision of being a premier natural gas distribution company. At the close of our third year as a publicly traded company, our accomplishments demonstrate how connecting the interests of all stakeholders has proven to be the right strategy for our company.

In 2016, we maintained focus on the **five key areas** we previously determined to have the greatest impact on our company. We chose these areas strategically because we believe they create a long-term impact and will remain part of our strategic focus for years to come.

As always, **safety** is our top priority. In our industry, we recognize the importance of keeping our employees, customers and communities safe, and we take that responsibility seriously. Our continued commitment to a “zero harm” culture encourages all employees to hold each other accountable and remain focused on safety. This cultural focus had a significant impact on our 2016 results for Total Recordable Incident Rate (TRIR) and Days Away, Restricted or Transferred (DART).

We are particularly proud that we improved our TRIR by 30 percent and our DART by 40 percent from 2015 to 2016. Those are the largest percentage improvements we’ve seen in the three years since ONE Gas began.

After two years of decreasing our Preventable Vehicle Incident Rate, this number increased last year, which reinforced for us that our work is never finished. We are committed to improving this in 2017, and will remain diligent in further cultivating our safety culture and improving all areas of safety.

In 2016, to continue our efforts to develop a **high-performing workforce**, our employees had the opportunity to participate in an employee engagement survey. Engagement is an important part of our culture and strategy because we believe engaged employees better understand that what they do and how they do it matters. This effort is part of our strategy to measure and identify long-term opportunities for development of all our employees.

We will continue to invest in leadership programs to develop the current and future leaders of our company with a continued focus on managerial and leadership development.

Leveraging technology remains a top focus as we continue to utilize technology and embrace change. We are expanding the use of technology in key areas of customer service and operations to increase efficiency and reduce expenses to sustainable levels. Following our launch of a customer mobile app in late 2015, we began to focus on upgrading our websites to be more responsive to our customers’ expectations around their fast-paced lifestyles. Our redesigned customer websites are also more user-friendly and efficient for customers using their smartphones, tablets and personal computers.

We continue to see results in our utilization of technology that enables us to evaluate our distribution system, further strengthening our ability to make informed and data-driven decisions about modernizing our system. You may read more about our system integrity program and accomplishments later in this report.

In 2016, we spent \$309 million for capital expenditures, of which more than 70 percent went toward system integrity. These investments enhance our system’s reliability and lead to **growth** opportunities including extending service to new areas to connect even more customers. We saw an increase in residential natural gas sales, due primarily to customer growth in Oklahoma and Texas, and added 20,000 more residential customers in 2016 compared with 2015.

Our success as a company is also based on maintaining collaborative relationships with our regulators. In order to have a successful **regulatory strategy**, we must ensure we are always providing safe and reliable service in the most cost-effective way. In our first three years as a publicly traded company, we have completed rate cases for approximately 95 percent of our rate base. In 2016, we saw a revenue increase from new rates of \$44 million compared with 2015.

In our service territories, the natural gas competitive price advantage is 3-to-1 compared with electricity. Because of this, we believe that natural gas is the smart choice for decades to come. We are fulfilling a social responsibility by balancing economics and environmental impact, which is aligned with our goal of adding value for all stakeholders.

Whether we’re serving our customers by connecting them with our product, serving our communities by connecting our volunteers with organizations in need, or connecting you, as shareholders, to the overall value of your investment, it’s important for us to remember that our company is about making connections.



John W. Gibson
John W. Gibson
Chairman, ONE Gas, Inc.



Pierce H. Norton II
Pierce H. Norton II
President and Chief Executive Officer,
ONE Gas, Inc.

April 5, 2017

2016 HIGHLIGHTS

Our employees continued to deliver results in our third year as a public company. Below are just a few of the successes we can attribute to their efforts and dedication.

We delivered a total shareholder return of approximately 30 percent in 2016, outperforming our peer group and the S&P MidCap Utilities Index. Shareholder returns reflect solid operating and financial results and the continued investments in our assets.

We increased the quarterly dividend by 7 cents per share to 42 cents per share, effective for the first quarter 2017, an increase of 20 percent, resulting in an annualized dividend of \$1.68 per share.

We expect an average annual dividend increase of 8 to 10 percent between 2016 and 2021, while maintaining a targeted 55 to 65 percent dividend payout ratio.

We expect net income and earnings per share to increase by an average of 5 to 7 percent annually between 2016 and 2021.

FINANCIAL OVERVIEW

2016 SUMMARY

We reported full-year 2016 net income of \$140.1 million, or \$2.65 per diluted share, compared with \$119.0 million, or \$2.24 per diluted share, in 2015; and full-year 2016 capital expenditures of \$309.0 million, compared with \$294.3 million in 2015.

Our operating income was \$269.1 million, compared with \$239.1 million in 2015, while net margin increased by \$43.7 million compared with last year.

Net margin increases in 2016 primarily reflected new rates in Oklahoma and Texas along with an increase

in our average residential customer count in these states.

On January 17, 2017, the ONE Gas Board of Directors increased the quarterly dividend by 7 cents per share to 42 cents per share, effective for the first quarter 2017, resulting in an annualized dividend of \$1.68 per share. Our average annual dividend growth rate is expected to increase 8 to 10 percent between 2016 and 2021. This dividend level is consistent with our targeted 55 to 65 percent dividend payout ratio.

HIGHLIGHTS

Earnings and Dividends

	2016	2015	2014
Net Income (thousands)	\$ 140,095	\$ 119,030	\$ 109,790
Earnings Per Share of Common Stock			
Basic	\$ 2.67	\$ 2.26	\$ 2.10
Diluted	\$ 2.65	\$ 2.24	\$ 2.07
Dividends Per Share	\$ 1.40	\$ 1.20	\$ 0.84*

Margin, Volumes and Weather

Net Margin (thousands)	\$ 885,435	\$ 841,733	\$ 826,957
Total Volumes Sold (Bcf)	141.0	154.0	166.3
Total Volumes Delivered (Bcf)	349.1	358.8	379.8
Actual Heating Degree Days	8,314	9,114	10,615
Normal Heating Degree Days	9,909	9,962	9,965

Customers and Employees

Average Number of Customers (thousands)	2,152	2,140	2,127
Total Employees	3,400	3,400	3,300

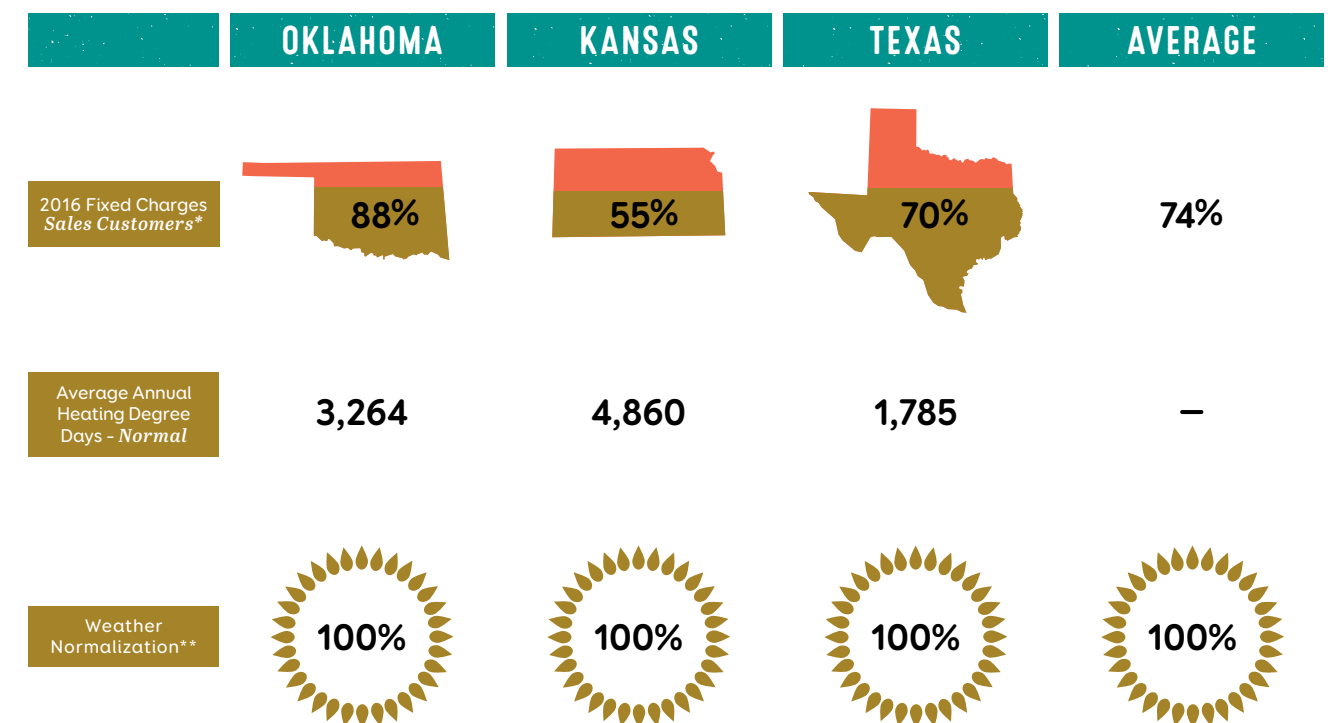
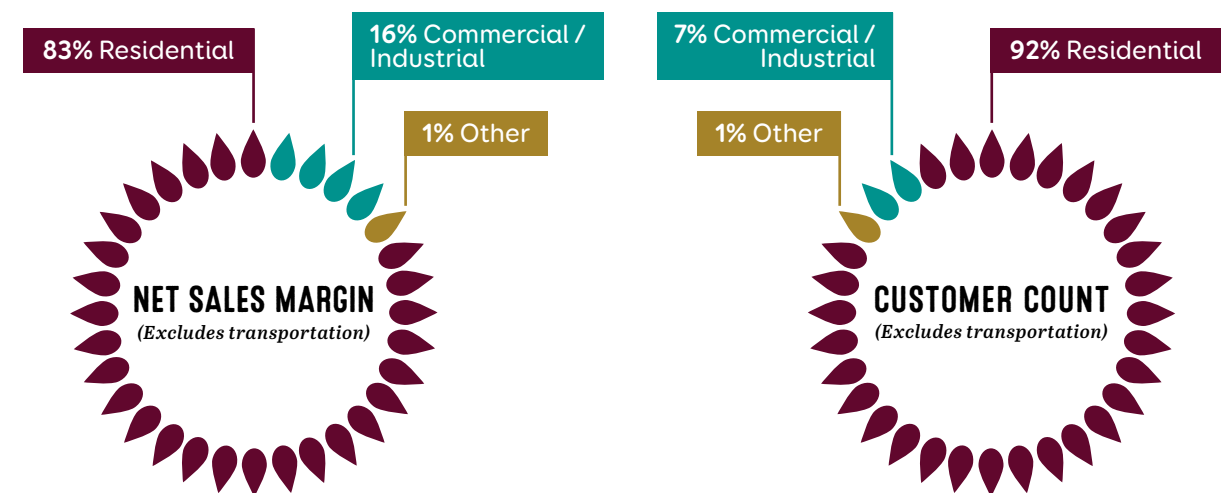
Common Stock

Market Value Per Share - Year-End Closing Price	\$ 63.96	\$ 50.17	\$ 41.22
Average Shares of Common Stock, Outstanding (thousands)			
Basic	52,453	52,578	52,364
Diluted	52,963	53,254	52,946

* \$0.28 per share in each of our second, third and fourth quarters

SIGNIFICANT SCALE

High Percentage of Residential Customers



* Fixed percentage of total net margin on natural gas sales
** Percent of sales customers who are in jurisdictions with weather normalization adjustment mechanisms

NATURAL GAS IS MOVING FORWARD

connecting customers to *clean*, affordable energy.

Natural gas is known as a foundation fuel of the U.S. energy economy for its ability to serve as a clean, efficient, affordable and abundant domestic fuel source.

In our service territories, more than 2 million customers, including many of our own employees, enjoy the comfort and affordability of natural gas, and the numbers continue to increase.

The average home uses 50 percent less natural gas than it did 40 years ago due in part to installation of tighter-fitting windows and doors, better insulation and more efficient natural gas appliances made possible for even more customers through energy-efficiency programs.

Our mission to deliver natural gas for a better tomorrow means we are working today to connect customers to the benefits and savings of natural gas.



ONE Gas employs more than 3,400 employees in the areas we serve. Many of our employees are active members in their communities along with being natural gas consumers.

CONNECTING MORE CUSTOMERS

to a *better* tomorrow.

CONNECTING CUSTOMERS WITH EFFICIENCY

More homes with natural gas service offer us more opportunities to connect customers with affordable and efficient appliances.

In addition to our ongoing energy-efficiency programs in Oklahoma and Austin, Texas, in 2016, we announced a new program in the Rio Grande Valley, offering more than 15 different rebates to help customers choose the most efficient natural gas appliances for their home and business needs.

In 2016, our combined energy-efficiency programs issued more than 111,000 rebates totaling more than \$11.5 million.

We are committed to growth that aligns with our long-term strategy. Part of that strategy involves the installation of new main and service lines to provide more residential and commercial customers access to clean, efficient and affordable energy.

In 2016, economic and population growth, predominately in our seven major metropolitan areas, has afforded us opportunities to connect 20,000 new customers through a variety of projects across our footprint. This growth included the connection of more than 8,000 new customers in Oklahoma.

Areas, such as the Rio Grande Valley in south Texas, are developing state-of-the-art, master-planned communities designed to offer residents modern conveniences close to work, school and recreation.

In 2016, our Texas Gas Service division began work to provide the 2,571-acre development of Tres Lagos with natural gas service. This new development in McAllen, Texas, includes single- and multi-family homes, commercial and retail space, health care facilities and top-rated schools.

Additionally, Texas Gas Service completed project commitments in the city of Dripping Springs, providing three new developments with the option to use natural gas.

Kansas Gas Service began expansion projects to provide natural gas service to larger neighborhoods in Overland Park, including Sundance Ridge. The division also completed a main line extension to increase distribution capabilities at Logistics Park, a 1,500-acre master-planned distribution and warehouse development in the Kansas City area.

Strategic growth also includes connecting customers with natural gas for use in transportation. In 2016, we delivered 2.5 million dekatherms (Dth) to 143 compressed natural gas (CNG) fueling stations, including 30 we operate, which represented a 7-percent increase compared with 2015. Large fleets operating in our service areas, including two of the largest parcel package distribution companies in the country, continue to invest in CNG vehicles and infrastructure to take advantage of the lower cost and environmental benefits of natural gas.



REINVESTING IN OUR SYSTEM

for a *better* tomorrow.

We have a focused system integrity strategy to make us even more efficient and proactive in providing safe and reliable natural gas service while also considering the impact we have on the environment.

With a clear focus on more efficient and proactive risk management, we use enterprise-wide technology to evaluate our assets and projects. By using a consistent risk management framework, we are more efficient and effective in the ways we evaluate and plan for work, while ensuring we are prudent with our capital expenditures.

We have designed our system integrity processes to allow us to continuously improve and refine our abilities to optimize risk reduction and comply with regulations.

System integrity investments accounted for 70 percent of our capital expenditures and that commitment is increasing.

We retired or replaced approximately 390 miles of distribution and transmission facilities in 2016. This included 22 miles of cast iron pipe, leaving a total of 48 miles of cast iron pipe remaining, which we have committed to replace by the end of 2019.

In addition to the elimination of cast iron in our system, over the next five years we expect to replace 1,100 miles of other vintage pipe materials. This overall commitment to the health and long-term sustainability of our system connects to our mission to deliver natural gas for a better tomorrow.

See a chart on page 13 for a history of vintage material replaced by type.

PIPELINE SAFETY COMPLIANCE PROGRAM CONNECTS COMPLIANCE TO OPERATIONAL PROCESSES

As safety and compliance with all federal, state and local regulations continue to be a top priority for the company, a new Pipeline Safety Compliance team was created in mid-2016. The new team works alongside Operations to review procedures, records and documentation to verify compliance with all applicable pipeline safety regulations in support of the company's commitment to establish processes and procedures that foster 100-percent compliance.

Enterprise-wide Technology

Our system integrity program uses technology to evaluate assets using a consistent risk management framework.

Using Smart Pigs

Our crews use pigs (pipeline inspection gauges) to perform various maintenance tasks and inspections on certain pipelines.

REDUCING EMISSIONS CONNECTS US ALL

to a *better* tomorrow.

Maintaining our assets in a way that is environmentally responsible is part of our commitment to connect a new generation with natural gas that is abundant and affordable.

As we continue to implement our work plans to replace the remaining vintage pipe materials throughout our system, we expect to see further reduced emissions. As a distribution industry, vintage materials account for a majority of the overall methane emissions released by natural gas distribution systems. By concentrating on replacing these assets with newer materials, we are literally laying a foundation that will have a significant impact on the environment for many years into the future.

In 2015, along with more than 40 other natural gas utilities, we became a founding partner in the U.S. Environmental Protection Agency's (EPA) Natural Gas STAR Methane Challenge Program. This voluntary program provides a mechanism for companies to publicly identify specific goals to reduce methane emissions and annually report progress toward meeting those goals. Our five-year commitment is to reduce emissions companywide by utilizing a Best Management Practice, identified

by the program, which requires we annually replace at least 2 percent of our total inventory of the classes of vintage pipe the EPA has identified as having the highest emission rates.

Even though the first full year of reporting to the EPA will be in 2018 for calendar year 2017, we are proud to report, in 2016, we met our 2 percent annual goal to reduce our inventory of the classes of vintage pipe with the highest overall emissions.

Connecting Integrity, Safety and Environmental Stewardship to an Overall Vision

This clear focus on system integrity connects customers to a safer, more reliable infrastructure delivered by a company that is actively working to reduce its environmental footprint.

This is good news for the areas where we serve. Not only are we working to ensure the safety and reliability of our system for decades to come, but we are also making progress toward environmental goals that will help ensure affordable energy remains available for the next generation.

VINTAGE MATERIALS REPLACED

Measured in Miles

MATERIAL TYPE	2014	2015	2016
Cast Iron	21	24	22
Unprotected Bare Steel	282	194	192
Protected Bare Steel	44	25	43
Vintage Plastic	5	2	2
Total Vintage Materials Replaced	352	245	259



MONITORING OUR PROGRESS

In addition to a focused system integrity program, we also properly monitor assets once projects are complete.

Leak detection and repair (LDAR) involves the performance of on-site surveys to identify leaks or other opportunities to improve the safety and reliability of the system.

We apply a risk-based methodology to our LDAR program, which meets or exceeds requirements as defined at federal, state and local levels. Flame Ionization and Remote Methane Leak Detection methods are used by our professional leak survey crews on a routine schedule, which considers key factors, such as type, age, condition and history of our pipeline facilities.

OUR COMMITMENT TO ZERO

As an organization, we believe that “Zero Is Achievable” when it comes to injuries and incidents, and that is our goal every day.

Even though our overall numbers are trending in the right direction, even one incident means that someone we know suffered harm. Safety is vital to the overall success of our company, and we believe in setting examples both through behavior-based safety programs for employees and as an industry leader among our peers.

This focus on ZERO is a driving factor in our 2016 results for Total Recordable Incident Rate (TRIR) and Days Away, Restricted or Transferred (DART).

In 2016, we improved our TRIR by 30 percent and our DART by 40 percent from 2015, which we attribute to the attention of our employees and their efforts to keep this commitment top of mind.

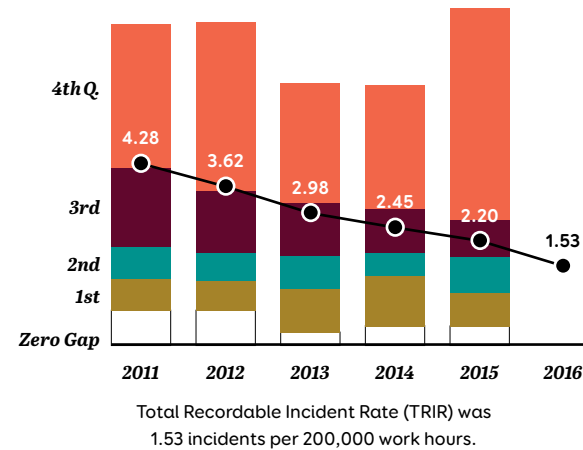
We had excellent results regarding incident rates, but we know there is always work to be done. Our 2016 Preventable Vehicle Incident Rate increased after two consecutive years of improvement. Although this rate increased, we are unwavering in our commitment to continue cultivating a high-performing workforce with a focus on the safety of our employees, customers, assets and the general public for the long term.

Our plan to continuously improve includes a clear strategy to prevent vehicle incidents through companywide training using the Smith System® driving program, which is centered on keeping drivers engaged with their surroundings and focused on the task at hand.

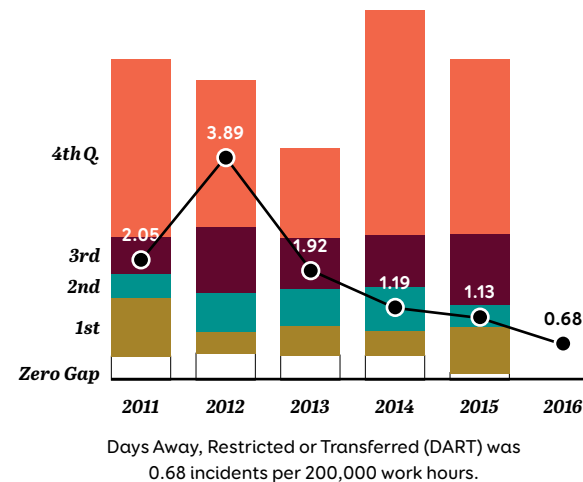
In 2016, we also launched an employee communications strategy called **Safety Matters**, a weekly reminder sent to our entire organization that includes tips and reminders for completing work in a safe manner.

Zero harm - zero incidents - that's the goal. We want employees to work smart and work safe so that we can truly say that “Zero Is Achievable.”

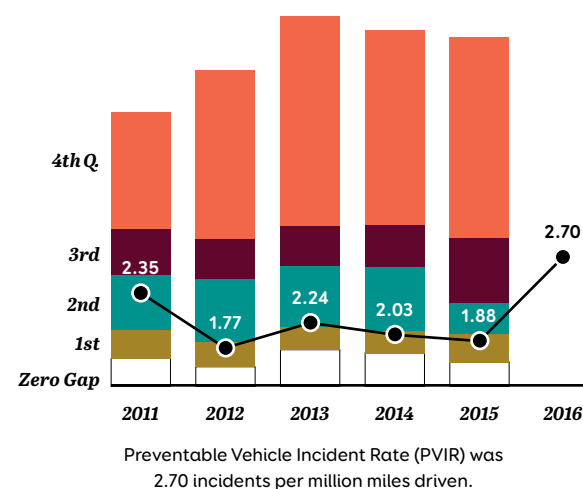
AMERICAN GAS ASSOCIATION TRIR QUARTILE DATA



AMERICAN GAS ASSOCIATION DART QUARTILE DATA



AMERICAN GAS ASSOCIATION PVIR QUARTILE DATA



The American Gas Association (AGA) represents local energy companies that deliver clean natural gas throughout the U.S.

CONNECTING WITH COMMUNITIES

because **our** people make the difference.

With a footprint that stretches from the Texas Gulf shores of Galveston to Austin and El Paso, throughout Oklahoma and across Kansas, ONE Gas provides domestic and affordable energy to more than 2 million customers, along with the economic impact that comes with the employment of more than 3,400 people - all of whom are making an impact on the communities we serve.

We believe being a community partner requires a commitment to making our areas better through charitable giving and volunteerism. Our employees are active partners in this effort, and their spirit of community is contagious.

We all have a part to play in the success of our communities. It's not only an investment in the community, it's an investment in the future of our company.

We contributed \$2.7 million through the ONE Gas Foundation, civic and corporate contributions.

\$181,000
was for matching grants.

\$743,000
was paid to local United Way agencies to match employee, retiree and director pledges.

\$735,000
was paid in 2016 for 43 new and previously approved multi-year grants, which benefited 46 agencies.

\$102,000
was for 30 public school foundation grants.

\$929,000
was for civic and corporate contributions and sponsorships.

7,600 HOURS
were volunteered by our employees in 2016.

BOARD OF DIRECTORS

Noted *from* Left to Right



Douglas H. Yaeger
Retired Chairman, President and
Chief Executive Officer,
Laclede Gas Company

John W. Gibson
Chairman, ONE Gas, Inc.

Eduardo A. Rodriguez
President, Strategic Communications
Consulting Group

Robert B. Evans
Retired President and Chief Executive Officer,
Duke Energy Americas

Pattye L. Moore
Chairman, Red Robin Gourmet Burgers

Pierce H. Norton II
President and Chief Executive Officer,
ONE Gas, Inc.

Michael G. Hutchinson
Retired Partner, Deloitte & Touche

EXECUTIVE TEAM

As of April 5, 2017

Pierce H. Norton II, 57
President and
Chief Executive Officer

Curtis L. Dinan, 49
Senior Vice President,
Chief Financial Officer
and Treasurer

Joseph L. McCormick, 57
Senior Vice President, General Counsel
and Assistant Secretary

Caron A. Lawhorn, 56
Senior Vice President, Commercial

Robert S. McAnnally, 53
Senior Vice President, Operations

Mark A. Bender, 52
Senior Vice President,
Administration,
Chief Information Officer

Andrew J. Ziola, 47
Vice President,
Investor Relations and
Public Affairs

FORWARD-LOOKING STATEMENTS

Statements contained in this annual report that include company expectations or predictions should be considered forward-looking statements that are covered by the safe harbor provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, as amended.

It is important to note that the actual results could differ materially from those projected in such forward-looking statements.

For additional information that could cause actual results to differ materially from such forward-looking statements, refer to ONE Gas' Securities and Exchange Commission filings.

SHAREHOLDER INFORMATION

Wells Fargo Shareowner Services
P.O. Box 64874
St. Paul, MN 55164-0856
P: 855-217-6403
P: (Outside U.S.) 651-450-4064
TDD number: 651-450-4144
www.shareowneronline.com

Direct Stock Purchase & Dividend Reinvestment Plan
ONE Gas' Direct Stock Purchase and Dividend Reinvestment Plan provides new investors and current shareholders a convenient way to purchase ONE Gas common stock without paying processing fees or service charges and to reinvest cash dividends. For more information or to enroll in a plan, call Wells Fargo at 855-217-6403. The Prospectus is also available at www.onegas.com.

Annual Meeting Details
First Place Tower
15 East Fifth Street
Tulsa, OK 74103
May 25, 2017 - 9 a.m. CDT



Auditors
PricewaterhouseCoopers LLP
Two Warren Place
6120 South Yale Avenue, Suite 1850
Tulsa, OK 74136

Corporate Headquarters
First Place Tower
15 East Fifth Street
Tulsa, OK 74103

Credit Ratings
Moody's: A2 (Stable)
Standard & Poor's: A- (Positive)

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