

ONE Gas, Inc.

STATEMENTS OF INCOME

**Three Months Ended
March 31,**

<i>(Unaudited)</i>	2017	2016
	<i>(Thousands of dollars, except per share amounts)</i>	
Revenues	\$ 550,408	\$ 508,364
Cost of natural gas	263,154	235,729
Net margin	287,254	272,635
Operating expenses		
Operations and maintenance	109,357	106,131
Depreciation and amortization	37,019	34,684
General taxes	15,746	15,747
Total operating expenses	162,122	156,562
Operating income	125,132	116,073
Other income	1,246	18
Other expense	(340)	(455)
Interest expense, net	(11,481)	(10,847)
Income before income taxes	114,557	104,789
Income taxes	(38,101)	(40,046)
Net income	\$ 76,456	\$ 64,743
Earnings per share		
Basic	\$ 1.45	\$ 1.23
Diluted	\$ 1.44	\$ 1.22
Average shares (thousands)		
Basic	52,576	52,519
Diluted	53,056	53,107
Dividends declared per share of stock	\$ 0.42	\$ 0.35

ONE Gas, Inc.
BALANCE SHEETS

<i>(Unaudited)</i>	March 31,	December 31,
	2017	2016
Assets	<i>(Thousands of dollars)</i>	
Property, plant and equipment		
Property, plant and equipment	\$ 5,468,277	\$ 5,404,168
Accumulated depreciation and amortization	1,694,389	1,672,548
Net property, plant and equipment	3,773,888	3,731,620
Current assets		
Cash and cash equivalents	13,206	14,663
Accounts receivable, net	249,155	290,944
Materials and supplies	34,288	34,084
Natural gas in storage	91,231	125,432
Regulatory assets	74,636	83,146
Other current assets	18,616	20,654
Total current assets	481,132	568,923
Goodwill and other assets		
Regulatory assets	430,338	440,522
Goodwill	157,953	157,953
Other assets	46,563	43,773
Total goodwill and other assets	634,854	642,248
Total assets	\$ 4,889,874	\$ 4,942,791

ONE Gas, Inc.
BALANCE SHEETS
(Continued)

<i>(Unaudited)</i>	March 31, 2017	December 31, 2016
Equity and Liabilities	<i>(Thousands of dollars)</i>	
Equity and long-term debt		
Common stock, \$0.01 par value: authorized 250,000,000 shares; issued 52,598,005 shares and outstanding 52,431,914 shares at March 31, 2017; issued 52,598,005 and outstanding 52,283,260 shares at December 31, 2016	\$ 526	\$ 526
Paid-in capital	1,732,335	1,749,574
Retained earnings	226,195	161,021
Accumulated other comprehensive income (loss)	(4,586)	(4,715)
Treasury stock, at cost: 166,091 shares at March 31, 2017 and 314,745 shares at December 31, 2016	(9,892)	(18,126)
Total equity	1,944,578	1,888,280
Long-term debt, excluding current maturities, and net of issuance costs of \$8,648 and \$8,851, respectively	1,192,647	1,192,446
Total equity and long-term debt	3,137,225	3,080,726
Current liabilities		
Notes payable	85,400	145,000
Accounts payable	76,142	131,988
Accrued interest	7,667	18,854
Accrued taxes other than income	37,431	42,571
Accrued liabilities	12,474	22,931
Customer deposits	61,945	61,209
Other current liabilities	26,884	21,380
Total current liabilities	307,943	443,933
Deferred credits and other liabilities		
Deferred income taxes	1,065,096	1,038,568
Employee benefit obligations	300,535	303,507
Other deferred credits	79,075	76,057
Total deferred credits and other liabilities	1,444,706	1,418,132
Commitments and contingencies		
Total liabilities and equity	\$ 4,889,874	\$ 4,942,791

ONE Gas, Inc.
STATEMENTS OF CASH FLOWS

<i>(Unaudited)</i>	Three Months Ended	
	March 31,	
	2017	2016
	<i>(Thousands of dollars)</i>	
Operating activities		
Net income	\$ 76,456	\$ 64,743
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,019	34,684
Deferred income taxes	37,461	16,113
Share-based compensation expense	2,421	4,101
Provision for doubtful accounts	2,281	1,384
Changes in assets and liabilities:		
Accounts receivable	39,508	19,801
Materials and supplies	(204)	3,617
Income tax receivable	1,397	38,877
Natural gas in storage	34,201	61,600
Asset removal costs	(10,387)	(14,171)
Accounts payable	(53,957)	(40,060)
Accrued interest	(11,187)	(11,219)
Accrued taxes other than income	(5,140)	535
Accrued liabilities	(10,457)	(16,470)
Customer deposits	736	2,098
Regulatory assets and liabilities	18,641	(593)
Other assets and liabilities	3,447	23,848
Cash provided by operating activities	162,236	188,888
Investing activities		
Capital expenditures	(70,471)	(75,261)
Other	61	392
Cash used in investing activities	(70,410)	(74,869)
Financing activities		
Repayments of notes payable, net	(59,600)	(12,500)
Repurchase of common stock	(2,469)	(24,066)
Dividends paid	(22,034)	(18,380)
Tax withholdings related to net share settlements of stock compensation	(9,180)	(8,849)
Cash used in financing activities	(93,283)	(63,795)
Change in cash and cash equivalents	(1,457)	50,224
Cash and cash equivalents at beginning of period	14,663	2,433
Cash and cash equivalents at end of period	\$ 13,206	\$ 52,657

ONE Gas, Inc.
INFORMATION AT A GLANCE

<i>(Unaudited)</i>	Three Months Ended	
	March 31,	
	2017	2016
	<i>(Millions of dollars, except as noted)</i>	
<u>Financial</u>		
Net margin	\$ 287.2	\$ 272.6
Operating costs	\$ 125.1	\$ 121.8
Depreciation and amortization	\$ 37.0	\$ 34.7
Operating income	\$ 125.1	\$ 116.1
Capital expenditures	\$ 70.5	\$ 75.3
Net margin on natural gas sales	\$ 249.1	\$ 235.7
Transportation revenues	\$ 30.2	\$ 29.8
Net margin, excluding other revenues	\$ 279.3	\$ 265.5
<u>Volumes (Bcf)</u>		
Natural gas sales		
Residential	50.1	51.7
Commercial and industrial	14.2	14.5
Wholesale and public authority	0.7	0.9
Total volumes sold	64.9	67.1
Transportation	61.1	59.2
Total volumes delivered	126.0	126.3
<u>Average number of customers (in thousands)</u>		
Residential	2,003	1,990
Commercial and industrial	162	160
Wholesale and public authority	3	3
Transportation	12	12
Total customers	2,180	2,165
<u>Heating Degree Days</u>		
Actual degree days	4,007	4,550
Normal degree days	5,287	5,271
Percent colder (warmer) than normal weather	(24.2)%	(13.7)%
<u>Statistics by State</u>		
<u>Oklahoma</u>		
Average number of customers (in thousands)	878	872
Actual degree days	1,392	1,565
Normal degree days	1,775	1,775
Percent colder (warmer) than normal weather	(21.6)%	(11.8)%
<u>Kansas</u>		
Average number of customers (in thousands)	645	643
Actual degree days	1,986	2,120
Normal degree days	2,503	2,502
Percent colder (warmer) than normal weather	(20.7)%	(15.3)%
<u>Texas</u>		
Average number of customers (in thousands)	657	650
Actual degree days	629	865
Normal degree days	1,009	994
Percent colder (warmer) than normal weather	(37.7)%	(13.0)%