

ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	\$ 486,747	\$ 506,859	\$ 1,467,421	\$ 1,517,473
Cost of revenues	321,429	336,110	967,018	1,013,816
Gross profit	165,318	170,749	500,403	503,657
Operating expenses				
Sales and marketing	40,780	38,894	127,001	119,037
Product development	42,560	39,386	126,539	128,086
General and administrative	39,667	40,384	120,074	130,781
Amortization of intangible assets	5,625	4,996	15,144	19,002
Restructuring	(678)	40,679	7,417	41,294
Total operating expenses	127,954	164,339	396,175	438,200
Operating income	37,364	6,410	104,228	65,457
Other income (expense)				
Interest income	729	102	1,468	594
Interest expense	(2,898)	(2,691)	(8,448)	(8,344)
Other income (expense), net	(1,701)	707	(7,126)	(1,074)
Total other income (expense)	(3,870)	(1,882)	(14,106)	(8,824)
Income before income taxes	33,494	4,528	90,122	56,633
Income tax provision	(6,640)	(13,430)	(32,247)	(34,249)
Net income (loss)	26,854	(8,902)	57,875	22,384
Net income attributable to non-controlling interests	1,278	983	2,357	2,263
Net income (loss) attributable to Itron, Inc.	\$ 25,576	\$ (9,885)	\$ 55,518	\$ 20,121
Earnings (loss) per common share - Basic	\$ 0.66	\$ (0.26)	\$ 1.44	\$ 0.53
Earnings (loss) per common share - Diluted	\$ 0.65	\$ (0.26)	\$ 1.41	\$ 0.52
Weighted average common shares outstanding - Basic	38,713	38,248	38,624	38,181
Weighted average common shares outstanding - Diluted	39,467	38,248	39,339	38,515

ITRON, INC.
SEGMENT INFORMATION

(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues				
Electricity	\$ 240,142	\$ 242,667	\$ 729,225	\$ 692,785
Gas	131,780	144,185	394,691	433,707
Water	114,825	120,007	343,505	390,981
Total Company	<u>\$ 486,747</u>	<u>\$ 506,859</u>	<u>\$ 1,467,421</u>	<u>\$ 1,517,473</u>
Gross profit				
Electricity	\$ 76,440	\$ 75,362	\$ 222,227	\$ 210,840
Gas	46,260	56,096	147,036	158,156
Water	42,618	39,291	131,140	134,661
Total Company	<u>\$ 165,318</u>	<u>\$ 170,749</u>	<u>\$ 500,403</u>	<u>\$ 503,657</u>
Operating income (loss)				
Electricity	\$ 17,114	\$ 20,452	\$ 51,629	\$ 51,092
Gas	20,030	7,136	57,849	48,811
Water	14,837	(3,546)	40,258	28,707
Corporate unallocated	(14,617)	(17,632)	(45,508)	(63,153)
Total Company	<u>\$ 37,364</u>	<u>\$ 6,410</u>	<u>\$ 104,228</u>	<u>\$ 65,457</u>

METER AND MODULE SUMMARY

(Units in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Meters				
Standard	3,640	3,520	12,000	12,020
Smart	2,590	2,390	7,600	6,900
Total meters	<u>6,230</u>	<u>5,910</u>	<u>19,600</u>	<u>18,920</u>
Stand-alone communication modules				
Smart	<u>1,480</u>	<u>1,570</u>	<u>4,410</u>	<u>4,470</u>

ITRON, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 137,584	\$ 133,565
Accounts receivable, net	376,149	351,506
Inventories	207,703	163,049
Other current assets	112,959	84,346
Total current assets	<u>834,395</u>	<u>732,466</u>
Property, plant, and equipment, net	192,784	176,458
Deferred tax assets, net	95,666	94,113
Other long-term assets	44,072	50,129
Intangible assets, net	100,289	72,151
Goodwill	550,732	452,494
Total assets	<u>\$ 1,817,938</u>	<u>\$ 1,577,811</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 212,564	\$ 172,711
Other current liabilities	55,305	43,625
Wages and benefits payable	94,867	82,346
Taxes payable	21,082	10,451
Current portion of debt	18,281	14,063
Current portion of warranty	21,697	24,874
Unearned revenue	74,598	64,976
Total current liabilities	<u>498,394</u>	<u>413,046</u>
Long-term debt	303,949	290,460
Long-term warranty	13,225	18,428
Pension benefit obligation	96,849	84,498
Deferred tax liabilities, net	3,447	3,073
Other long-term obligations	111,553	117,953
Total liabilities	<u>1,027,417</u>	<u>927,458</u>
Equity		
Common stock	1,287,803	1,270,467
Accumulated other comprehensive loss, net	(177,743)	(229,327)
Accumulated deficit	(339,654)	(409,536)
Total Itron, Inc. shareholders' equity	<u>770,406</u>	<u>631,604</u>
Non-controlling interests	20,115	18,749
Total equity	<u>790,521</u>	<u>650,353</u>
Total liabilities and equity	<u>\$ 1,817,938</u>	<u>\$ 1,577,811</u>

ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2017	2016
Operating activities		
Net income	\$ 57,875	\$ 22,384
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46,000	51,563
Stock-based compensation	15,254	13,300
Amortization of prepaid debt fees	800	806
Deferred taxes, net	7,615	17,772
Restructuring, non-cash	(720)	5,153
Other adjustments, net	3,111	(734)
Changes in operating assets and liabilities:		
Accounts receivable	2,537	(32,652)
Inventories	(30,843)	3,207
Other current assets	(23,492)	(15,591)
Other long-term assets	10,460	8,499
Accounts payable, other current liabilities, and taxes payable	34,987	(5,830)
Wages and benefits payable	6,218	11,516
Unearned revenue	(5,679)	(8,684)
Warranty	(10,285)	(9,900)
Other operating, net	663	21,072
Net cash provided by operating activities	<u>114,501</u>	<u>81,881</u>
Investing activities		
Acquisitions of property, plant, and equipment	(33,493)	(30,563)
Business acquisitions, net of cash and cash equivalents acquired	(98,848)	(951)
Other investing, net	10	(1,258)
Net cash used in investing activities	<u>(132,331)</u>	<u>(32,772)</u>
Financing activities		
Proceeds from borrowings	35,000	—
Payments on debt	(24,844)	(29,031)
Issuance of common stock	2,797	1,993
Other financing, net	1,216	(3,658)
Net cash provided by (used) in financing activities	<u>14,169</u>	<u>(30,696)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	7,680	1,949
Increase in cash and cash equivalents	<u>4,019</u>	<u>20,362</u>
Cash and cash equivalents at beginning of period	133,565	131,018
Cash and cash equivalents at end of period	<u>\$ 137,584</u>	<u>\$ 151,380</u>

About Non-GAAP Financial Measures

The accompanying press release contains non-GAAP financial measures. To supplement our consolidated financial statements, which are prepared in accordance with GAAP, we use certain non-GAAP financial measures, including non-GAAP operating expense, non-GAAP operating income, non-GAAP net income, non-GAAP diluted EPS, adjusted EBITDA, constant currency and free cash flow. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and other companies may define such measures differently. For more information on these non-GAAP financial measures please see the table captioned "Reconciliations of Non-GAAP Financial Measures to Most Directly Comparable GAAP Financial Measures."

We use these non-GAAP financial measures for financial and operational decision making and/or as a means for determining executive compensation. Management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and ability to service debt by excluding certain expenses that may not be indicative of our recurring core operating results. These non-GAAP financial measures facilitate management's internal comparisons to our historical performance as well as comparisons to our competitors' operating results. Our executive compensation plans exclude non-cash charges related to amortization of intangibles and certain discrete cash and non-cash charges such as purchase accounting adjustments, restructuring charges or goodwill impairment charges. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. We believe these non-GAAP financial measures are useful to investors because they provide greater transparency with respect to key metrics used by management in its financial and operational decision making and because they are used by our institutional investors and the analyst community to analyze the health of our business.

Non-GAAP operating expenses and non-GAAP operating income - We define non-GAAP operating expenses as operating expenses excluding certain expenses related to the amortization of intangible assets, restructuring, acquisition and integration, and goodwill impairment. We define non-GAAP operating income as operating income excluding the expenses related to the amortization of intangible assets, restructuring, acquisition and integration, and goodwill impairment. Acquisition and integration related expenses include costs which are incurred to affect and integrate business combinations, such as professional fees, certain employee retention and salaries related to integration, severances, contract terminations, travel costs related to knowledge transfer, system conversion costs, and asset impairment charges. We consider these non-GAAP financial measures to be useful metrics for management and investors because they exclude the effect of expenses that are related to acquisitions and restructuring projects. By excluding these expenses, we believe that it is easier for management and investors to compare our financial results over multiple periods and analyze trends in our operations. For example, in certain periods expenses related to amortization of intangible assets may decrease, which would improve GAAP operating margins, yet the improvement in GAAP operating margins due to this lower expense is not necessarily reflective of an improvement in our core business. There are some limitations related to the use of non-GAAP operating expenses and non-GAAP operating income versus operating expenses and operating income calculated in accordance with GAAP. We compensate for these limitations by providing specific information about the GAAP amounts excluded from non-GAAP operating expense and non-GAAP operating income and evaluating non-GAAP operating expense and non-GAAP operating income together with GAAP operating expense and GAAP operating income.

Non-GAAP net income and non-GAAP diluted EPS - We define non-GAAP net income as net income attributable to Itron, Inc. excluding the expenses associated with amortization of intangible assets, restructuring, acquisition and integration, goodwill impairment, amortization of debt placement fees and the tax effect of excluding these expenses. We define non-GAAP diluted EPS as non-GAAP net income divided by the weighted average shares, on a diluted basis, outstanding during each period. We consider these financial measures to be useful metrics for management and investors for the same reasons that we use non-GAAP operating income. The same limitations described above regarding our use of non-GAAP operating income apply to our use of non-GAAP net income and non-GAAP diluted EPS. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from these non-GAAP measures and evaluating non-GAAP net income and non-GAAP diluted EPS together with GAAP net income attributable to Itron, Inc. and GAAP diluted EPS.

Adjusted EBITDA - We define adjusted EBITDA as net income (a) minus interest income, (b) plus interest expense, depreciation and amortization, restructuring, acquisition and integration related expense, goodwill impairment and (c) excluding income tax provision or benefit. Management uses adjusted EBITDA as a performance measure for executive compensation. A limitation to using adjusted EBITDA is that it does not represent the total increase or decrease in the cash balance for the period and the measure includes some non-cash items and excludes other non-cash items. Additionally, the items that we exclude in our calculation of adjusted EBITDA may differ from the items that our peer companies exclude when they report their results. We compensate for these limitations by providing a reconciliation of this measure to GAAP net income.

Free cash flow - We define free cash flow as net cash provided by operating activities less cash used for acquisitions of property, plant and equipment. We believe free cash flow provides investors with a relevant measure of liquidity and a useful basis for assessing our ability to fund our operations and repay our debt. The same limitations described above regarding our use of adjusted EBITDA apply to our use of free cash flow. We compensate for these limitations by providing specific information regarding the GAAP amounts and reconciling to free cash flow.

Constant currency - We refer to the impact of foreign currency exchange rate fluctuations in our discussions of financial results, which references the differences between the foreign currency exchange rates used to translate operating results from local currencies into U.S. dollars for financial reporting purposes. We also use the term “constant currency,” which represents financial results adjusted to exclude changes in foreign currency exchange rates as compared with the rates in the comparable prior year period. We calculate the constant currency change as the difference between the current period results and the comparable prior period’s results restated using current period foreign currency exchange rates.

The accompanying tables have more detail on the GAAP financial measures that are most directly comparable to the non-GAAP financial measures and the related reconciliations between these financial measures.

ITRON, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES
TO THE MOST DIRECTLY COMPARABLE GAAP FINANCIAL MEASURES

(Unaudited, in thousands, except per share data)

TOTAL COMPANY RECONCILIATIONS	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
NON-GAAP NET INCOME & DILUTED EPS				
GAAP net income (loss) attributable to Itron, Inc.	\$ 25,576	\$ (9,885)	\$ 55,518	\$ 20,121
Amortization of intangible assets	5,625	4,996	15,144	19,002
Amortization of debt placement fees	242	247	725	742
Restructuring	(678)	40,679	7,417	41,294
Acquisition and integration related expenses	7,243	(180)	14,044	(202)
Income tax effect of non-GAAP adjustments	(7,423)	(5,961)	(12,153)	(9,086)
Non-GAAP net income attributable to Itron, Inc.	<u>\$ 30,585</u>	<u>\$ 29,896</u>	<u>\$ 80,695</u>	<u>\$ 71,871</u>
Non-GAAP diluted EPS	<u>\$ 0.77</u>	<u>\$ 0.77</u>	<u>\$ 2.05</u>	<u>\$ 1.87</u>
Weighted average common shares outstanding - Diluted	<u>39,467</u>	<u>38,651</u>	<u>39,339</u>	<u>38,515</u>
ADJUSTED EBITDA				
GAAP net income (loss) attributable to Itron, Inc.	\$ 25,576	\$ (9,885)	\$ 55,518	\$ 20,121
Interest income	(729)	(102)	(1,468)	(594)
Interest expense	2,898	2,691	8,448	8,344
Income tax provision	6,640	13,430	32,247	34,249
Depreciation and amortization	16,532	16,082	46,000	51,563
Restructuring	(678)	40,679	7,417	41,294
Acquisition and integration related expenses	7,243	(180)	14,044	(202)
Adjusted EBITDA	<u>\$ 57,482</u>	<u>\$ 62,715</u>	<u>\$ 162,206</u>	<u>\$ 154,775</u>
FREE CASH FLOW				
Net cash provided by operating activities	\$ 21,057	\$ 30,754	\$ 114,501	\$ 81,881
Acquisitions of property, plant, and equipment	(11,595)	(10,679)	(33,493)	(30,563)
Free Cash Flow	<u>\$ 9,462</u>	<u>\$ 20,075</u>	<u>\$ 81,008</u>	<u>\$ 51,318</u>
NON-GAAP OPERATING INCOME				
GAAP operating income	\$ 37,364	\$ 6,410	\$ 104,228	\$ 65,457
Amortization of intangible assets	5,625	4,996	15,144	19,002
Restructuring	(678)	40,679	7,417	41,294
Acquisition and integration related expenses	7,243	(180)	14,044	(202)
Non-GAAP operating income	<u>\$ 49,554</u>	<u>\$ 51,905</u>	<u>\$ 140,833</u>	<u>\$ 125,551</u>
NON-GAAP OPERATING EXPENSES				
GAAP operating expenses	\$ 127,954	\$ 164,339	\$ 396,175	\$ 438,200
Amortization of intangible assets	(5,625)	(4,996)	(15,144)	(19,002)
Restructuring	678	(40,679)	(7,417)	(41,294)
Acquisition and integration related expenses	(7,243)	180	(14,044)	202
Non-GAAP operating expenses	<u>\$ 115,764</u>	<u>\$ 118,844</u>	<u>\$ 359,570</u>	<u>\$ 378,106</u>

ITRON, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES
TO THE MOST DIRECTLY COMPARABLE GAAP FINANCIAL MEASURES

(Unaudited, in thousands)

SEGMENT RECONCILIATIONS	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
NON-GAAP OPERATING INCOME				
- ELECTRICITY				
Electricity - GAAP operating income	\$ 17,114	\$ 20,452	\$ 51,629	\$ 51,092
Amortization of intangible assets	3,260	2,183	8,350	10,050
Restructuring	1,227	6,443	1,557	5,411
Acquisition and integration related expenses	3,586	(180)	9,787	(202)
Electricity - Non-GAAP operating income	\$ 25,187	\$ 28,898	\$ 71,323	\$ 66,351
NON-GAAP OPERATING INCOME				
- GAS				
Gas - GAAP operating income	\$ 20,030	\$ 7,136	\$ 57,849	\$ 48,811
Amortization of intangible assets	1,375	1,513	3,961	4,888
Restructuring	(706)	20,738	4,717	21,990
Gas - Non-GAAP operating income	\$ 20,699	\$ 29,387	\$ 66,527	\$ 75,689
NON-GAAP OPERATING INCOME				
- WATER				
Water - GAAP operating income (loss)	\$ 14,837	\$ (3,546)	\$ 40,258	\$ 28,707
Amortization of intangible assets	990	1,300	2,833	4,064
Restructuring	(1,567)	12,414	446	12,465
Water - Non-GAAP operating income	\$ 14,260	\$ 10,168	\$ 43,537	\$ 45,236
NON-GAAP OPERATING INCOME				
- CORPORATE UNALLOCATED				
Corporate unallocated - GAAP operating loss	\$ (14,617)	\$ (17,632)	\$ (45,508)	\$ (63,153)
Restructuring	368	1,084	697	1,428
Acquisition and integration related expenses	3,657	—	4,257	—
Corporate unallocated - Non-GAAP operating loss	\$ (10,592)	\$ (16,548)	\$ (40,554)	\$ (61,725)