

ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Product revenues	\$ 515,914	\$ 454,713	\$ 1,053,024	\$ 887,078
Service revenues	69,976	48,369	140,087	93,596
Total revenues	<u>585,890</u>	<u>503,082</u>	<u>1,193,111</u>	<u>980,674</u>
Cost of revenues				
Product cost of revenues	366,542	293,433	749,392	580,526
Service cost of revenues	42,771	31,372	87,287	64,234
Total cost of revenues	<u>409,313</u>	<u>324,805</u>	<u>836,679</u>	<u>644,760</u>
Gross profit	<u>176,577</u>	<u>178,277</u>	<u>356,432</u>	<u>335,914</u>
Operating expenses				
Sales and marketing	45,448	44,514	97,369	85,769
Product development	54,775	43,024	115,059	83,791
General and administrative	43,415	43,098	145,908	80,285
Amortization of intangible assets	17,999	4,970	35,739	9,519
Restructuring	(5,623)	5,043	82,242	8,095
Total operating expenses	<u>156,014</u>	<u>140,649</u>	<u>476,317</u>	<u>267,459</u>
Operating income (loss)	20,563	37,628	(119,885)	68,455
Other income (expense)				
Interest income	633	470	1,294	739
Interest expense	(14,645)	(3,411)	(30,149)	(6,610)
Other income (expense), net	1,003	(3,120)	(164)	(5,956)
Total other income (expense)	<u>(13,009)</u>	<u>(6,061)</u>	<u>(29,019)</u>	<u>(11,827)</u>
Income (loss) before income taxes	7,554	31,567	(148,904)	56,628
Income tax benefit (provision)	(3,781)	(16,560)	7,407	(25,607)
Net income (loss)	<u>3,773</u>	<u>15,007</u>	<u>(141,497)</u>	<u>31,021</u>
Net income attributable to noncontrolling interests	<u>1,116</u>	<u>910</u>	<u>1,512</u>	<u>1,079</u>
Net income (loss) attributable to Itron, Inc.	<u>\$ 2,657</u>	<u>\$ 14,097</u>	<u>\$ (143,009)</u>	<u>\$ 29,942</u>
Earnings (loss) per common share - Basic	<u>\$ 0.07</u>	<u>\$ 0.36</u>	<u>\$ (3.66)</u>	<u>\$ 0.78</u>
Earnings (loss) per common share - Diluted	<u>\$ 0.07</u>	<u>\$ 0.36</u>	<u>\$ (3.66)</u>	<u>\$ 0.76</u>
Weighted average common shares outstanding - Basic	39,243	38,683	39,095	38,579
Weighted average common shares outstanding - Diluted	39,789	39,332	39,095	39,274

ITRON, INC.
SEGMENT INFORMATION

(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Product revenues				
Electricity	\$ 212,236	\$ 215,271	\$ 426,113	\$ 421,174
Gas	129,397	130,872	259,640	247,999
Water	118,574	108,570	244,161	217,905
Networks	55,707	—	123,110	—
Total Company	\$ 515,914	\$ 454,713	\$ 1,053,024	\$ 887,078
Service revenues				
Electricity	\$ 38,342	\$ 35,061	\$ 76,870	\$ 67,909
Gas	7,635	7,828	15,131	14,912
Water	6,063	5,480	11,670	10,775
Networks	17,936	—	36,416	—
Total Company	\$ 69,976	\$ 48,369	\$ 140,087	\$ 93,596
Total revenues				
Electricity	\$ 250,578	\$ 250,332	\$ 502,983	\$ 489,083
Gas	137,032	138,700	274,771	262,911
Water	124,637	114,050	255,831	228,680
Networks	73,643	—	159,526	—
Total Company	\$ 585,890	\$ 503,082	\$ 1,193,111	\$ 980,674
Gross profit				
Electricity	\$ 76,987	\$ 78,645	\$ 146,962	\$ 145,895
Gas	40,543	50,536	84,014	101,351
Water	37,835	49,096	75,640	88,668
Networks	21,212	—	49,816	—
Total Company	\$ 176,577	\$ 178,277	\$ 356,432	\$ 335,914
Operating income (loss)				
Electricity	\$ 28,997	\$ 17,839	\$ 26,229	\$ 34,923
Gas	15,245	16,977	(13,103)	38,708
Water	8,824	16,866	(2,886)	25,670
Networks	(28,219)	—	(103,729)	—
Corporate unallocated	(4,284)	(14,054)	(26,396)	(30,846)
Total Company	\$ 20,563	\$ 37,628	\$ (119,885)	\$ 68,455

METER AND MODULE SUMMARY

(Units in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Meters ⁽¹⁾				
Standard	4,030	4,350	8,170	8,360
Smart	2,990	2,570	5,930	5,010
Total meters	<u>7,020</u>	<u>6,920</u>	<u>14,100</u>	<u>13,370</u>
Stand-alone communication modules and cards ⁽²⁾				
Smart	<u>2,410</u>	<u>1,530</u>	<u>5,010</u>	<u>2,930</u>

⁽¹⁾ The Networks segment shipped an immaterial number of meters during the three and six months ended June 30, 2018.

⁽²⁾ The Networks segment shipped approximately 940,000 and 2,050,000 network interface cards, respectively, during the three and six months ended June 30, 2018.

The stand-alone communication modules and cards category includes communicating radio modules shipped in Electric, Gas and Water segments and network interface cards, the primary product sold by our Networks segment.

ITRON, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 162,882	\$ 176,274
Accounts receivable, net	443,394	398,029
Inventories	195,056	193,835
Other current assets	95,418	81,604
Total current assets	<u>896,750</u>	<u>849,742</u>
Property, plant, and equipment, net	223,435	200,768
Deferred tax assets, net	58,305	49,971
Restricted cash	2,109	311,010
Other long-term assets	46,787	43,666
Intangible assets, net	296,778	95,228
Goodwill	1,119,409	555,762
Total assets	<u>\$ 2,643,573</u>	<u>\$ 2,106,147</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 249,013	\$ 262,166
Other current liabilities	84,647	56,736
Wages and benefits payable	99,822	90,505
Taxes payable	17,713	16,100
Current portion of debt	20,313	19,688
Current portion of warranty	29,443	21,150
Unearned revenue	94,546	41,438
Total current liabilities	<u>595,497</u>	<u>507,783</u>
Long-term debt	1,098,567	593,572
Long-term warranty	14,276	13,712
Pension benefit obligation	94,386	95,717
Deferred tax liabilities, net	1,455	1,525
Other long-term obligations	156,406	88,206
Total liabilities	<u>1,960,587</u>	<u>1,300,515</u>
Equity		
Common stock	1,317,781	1,294,767
Accumulated other comprehensive loss, net	(185,868)	(170,478)
Accumulated deficit	(469,155)	(337,873)
Total Itron, Inc. shareholders' equity	<u>662,758</u>	<u>786,416</u>
Non-controlling interests	20,228	19,216
Total equity	<u>682,986</u>	<u>805,632</u>
Total liabilities and equity	<u>\$ 2,643,573</u>	<u>\$ 2,106,147</u>

ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Six Months Ended June 30,	
	2018	2017
Operating activities		
Net income (loss)	\$ (141,497)	\$ 31,021
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	61,979	29,468
Stock-based compensation	16,619	10,135
Amortization of prepaid debt fees	4,602	533
Deferred taxes, net	(15,319)	7,077
Restructuring, non-cash	624	80
Other adjustments, net	1,205	2,395
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	12,804	(2,032)
Inventories	3,385	(29,470)
Other current assets	(1,921)	(3,905)
Other long-term assets	4,514	2,186
Accounts payable, other current liabilities, and taxes payable	(16,994)	36,861
Wages and benefits payable	762	12,299
Unearned revenue	31,156	6,701
Warranty	3,756	(4,825)
Other operating, net	51,204	(5,080)
Net cash provided by operating activities	16,879	93,444
Investing activities		
Acquisitions of property, plant, and equipment	(29,309)	(21,898)
Business acquisitions, net of cash equivalents acquired	(802,488)	(99,477)
Other investing, net	(543)	(456)
Net cash used in investing activities	(832,340)	(121,831)
Financing activities		
Proceeds from borrowings	611,938	35,000
Payments on debt	(92,234)	(20,625)
Issuance of common stock	4,927	2,198
Prepaid debt fees	(24,042)	—
Other financing, net	(2,580)	952
Net cash provided by financing activities	498,009	17,525
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	(4,841)	5,177
Decrease in cash, cash equivalents, and restricted cash	(322,293)	(5,685)
Cash, cash equivalents, and restricted cash at beginning of period	487,335	133,565
Cash, cash equivalents, and restricted cash at end of period	\$ 165,042	\$ 127,880

ITRON

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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 acquisition and integration related expenses, 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, the transition to the Tax Cuts and Jobs Act, 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
NON-GAAP NET INCOME & DILUTED EPS				
GAAP net income (loss) attributable to Itron, Inc.	\$ 2,657	\$ 14,097	\$ (143,009)	\$ 29,942
Amortization of intangible assets	17,999	4,970	35,739	9,519
Amortization of debt placement fees	1,172	242	4,515	483
Restructuring	(5,623)	5,043	82,242	8,095
Acquisition and integration related expense	11,148	6,468	73,795	6,801
Income tax effect of non-GAAP adjustments	(6,897)	(2,896)	(27,732)	(4,730)
Non-GAAP net income attributable to Itron, Inc.	\$ 20,456	\$ 27,924	\$ 25,550	\$ 50,110
Non-GAAP diluted EPS	\$ 0.51	\$ 0.71	\$ 0.64	\$ 1.28
Weighted average common shares outstanding - Diluted	39,789	39,332	39,782	39,274
ADJUSTED EBITDA				
GAAP net income (loss) attributable to Itron, Inc.	\$ 2,657	\$ 14,097	\$ (143,009)	\$ 29,942
Interest income	(633)	(470)	(1,294)	(739)
Interest expense	14,645	3,411	30,149	6,610
Income tax provision (benefit)	3,781	16,560	(7,407)	25,607
Depreciation and amortization	30,907	15,090	61,979	29,468
Restructuring	(5,623)	5,043	82,242	8,095
Acquisition and integration related expense	11,148	6,468	73,795	6,801
Adjusted EBITDA	\$ 56,882	\$ 60,199	\$ 96,455	\$ 105,784
FREE CASH FLOW				
Net cash provided by operating activities	\$ 41,327	\$ 30,187	\$ 16,879	\$ 93,444
Acquisitions of property, plant, and equipment	(11,876)	(12,776)	(29,309)	(21,898)
Free Cash Flow	\$ 29,451	\$ 17,411	\$ (12,430)	\$ 71,546
NON-GAAP OPERATING INCOME				
GAAP operating income (loss)	\$ 20,563	\$ 37,628	\$ (119,885)	\$ 68,455
Amortization of intangible assets	17,999	4,970	35,739	9,519
Restructuring	(5,623)	5,043	82,242	8,095
Acquisition and integration related expense	11,148	6,468	73,795	6,801
Non-GAAP operating income	\$ 44,087	\$ 54,109	\$ 71,891	\$ 92,870
NON-GAAP OPERATING EXPENSES				
GAAP operating expenses	\$ 156,014	\$ 140,649	\$ 476,317	\$ 267,459
Amortization of intangible assets	(17,999)	(4,970)	(35,739)	(9,519)
Restructuring	5,623	(5,043)	(82,242)	(8,095)
Acquisition and integration related expense	(11,148)	(6,468)	(73,795)	(6,801)
Non-GAAP operating expenses	\$ 132,490	\$ 124,168	\$ 284,541	\$ 243,044

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

(Unaudited, in thousands)

SEGMENT RECONCILIATIONS	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
NON-GAAP OPERATING INCOME - ELECTRICITY				
Electricity - GAAP operating income	\$ 28,997	\$ 17,839	\$ 26,229	\$ 34,923
Amortization of intangible assets	2,842	2,728	5,722	5,090
Restructuring	(145)	506	19,455	330
Acquisition and integration related expense (recovery)	(1,244)	6,201	(921)	6,201
Electricity - Non-GAAP operating income	<u>\$ 30,450</u>	<u>\$ 27,274</u>	<u>\$ 50,485</u>	<u>\$ 46,544</u>
NON-GAAP OPERATING INCOME - GAS				
Gas - GAAP operating income (loss)	\$ 15,245	\$ 16,977	\$ (13,103)	\$ 38,708
Amortization of intangible assets	1,107	1,309	2,231	2,586
Restructuring	(2,086)	4,339	41,461	5,423
Gas - Non-GAAP operating income	<u>\$ 14,266</u>	<u>\$ 22,625</u>	<u>\$ 30,589</u>	<u>\$ 46,717</u>
NON-GAAP OPERATING INCOME - WATER				
Water - GAAP operating income (loss)	\$ 8,824	\$ 16,866	\$ (2,886)	\$ 25,670
Amortization of intangible assets	808	933	1,643	1,843
Restructuring	(1,721)	995	14,993	2,013
Water - Non-GAAP operating income	<u>\$ 7,911</u>	<u>\$ 18,794</u>	<u>\$ 13,750</u>	<u>\$ 29,526</u>
NON-GAAP OPERATING INCOME - NETWORKS				
Networks - GAAP operating loss	\$ (28,219)	\$ —	\$ (103,729)	\$ —
Amortization of intangible assets	13,242	—	26,143	—
Acquisition and integration related expense	12,111	—	74,559	—
Networks - Non-GAAP operating loss	<u>\$ (2,866)</u>	<u>\$ —</u>	<u>\$ (3,027)</u>	<u>\$ —</u>
NON-GAAP OPERATING INCOME - CORPORATE UNALLOCATED				
Corporate unallocated - GAAP operating loss	\$ (4,284)	\$ (14,054)	\$ (26,396)	\$ (30,846)
Restructuring	(1,671)	(797)	6,333	329
Acquisition and integration related expense	281	267	157	600
Corporate unallocated - Non-GAAP operating loss	<u>\$ (5,674)</u>	<u>\$ (14,584)</u>	<u>\$ (19,906)</u>	<u>\$ (29,917)</u>