

ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Product revenues	\$ 525,716	\$ 433,984	\$ 1,578,740	\$ 1,321,062
Service revenues	70,246	52,763	210,333	146,359
Total revenues	<u>595,962</u>	<u>486,747</u>	<u>1,789,073</u>	<u>1,467,421</u>
Cost of revenues				
Product cost of revenues	357,194	284,762	1,106,586	865,288
Service cost of revenues	41,671	36,230	128,958	100,464
Total cost of revenues	<u>398,865</u>	<u>320,992</u>	<u>1,235,544</u>	<u>965,752</u>
Gross profit	<u>197,097</u>	<u>165,755</u>	<u>553,529</u>	<u>501,669</u>
Operating expenses				
Sales and marketing	47,204	40,529	144,573	126,298
Product development	47,239	42,455	162,298	126,246
General and administrative	42,352	39,598	188,260	119,883
Amortization of intangible assets	17,960	5,625	53,699	15,144
Restructuring	666	(678)	82,908	7,417
Total operating expenses	<u>155,421</u>	<u>127,529</u>	<u>631,738</u>	<u>394,988</u>
Operating income (loss)	41,676	38,226	(78,209)	106,681
Other income (expense)				
Interest income	431	729	1,725	1,468
Interest expense	(14,171)	(3,466)	(44,320)	(10,076)
Other income (expense), net	(2,434)	(1,995)	(2,598)	(7,951)
Total other income (expense)	<u>(16,174)</u>	<u>(4,732)</u>	<u>(45,193)</u>	<u>(16,559)</u>
Income (loss) before income taxes	25,502	33,494	(123,402)	90,122
Income tax benefit (provision)	(5,715)	(6,640)	1,692	(32,247)
Net income (loss)	<u>19,787</u>	<u>26,854</u>	<u>(121,710)</u>	<u>57,875</u>
Net income (loss) attributable to noncontrolling interests	<u>(95)</u>	<u>1,278</u>	<u>1,417</u>	<u>2,357</u>
Net income (loss) attributable to Itron, Inc.	<u>\$ 19,882</u>	<u>\$ 25,576</u>	<u>\$ (123,127)</u>	<u>\$ 55,518</u>
Earnings (loss) per common share - Basic	<u>\$ 0.51</u>	<u>\$ 0.66</u>	<u>\$ (3.14)</u>	<u>\$ 1.44</u>
Earnings (loss) per common share - Diluted	<u>\$ 0.50</u>	<u>\$ 0.65</u>	<u>\$ (3.14)</u>	<u>\$ 1.41</u>
Weighted average common shares outstanding - Basic	39,340	38,713	39,177	38,624
Weighted average common shares outstanding - Diluted	39,909	39,467	39,177	39,339

ITRON, INC.
SEGMENT INFORMATION

(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Product revenues				
Electricity	\$ 198,026	\$ 199,784	\$ 624,139	\$ 620,958
Gas	148,660	124,556	408,300	372,555
Water	106,653	109,644	350,814	327,549
Networks	72,377	—	195,487	—
Total Company	\$ 525,716	\$ 433,984	\$ 1,578,740	\$ 1,321,062
Service revenues				
Electricity	\$ 38,816	\$ 40,358	\$ 115,686	\$ 108,267
Gas	8,087	7,224	23,218	22,136
Water	5,931	5,181	17,601	15,956
Networks	17,412	—	53,828	—
Total Company	\$ 70,246	\$ 52,763	\$ 210,333	\$ 146,359
Total revenues				
Electricity	\$ 236,842	\$ 240,142	\$ 739,825	\$ 729,225
Gas	156,747	131,780	431,518	394,691
Water	112,584	114,825	368,415	343,505
Networks	89,789	—	249,315	—
Total Company	\$ 595,962	\$ 486,747	\$ 1,789,073	\$ 1,467,421
Gross profit				
Electricity	\$ 74,549	\$ 76,492	\$ 221,511	\$ 222,387
Gas	55,812	46,529	139,826	147,880
Water	35,139	42,734	110,779	131,402
Networks	31,597	—	81,413	—
Total Company	\$ 197,097	\$ 165,755	\$ 553,529	\$ 501,669
Operating income (loss)				
Electricity	\$ 25,853	\$ 17,317	\$ 52,082	\$ 52,240
Gas	31,279	20,469	18,176	59,177
Water	6,859	15,032	3,973	40,702
Networks	(15,624)	—	(119,353)	—
Corporate unallocated	(6,691)	(14,592)	(33,087)	(45,438)
Total Company	\$ 41,676	\$ 38,226	\$ (78,209)	\$ 106,681

METER AND MODULE SUMMARY

(Units in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Meters				
Standard	4,050	3,640	12,220	12,000
Smart	2,460	2,590	8,390	7,600
Total meters	6,510	6,230	20,610	19,600
Stand-alone communication modules and cards				
Smart	2,970	1,480	7,980	4,410

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

⁽²⁾ The Networks segment shipped approximately 1,090 thousand and 3,140 thousand network interface cards, respectively, during the three and nine months ended September 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)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 109,044	\$ 176,274
Accounts receivable, net	449,592	398,029
Inventories	208,038	193,835
Other current assets	101,511	81,604
Total current assets	<u>868,185</u>	<u>849,742</u>
Property, plant, and equipment, net	220,795	200,768
Deferred tax assets, net	56,874	49,971
Restricted cash	2,055	311,010
Other long-term assets	48,746	43,666
Intangible assets, net	278,192	95,228
Goodwill	1,121,895	555,762
Total assets	<u>\$ 2,596,742</u>	<u>\$ 2,106,147</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 274,950	\$ 262,166
Other current liabilities	72,385	56,736
Wages and benefits payable	101,491	90,505
Taxes payable	20,558	16,100
Current portion of debt	24,375	19,688
Current portion of warranty	29,736	21,150
Unearned revenue	92,350	41,438
Total current liabilities	<u>615,845</u>	<u>507,783</u>
Long-term debt	1,005,377	593,572
Long-term warranty	13,624	13,712
Pension benefit obligation	96,081	95,717
Deferred tax liabilities, net	1,462	1,525
Other long-term obligations	152,021	88,206
Total liabilities	<u>1,884,410</u>	<u>1,300,515</u>
Equity		
Common stock	1,326,719	1,294,767
Accumulated other comprehensive loss, net	(185,246)	(170,478)
Accumulated deficit	(449,273)	(337,873)
Total Itron, Inc. shareholders' equity	<u>692,200</u>	<u>786,416</u>
Non-controlling interests	20,132	19,216
Total equity	<u>712,332</u>	<u>805,632</u>
Total liabilities and equity	<u>\$ 2,596,742</u>	<u>\$ 2,106,147</u>

ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2018	2017
Operating activities		
Net income (loss)	\$ (121,710)	\$ 57,875
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	92,428	46,000
Stock-based compensation	23,069	15,254
Amortization of prepaid debt fees	5,825	800
Deferred taxes, net	(13,141)	7,615
Restructuring, non-cash	569	(720)
Other adjustments, net	(30)	3,111
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	7,774	2,537
Inventories	(10,072)	(30,843)
Other current assets	(9,797)	(23,492)
Other long-term assets	3,817	10,460
Accounts payable, other current liabilities, and taxes payable	4,494	34,987
Wages and benefits payable	2,166	6,218
Unearned revenue	27,869	(5,679)
Warranty	3,167	(10,285)
Other operating, net	50,955	663
Net cash provided by operating activities	67,383	114,501
Investing activities		
Acquisitions of property, plant, and equipment	(42,493)	(33,493)
Business acquisitions, net of cash equivalents acquired	(803,075)	(98,848)
Other investing, net	(181)	10
Net cash used in investing activities	(845,749)	(132,331)
Financing activities		
Proceeds from borrowings	611,938	35,000
Payments on debt	(182,297)	(24,844)
Issuance of common stock	8,283	2,797
Prepaid debt fees	(24,042)	—
Other financing, net	(5,526)	1,216
Net cash provided by (used in) financing activities	408,356	14,169
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash	(6,175)	7,680
Decrease in cash, cash equivalents, and restricted cash	(376,185)	4,019
Cash, cash equivalents, and restricted cash at beginning of period	487,335	133,565
Cash, cash equivalents, and restricted cash at end of period	\$ 111,150	\$ 137,584

ITRON

2111 North Molter Road
Liberty Lake, WA 99019

www.itron.com

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
NON-GAAP NET INCOME & DILUTED EPS				
GAAP net income (loss) attributable to Itron, Inc.	\$ 19,882	\$ 25,576	\$ (123,127)	\$ 55,518
Amortization of intangible assets	17,960	5,625	53,699	15,144
Amortization of debt placement fees	1,178	242	5,693	725
Restructuring	666	(678)	82,908	7,417
Acquisition and integration related expense	10,079	7,243	83,874	14,044
Income tax effect of non-GAAP adjustments	(4,719)	(7,423)	(32,451)	(12,153)
Non-GAAP net income attributable to Itron, Inc.	<u>\$ 45,046</u>	<u>\$ 30,585</u>	<u>\$ 70,596</u>	<u>\$ 80,695</u>
Non-GAAP diluted EPS	<u>\$ 1.13</u>	<u>\$ 0.77</u>	<u>\$ 1.77</u>	<u>\$ 2.05</u>
Weighted average common shares outstanding - Diluted	<u>39,909</u>	<u>39,467</u>	<u>39,825</u>	<u>39,339</u>
ADJUSTED EBITDA				
GAAP net income (loss) attributable to Itron, Inc.	\$ 19,882	\$ 25,576	\$ (123,127)	\$ 55,518
Interest income	(431)	(729)	(1,725)	(1,468)
Interest expense	14,171	3,466	44,320	10,076
Income tax provision (benefit)	5,715	6,640	(1,692)	32,247
Depreciation and amortization	30,449	16,532	92,428	46,000
Restructuring	666	(678)	82,908	7,417
Acquisition and integration related expense	10,079	7,243	83,874	14,044
Adjusted EBITDA	<u>\$ 80,531</u>	<u>\$ 58,050</u>	<u>\$ 176,986</u>	<u>\$ 163,834</u>
FREE CASH FLOW				
Net cash provided (used) by operating activities	\$ 50,504	\$ 21,057	\$ 67,383	\$ 114,501
Acquisitions of property, plant, and equipment	(13,184)	(11,595)	(42,493)	(33,493)
Free Cash Flow	<u>\$ 37,320</u>	<u>\$ 9,462</u>	<u>\$ 24,890</u>	<u>\$ 81,008</u>
NON-GAAP OPERATING INCOME				
GAAP operating income (loss)	\$ 41,676	\$ 38,226	\$ (78,209)	\$ 106,681
Amortization of intangible assets	17,960	5,625	53,699	15,144
Restructuring	666	(678)	82,908	7,417
Acquisition and integration related expense	10,079	7,243	83,874	14,044
Non-GAAP operating income	<u>\$ 70,381</u>	<u>\$ 50,416</u>	<u>\$ 142,272</u>	<u>\$ 143,286</u>
NON-GAAP OPERATING EXPENSES				
GAAP operating expenses	\$ 155,421	\$ 127,529	\$ 631,738	\$ 394,988
Amortization of intangible assets	(17,960)	(5,625)	(53,699)	(15,144)
Restructuring	(666)	678	(82,908)	(7,417)
Acquisition and integration related expense	(10,079)	(7,243)	(83,874)	(14,044)
Non-GAAP operating expenses	<u>\$ 126,716</u>	<u>\$ 115,339</u>	<u>\$ 411,257</u>	<u>\$ 358,383</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,	
	2018	2017	2018	2017
NON-GAAP OPERATING INCOME - ELECTRICITY				
Electricity - GAAP operating income	\$ 25,853	\$ 17,317	\$ 52,082	\$ 52,240
Amortization of intangible assets	2,772	3,260	8,494	8,350
Restructuring	350	1,227	19,805	1,557
Acquisition and integration related expense (recovery)	45	3,586	(876)	9,787
Electricity - Non-GAAP operating income	<u>\$ 29,020</u>	<u>\$ 25,390</u>	<u>\$ 79,505</u>	<u>\$ 71,934</u>
NON-GAAP OPERATING INCOME - GAS				
Gas - GAAP operating income	\$ 31,279	\$ 20,469	\$ 18,176	\$ 59,177
Amortization of intangible assets	1,078	1,375	3,309	3,961
Restructuring	(669)	(706)	40,792	4,717
Gas - Non-GAAP operating income	<u>\$ 31,688</u>	<u>\$ 21,138</u>	<u>\$ 62,277</u>	<u>\$ 67,855</u>
NON-GAAP OPERATING INCOME - WATER				
Water - GAAP operating income	\$ 6,859	\$ 15,032	\$ 3,973	\$ 40,702
Amortization of intangible assets	809	990	2,452	2,833
Restructuring	639	(1,567)	15,632	446
Acquisition and integration related expense	49	—	49	—
Water - Non-GAAP operating income	<u>\$ 8,356</u>	<u>\$ 14,455</u>	<u>\$ 22,106</u>	<u>\$ 43,981</u>
NON-GAAP OPERATING INCOME - NETWORKS				
Networks - GAAP operating loss	\$ (15,624)	\$ —	\$ (119,353)	\$ —
Amortization of intangible assets	13,301	—	39,444	—
Acquisition and integration related expense	9,381	—	83,940	—
Networks - Non-GAAP operating income	<u>\$ 7,058</u>	<u>\$ —</u>	<u>\$ 4,031</u>	<u>\$ —</u>
NON-GAAP OPERATING INCOME - CORPORATE UNALLOCATED				
Corporate unallocated - GAAP operating loss	\$ (6,691)	\$ (14,592)	\$ (33,087)	\$ (45,438)
Restructuring	346	368	6,679	697
Acquisition and integration related expense	604	3,657	761	4,257
Corporate unallocated - Non-GAAP operating loss	<u>\$ (5,741)</u>	<u>\$ (10,567)</u>	<u>\$ (25,647)</u>	<u>\$ (40,484)</u>