



ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues	\$ 513,024	\$ 470,811	\$ 1,010,614	\$ 917,557
Cost of revenues	343,319	352,257	677,706	660,581
Gross profit	169,705	118,554	332,908	256,976
Operating expenses				
Sales and marketing	39,376	43,058	80,143	84,085
Product development	43,354	43,318	88,700	84,840
General and administrative	45,328	32,492	90,397	72,077
Amortization of intangible assets	7,796	7,888	14,006	15,861
Restructuring	(1,622)	(4,234)	615	(9,415)
Total operating expenses	134,232	122,522	273,861	247,448
Operating income (loss)	35,473	(3,968)	59,047	9,528
Other income (expense)				
Interest income	221	212	492	260
Interest expense	(2,735)	(3,855)	(5,653)	(6,537)
Other income (expense), net	(264)	(1,905)	(1,781)	(1,884)
Total other income (expense)	(2,778)	(5,548)	(6,942)	(8,161)
Income (loss) before income taxes	32,695	(9,516)	52,105	1,367
Income tax provision	(12,193)	(4,098)	(20,819)	(9,128)
Net income (loss)	20,502	(13,614)	31,286	(7,761)
Net income attributable to non-controlling interests	585	732	1,280	1,187
Net income (loss) attributable to Itron, Inc.	\$ 19,917	\$ (14,346)	\$ 30,006	\$ (8,948)
Earnings (loss) per common share - Basic	\$ 0.52	\$ (0.37)	\$ 0.79	\$ (0.23)
Earnings (loss) per common share - Diluted	\$ 0.52	\$ (0.37)	\$ 0.78	\$ (0.23)
Weighted average common shares outstanding - Basic	38,236	38,434	38,147	38,438
Weighted average common shares outstanding - Diluted	38,516	38,434	38,446	38,438



**ITRON, INC.
SEGMENT INFORMATION**

(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Electricity	\$ 232,823	\$ 204,349	\$ 450,118	\$ 396,189
Gas	150,266	139,292	289,522	264,373
Water	129,935	127,170	270,974	256,995
Total Company	\$ 513,024	\$ 470,811	\$ 1,010,614	\$ 917,557
Gross profit				
Electricity	\$ 70,892	\$ 52,741	\$ 135,478	\$ 106,945
Gas	53,483	44,027	102,060	88,064
Water	45,330	21,786	95,370	61,967
Total Company	\$ 169,705	\$ 118,554	\$ 332,908	\$ 256,976
Operating income (loss)				
Electricity	\$ 20,008	\$ 4,025	\$ 30,640	\$ 5,139
Gas	25,376	14,659	41,675	29,150
Water	14,177	(11,565)	32,253	(2,850)
Corporate unallocated	(24,088)	(11,087)	(45,521)	(21,911)
Total Company	\$ 35,473	\$ (3,968)	\$ 59,047	\$ 9,528

METER AND MODULE SUMMARY

(Units in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Meters				
Standard	4,130	4,700	8,500	9,440
Advanced and Smart	2,320	1,860	4,510	3,400
Total meters	6,450	6,560	13,010	12,840
Stand-alone communication modules				
Advanced and Smart	1,440	1,410	2,900	2,720



ITRON, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 132,014	\$ 131,018
Accounts receivable, net	369,251	330,895
Inventories	188,181	190,465
Other current assets	115,302	106,562
Total current assets	<u>804,748</u>	<u>758,940</u>
Property, plant, and equipment, net	187,699	190,256
Deferred tax assets noncurrent, net	102,411	109,387
Other long-term assets	48,324	51,679
Intangible assets, net	87,105	101,932
Goodwill	471,746	468,122
Total assets	<u>\$ 1,702,033</u>	<u>\$ 1,680,316</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 192,169	\$ 185,827
Other current liabilities	66,401	78,630
Wages and benefits payable	91,801	76,980
Taxes payable	16,184	14,859
Current portion of debt	11,250	11,250
Current portion of warranty	26,825	36,927
Unearned revenue	89,508	73,301
Total current liabilities	<u>494,138</u>	<u>477,774</u>
Long-term debt	333,535	358,915
Long-term warranty	18,632	17,585
Pension benefit obligation	87,669	85,971
Deferred tax liabilities noncurrent, net	1,650	1,723
Other long-term obligations	108,435	115,645
Total liabilities	<u>1,044,059</u>	<u>1,057,613</u>
Equity		
Common stock	1,255,313	1,246,671
Accumulated other comprehensive loss, net	(203,222)	(200,607)
Accumulated deficit	(411,300)	(441,306)
Total Itron, Inc. shareholders' equity	<u>640,791</u>	<u>604,758</u>
Non-controlling interests	17,183	17,945
Total equity	<u>657,974</u>	<u>622,703</u>
Total liabilities and equity	<u>\$ 1,702,033</u>	<u>\$ 1,680,316</u>

ITRON

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ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Six Months Ended June 30,	
	2016	2015
Operating activities		
Net income (loss)	\$ 31,286	\$ (7,761)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	35,481	38,792
Stock-based compensation	7,878	7,997
Amortization of prepaid debt fees	534	1,579
Deferred taxes, net	9,706	1,885
Restructuring, non-cash	(131)	(110)
Other adjustments, net	(366)	919
Changes in operating assets and liabilities:		
Accounts receivable	(35,283)	(8,641)
Inventories	2,882	(49,928)
Other current assets	(10,549)	(6,254)
Other long-term assets	2,667	(3,185)
Accounts payable, other current liabilities, and taxes payable	(735)	23,965
Wages and benefits payable	14,709	(5,846)
Unearned revenue	5,513	10,649
Warranty	(9,065)	23,046
Other operating, net	(3,400)	(9,540)
Net cash provided by operating activities	<u>51,127</u>	<u>17,567</u>
Investing activities		
Acquisitions of property, plant, and equipment	(19,884)	(20,992)
Business acquisitions, net of cash and cash equivalents acquired	(951)	-
Other investing, net	(974)	693
Net cash used in investing activities	<u>(21,809)</u>	<u>(20,299)</u>
Financing activities		
Proceeds from borrowings	-	74,183
Payments on debt	(26,218)	(22,373)
Issuance of common stock	1,956	1,864
Repurchase of common stock	-	(23,185)
Other financing, net	(4,679)	(3,942)
Net cash provided by (used in) financing activities	<u>(28,941)</u>	<u>26,547</u>
Effect of foreign exchange rate changes on cash and cash equivalents	619	(7,372)
Increase in cash and cash equivalents	996	16,443
Cash and cash equivalents at beginning of period	131,018	112,371
Cash and cash equivalents at end of period	<u>\$ 132,014</u>	<u>\$ 128,814</u>



Itron, Inc.

About Non-GAAP Financial Measures

The accompanying press release contains non-GAAP financial measures. To supplement our consolidated financial statements, which are prepared and presented 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. 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 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. In addition, management analyzes revenue growth and operational results on a constant currency basis to assess how our business performed excluding the effect of foreign currency rate fluctuations. 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 expense and non-GAAP operating income – We define non-GAAP operating expense as operating expense excluding certain expenses related to the amortization of intangible assets acquired through a business acquisition, restructuring, acquisitions and goodwill impairment. We define non-GAAP operating income as operating income excluding the expenses related to the amortization of intangible assets, restructuring, acquisitions and goodwill impairment. 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 previous acquisitions and restructurings. 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 expense and non-GAAP operating income versus operating expense



and operating income calculated in accordance with GAAP. Non-GAAP operating expense and non-GAAP operating income exclude some costs that are recurring. Additionally, the expenses that we exclude in our calculation of non-GAAP operating expense and non-GAAP operating income may differ from the expenses that our peer companies exclude when they report the results of their operations. We compensate for these limitations by providing specific information about the GAAP amounts we have excluded from our 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 income excluding the expenses associated with amortization of intangible assets, restructuring, acquisitions, 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 and GAAP diluted EPS.

Adjusted EBITDA – We define adjusted EBITDA as net income (a) minus interest income, (b) plus interest expense, depreciation and amortization of intangible asset expenses, restructuring expense, acquisition related expense, goodwill impairment and (c) exclude the total tax expense or benefit. We believe that providing this financial measure is important for management and investors to understand our ability to service our debt as it is a measure of the cash generated by our core business. 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 may 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 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,	
	2016	2015	2016	2015
NON-GAAP NET INCOME & DILUTED EPS				
GAAP net income (loss) attributable to Itron, Inc.	\$ 19,917	\$ (14,346)	\$ 30,006	\$ (8,948)
Amortization of intangible assets	7,796	7,888	14,006	15,861
Amortization of debt placement fees	248	1,164	495	1,529
Restructuring	(1,622)	(4,234)	615	(9,415)
Acquisition-related expenses	(25)	(4,607)	(22)	(2,283)
Income tax effect of non-GAAP adjustments	(1,170)	(773)	(3,125)	(3,103)
Non-GAAP net income (loss) attributable to Itron, Inc.	<u>\$ 25,144</u>	<u>\$ (14,908)</u>	<u>\$ 41,975</u>	<u>\$ (6,359)</u>
Non-GAAP diluted EPS	<u>\$ 0.65</u>	<u>\$ (0.39)</u>	<u>\$ 1.09</u>	<u>\$ (0.17)</u>
Weighted average common shares outstanding - Diluted	<u>38,516</u>	<u>38,434</u>	<u>38,446</u>	<u>38,438</u>
ADJUSTED EBITDA				
GAAP net income (loss) attributable to Itron, Inc.	\$ 19,917	\$ (14,346)	\$ 30,006	\$ (8,948)
Interest income	(221)	(212)	(492)	(260)
Interest expense	2,735	3,855	5,653	6,537
Income tax provision	12,193	4,098	20,819	9,128
Depreciation and amortization	18,807	19,437	35,481	38,792
Restructuring	(1,622)	(4,234)	615	(9,415)
Acquisition-related expenses	(25)	(4,607)	(22)	(2,283)
Adjusted EBITDA	<u>\$ 51,784</u>	<u>\$ 3,991</u>	<u>\$ 92,060</u>	<u>\$ 33,551</u>
FREE CASH FLOW				
Net cash provided by operating activities	\$ 17,322	\$ 21,522	\$ 51,127	\$ 17,567
Acquisitions of property, plant, and equipment	(11,093)	(11,520)	(19,884)	(20,992)
Free Cash Flow	<u>\$ 6,229</u>	<u>\$ 10,002</u>	<u>\$ 31,243</u>	<u>\$ (3,425)</u>
NON-GAAP OPERATING INCOME				
GAAP operating income (loss)	\$ 35,473	\$ (3,968)	\$ 59,047	\$ 9,528
Amortization of intangible assets	7,796	7,888	14,006	15,861
Restructuring	(1,622)	(4,234)	615	(9,415)
Acquisition-related expenses	(25)	(4,607)	(22)	(2,283)
Non-GAAP operating income (loss)	<u>\$ 41,622</u>	<u>\$ (4,921)</u>	<u>\$ 73,646</u>	<u>\$ 13,691</u>
NON-GAAP OPERATING EXPENSES				
GAAP operating expenses	\$ 134,232	\$ 122,522	\$ 273,861	\$ 247,448
Amortization of intangible assets	(7,796)	(7,888)	(14,006)	(15,861)
Restructuring	1,622	4,234	(615)	9,415
Acquisition-related expenses	25	4,607	22	2,283
Non-GAAP operating expenses	<u>\$ 128,083</u>	<u>\$ 123,475</u>	<u>\$ 259,262</u>	<u>\$ 243,285</u>



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

(Unaudited, in thousands, except per share data)

SEGMENT RECONCILIATIONS	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
NON-GAAP OPERATING INCOME - ELECTRICITY				
Electricity - GAAP operating income	\$ 20,008	\$ 4,025	\$ 30,640	\$ 5,139
Amortization of intangible assets	4,617	4,428	7,867	8,883
Restructuring	(1,560)	(2,703)	(1,032)	(5,465)
Acquisition-related expenses	(25)	(4,607)	(22)	(2,283)
Electricity - Non-GAAP operating income	<u>\$ 23,040</u>	<u>\$ 1,143</u>	<u>\$ 37,453</u>	<u>\$ 6,274</u>
NON-GAAP OPERATING INCOME - GAS				
Gas - GAAP operating income	\$ 25,376	\$ 14,659	\$ 41,675	\$ 29,150
Amortization of intangible assets	1,756	1,945	3,375	3,915
Restructuring	(12)	(1,186)	1,252	(1,061)
Gas - Non-GAAP operating income	<u>\$ 27,120</u>	<u>\$ 15,418</u>	<u>\$ 46,302</u>	<u>\$ 32,004</u>
NON-GAAP OPERATING INCOME - WATER				
Water - GAAP operating income (loss)	\$ 14,177	\$ (11,565)	\$ 32,253	\$ (2,850)
Amortization of intangible assets	1,423	1,515	2,764	3,063
Restructuring	115	156	51	273
Water - Non-GAAP operating income (loss)	<u>\$ 15,715</u>	<u>\$ (9,894)</u>	<u>\$ 35,068</u>	<u>\$ 486</u>
NON-GAAP OPERATING INCOME - CORPORATE UNALLOCATED				
Corporate unallocated - GAAP operating loss	\$ (24,088)	\$ (11,087)	\$ (45,521)	\$ (21,911)
Restructuring	(165)	(501)	344	(3,162)
Corporate unallocated - Non-GAAP operating loss	<u>\$ (24,253)</u>	<u>\$ (11,588)</u>	<u>\$ (45,177)</u>	<u>\$ (25,073)</u>