

ITRON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended March 31,	
	2017	2016
Revenues	\$ 477,592	\$ 497,590
Cost of revenues	320,367	334,387
Gross profit	157,225	163,203
Operating expenses		
Sales and marketing	41,468	40,767
Product development	40,868	45,346
General and administrative	37,246	45,069
Amortization of intangible assets	4,549	6,210
Restructuring	3,052	2,237
Total operating expenses	127,183	139,629
Operating income	30,042	23,574
Other income (expense)		
Interest income	269	271
Interest expense	(2,674)	(2,918)
Other income (expense), net	(2,576)	(1,517)
Total other income (expense)	(4,981)	(4,164)
Income before income taxes	25,061	19,410
Income tax provision	(9,047)	(8,626)
Net income	16,014	10,784
Net income attributable to non-controlling interests	169	695
Net income attributable to Itron, Inc.	\$ 15,845	\$ 10,089
Earnings per common share - Basic	\$ 0.41	\$ 0.27
Earnings per common share - Diluted	\$ 0.40	\$ 0.26
Weighted average common shares outstanding - Basic	38,474	38,059
Weighted average common shares outstanding - Diluted	39,215	38,376

ITRON, INC.
SEGMENT INFORMATION

(Unaudited, in thousands)

	Three Months Ended March	
	2017	2016
Revenues		
Electricity	\$ 238,751	\$ 217,295
Gas	124,211	139,256
Water	114,630	141,039
Total Company	<u>\$ 477,592</u>	<u>\$ 497,590</u>
Gross profit		
Electricity	\$ 67,192	\$ 64,586
Gas	50,504	48,577
Water	39,529	50,040
Total Company	<u>\$ 157,225</u>	<u>\$ 163,203</u>
Operating income (loss)		
Electricity	\$ 16,862	\$ 10,632
Gas	21,256	16,299
Water	8,735	18,076
Corporate unallocated	(16,811)	(21,433)
Total Company	<u>\$ 30,042</u>	<u>\$ 23,574</u>

METER AND MODULE SUMMARY

(Units in thousands)

	Three Months Ended March	
	2017	2016
Meter		
Standard	4,010	4,370
Smart	2,440	2,190
Total meters	<u>6,450</u>	<u>6,560</u>
Stand-alone communication modules		
Smart	<u>1,400</u>	<u>1,460</u>

ITRON, INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands)

	March 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 187,928	\$ 133,565
Accounts receivable, net	344,411	351,506
Inventories	178,060	163,049
Other current assets	95,424	84,346
Total current assets	805,823	732,466
Property, plant, and equipment, net	178,647	176,458
Deferred tax assets, net	106,896	94,113
Other long-term assets	50,166	50,129
Intangible assets, net	69,485	72,151
Goodwill	462,906	452,494
Total assets	\$ 1,673,923	\$ 1,577,811
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 194,012	\$ 172,711
Other current liabilities	46,359	43,625
Wages and benefits payable	82,010	82,346
Taxes payable	18,736	10,451
Current portion of debt	15,469	14,063
Current portion of warranty	23,500	24,874
Unearned revenue	84,705	64,976
Total current liabilities	464,791	413,046
Long-term debt	288,266	290,460
Long-term warranty	18,036	18,428
Pension benefit obligation	87,663	84,498
Deferred tax liabilities, net	3,214	3,073
Other long-term obligations	109,346	117,953
Total liabilities	971,316	927,458
Equity		
Common stock	1,276,298	1,270,467
Accumulated other comprehensive loss, net	(213,618)	(229,327)
Accumulated deficit	(379,326)	(409,536)
Total Itron, Inc. shareholders' equity	683,354	631,604
Non-controlling interests	19,253	18,749
Total equity	702,607	650,353
Total liabilities and equity	\$ 1,673,923	\$ 1,577,811

ITRON

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ITRON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Three Months Ended March 31,	
	2017	2016
Operating activities		
Net income	\$ 16,014	\$ 10,784
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,378	16,674
Stock-based compensation	5,211	3,900
Amortization of prepaid debt fees	266	276
Deferred taxes, net	882	4,507
Restructuring, non-cash	—	1,114
Other adjustments, net	946	66
Changes in operating assets and liabilities:		
Accounts receivable	13,119	(33,308)
Inventories	(11,274)	3,244
Other current assets	(11,169)	(5,457)
Other long-term assets	646	2,945
Accounts payable, other current liabilities, and taxes payable	28,277	10,161
Wages and benefits payable	(1,796)	9,349
Unearned revenue	14,020	14,343
Warranty	(2,303)	(4,045)
Other operating, net	(3,960)	(748)
Net cash provided by operating activities	<u>63,257</u>	<u>33,805</u>
Investing activities		
Acquisitions of property, plant, and equipment	(9,122)	(8,791)
Other investing, net	(78)	558
Net cash used in investing activities	<u>(9,200)</u>	<u>(8,233)</u>
Financing activities		
Payments on debt	(2,813)	(23,406)
Issuance of common stock	405	660
Other financing, net	155	(2,289)
Net cash used in financing activities	<u>(2,253)</u>	<u>(25,035)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	2,559	1,060
Increase in cash and cash equivalents	54,363	1,597
Cash and cash equivalents at beginning of period	133,565	131,018
Cash and cash equivalents at end of period	<u>\$ 187,928</u>	<u>\$ 132,615</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, 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 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 expense and operating income calculated in accordance with GAAP. 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 net income attributable to Itron, Inc. 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 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, amortization of intangible assets, restructuring, acquisition related expense, goodwill impairment and (c) excluding the tax expense 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 currency foreign 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 March 31,	
	2017	2016
NON-GAAP NET INCOME & DILUTED EPS		
GAAP net income attributable to Itron, Inc.	\$ 15,845	\$ 10,089
Amortization of intangible assets	4,549	6,210
Amortization of debt placement fees	241	247
Restructuring	3,052	2,237
Acquisition-related expenses	333	3
Income tax effect of non-GAAP adjustments	(1,834)	(1,955)
Non-GAAP net income attributable to Itron, Inc.	<u>\$ 22,186</u>	<u>\$ 16,831</u>
Non-GAAP diluted EPS	<u>\$ 0.57</u>	<u>\$ 0.44</u>
Weighted average common shares outstanding - Diluted	<u>39,215</u>	<u>38,376</u>
ADJUSTED EBITDA		
GAAP net income attributable to Itron, Inc.	\$ 15,845	\$ 10,089
Interest income	(269)	(271)
Interest expense	2,674	2,918
Income tax provision	9,047	8,626
Depreciation and amortization	14,378	16,674
Restructuring	3,052	2,237
Acquisition-related expenses	333	3
Adjusted EBITDA	<u>\$ 45,060</u>	<u>\$ 40,276</u>
FREE CASH FLOW		
Net cash provided by operating activities	\$ 63,257	\$ 33,805
Acquisitions of property, plant, and equipment	(9,122)	(8,791)
Free Cash Flow	<u>\$ 54,135</u>	<u>\$ 25,014</u>
NON-GAAP OPERATING INCOME		
GAAP operating income	\$ 30,042	\$ 23,574
Amortization of intangible assets	4,549	6,210
Restructuring	3,052	2,237
Acquisition-related expenses	333	3
Non-GAAP operating income	<u>\$ 37,976</u>	<u>\$ 32,024</u>
NON-GAAP OPERATING EXPENSES		
GAAP operating expenses	\$ 127,183	\$ 139,629
Amortization of intangible assets	(4,549)	(6,210)
Restructuring	(3,052)	(2,237)
Acquisition-related expenses	(333)	(3)
Non-GAAP operating expenses	<u>\$ 119,249</u>	<u>\$ 131,179</u>

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

(Unaudited, in thousands)

SEGMENT RECONCILIATIONS	Three Months Ended March	
	2017	2016
NON-GAAP OPERATING INCOME - ELECTRICITY		
Electricity - GAAP operating income	\$ 16,862	\$ 10,632
Amortization of intangible assets	2,362	3,250
Restructuring	(176)	528
Acquisition-related expenses	—	3
Electricity - Non-GAAP operating income	<u>\$ 19,048</u>	<u>\$ 14,413</u>
NON-GAAP OPERATING INCOME - GAS		
Gas - GAAP operating income	\$ 21,256	\$ 16,299
Amortization of intangible assets	1,277	1,619
Restructuring	1,084	1,264
Gas - Non-GAAP operating income	<u>\$ 23,617</u>	<u>\$ 19,182</u>
NON-GAAP OPERATING INCOME - WATER		
Water - GAAP operating income	\$ 8,735	\$ 18,076
Amortization of intangible assets	910	1,341
Restructuring	1,018	(64)
Water - Non-GAAP operating income	<u>\$ 10,663</u>	<u>\$ 19,353</u>
NON-GAAP OPERATING INCOME - CORPORATE UNALLOCATED		
Corporate unallocated - GAAP operating loss	\$ (16,811)	\$ (21,433)
Restructuring	1,126	509
Acquisition-related expenses	333	—
Corporate unallocated - Non-GAAP operating loss	<u>\$ (15,352)</u>	<u>\$ (20,924)</u>