



Itron Reports Increased Revenues and EPS for the Third Quarter

SPOKANE, WA. — October 16, 2003 — Itron, Inc. (NASDAQ:ITRI), today reported its financial results for the quarter ended September 30, 2003.

Third quarter revenues in 2003 increased 12% over third quarter 2002 to \$82.1 million. On a GAAP basis, we earned 23 cents per diluted share for the quarter, compared to 27 cents in 2002. Pro forma diluted earnings per share for the third quarter were 30 cents in 2003 compared with 29 cents last year. A schedule reconciling income between GAAP and pro forma is attached to this release.

Year-to-date, revenues of \$237.0 million, reflect a 14% increase over the first nine months of 2002. Year-to-date GAAP diluted earnings per share were 56 cents compared with 45 cents in 2002. Pro forma diluted earnings per share were 88 cents for the first nine months of 2003, up from 82 cents for the first nine months of 2002.

Comparing the quarter and year-to-date periods in 2003 with 2002, higher revenues for automatic meter reading (AMR) modules were partially offset by lower revenues for meter reading software and system installations. Additional revenue and gross margin highlights for the quarter and year-to-date periods include:

We shipped 1.0 million AMR meter modules in the third quarter of 2003, 12% more than in the third quarter of 2002. Year-to-date AMR meter module shipments are up 10% to 3.1 million. Acquisitions since October 1, 2002 contributed \$5.5 million to revenues during the quarter and \$13.0 million to revenues in the first nine months of 2003. Gross margin for the quarter was 48%, compared with 47% in the third quarter of last year. Year-to-date gross margin has increased to 49% in 2003 compared with 46% in 2002. The higher gross margin in 2003 results principally from higher manufacturing volumes, lower component prices and changes in product mix.

Sales and marketing, product development and general and administrative expenses were 35% of revenues for the quarter and first nine months of 2003, compared with 33% of revenues for the 2002 periods. The increase is largely due to four acquisitions completed since March 2002, where in the near-term, spending was higher as a percentage of revenues than in our meter reading systems businesses.

On October 14, 2003, we reached a final settlement of all outstanding issues in the Benghiat patent litigation and operating expenses in the third quarter of 2003 reflect a \$500,000 charge related to that settlement. The total settlement of \$7.9 million was paid to Benghiat on October 14, 2003.

We had net interest expense of \$764,000 for the third quarter of 2003 compared with \$89,000 of net interest income in the third quarter of 2002. Interest expense in 2003 includes interest on a term loan related to the Silicon Energy acquisition in March 2003, along with amortization of related loan origination fees. Year-to-date net interest expense in 2002 results from interest on approximately \$53 million in subordinated debt, which was converted to common stock during the second quarter of 2002.

Operating cash flow for the third quarter was \$7.0 million in 2003 compared with \$11.1 million in 2002. Year-to-date cash flow from operations was \$16.2 million in 2003 compared with \$32.8 million in 2002. The primary reason for the lower cash flow in 2003 is an increase in accounts receivable due to the timing of large contract payments and customers taking slightly longer to pay in 2003. DSOs in the third quarter of 2003 were 66 compared with 58 in 2002. Year-to-date operating cash flow in 2003 is also lower due to a \$4 million payment in the second quarter to a utility for a modification to a long-term contract.

New order bookings during the quarter were \$67 million, up from \$41 million in the prior quarter, but down from \$87 million in the third quarter last year. Third quarter bookings in 2002 included a \$29 million order with one utility for an initial AMR deployment. Year-to-date, new order bookings are \$168 million compared with \$170 million in the first nine months of 2002.

Total backlog, which represents the value of undelivered contractual orders, excluding annual maintenance and certain services contracts, was \$169 million at September 30, 2003, compared with \$173 million at June 30, 2003. Twelve-month backlog represents the portion of backlog that will be earned over the next twelve months and was \$69 million at September 30, 2003, compared with \$79 million last quarter.

SEM Acquisition Update:

In July 2003, we announced an agreement to acquire Schlumberger Electricity Metering, Inc. ("SEM") for a purchase price of \$255 million. The acquisition combines the industry leader in automatic meter reading technology ("AMR") and meter data management solutions with the industry leader in electric metering and expands Itron's business into the North American electric meter market.

In late August 2003, we received a second request for information from the FTC in connection with Itron and Schlumberger's filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR"). We expect to have substantially complied with the request for additional information within the next 30 to 45 days, to receive HSR clearance by year-end, and anticipate a transaction close early in 2004.

Business Outlook:

The following statements are based on management's current expectations and do not include the impact of the acquisition of SEM, which will likely close in early 2004. That acquisition is expected to be accretive and we will provide more detail on the expected financial impact of SEM at closing. These forward-looking statements are made as of the date of this press release. Actual results may differ materially due to a number of risks and uncertainties. Itron undertakes no obligation to update publicly or revise any forward-looking statements.

We expect revenues for 2003 to be approximately \$320 million and pro forma EPS to be approximately \$1.20. Pro forma results exclude restructurings, intangible asset amortization, in-process R&D, and the Benghiat litigation settlement.

"We had several customers push out large AMR orders in the third quarter as they were dealing with effects of the hurricane and blackout," commented LeRoy Nosbaum, chairman and CEO. "This resulted in lower third quarter bookings than we expected and in our expectations for 2003 coming in at the low end of our previous guidance. However, those utilities are getting back to business and as we look to 2004, we are encouraged by our healthy pipeline of hardware and software and by improving utility industry fundamentals."

"In addition, we have made progress on our acquisition of SEM in terms of integration planning and moving the HSR process along at the FTC and expect SEM to contribute positively to our financial performance in 2004."

Use of Pro Forma Financial Information:

To supplement our consolidated financial statements presented in accordance with GAAP, we use pro forma measures of operating results, net income and earnings per share. Pro forma results are adjusted from GAAP-based results to exclude certain costs, expenses and expense reversals that we believe are not indicative of our core operating results. Pro forma results are one of the primary indicators management uses for evaluating historical results and for planning and forecasting future periods. We believe the pro forma results provide useful information to investors in terms of enhancing their overall understanding of our current financial performance as well as our future prospects. We have historically provided pro forma results and believe the inclusion of them provides investors with consistency in our financial reporting. Pro forma results should be viewed in addition to, and not in lieu of, GAAP results.

Forward Looking Statements:

This release contains forward-looking statements concerning Itron's operations, economic performance, sales, earnings growth and cost reduction programs. These statements reflect our current plans and expectations and are based on information currently available. They rely on a number of assumptions and estimates, which could be inaccurate, and which are subject to risks and uncertainties that could cause our actual results to vary materially from those anticipated. Risks and uncertainties include 1) the timing of the SEM acquisition closing or the failure to finalize satisfactory credit arrangements for that acquisition, 2) the rate and timing of customer demand for the Company's products, 3) rescheduling of current customer orders, 4) changes in law and regulation (including FCC licensing actions), 5) and other factors which are more fully described in our Annual Report on Form 10-K for the year ended December 31, 2002 and 2003 Form 10-Qs on file with the Securities and Exchange Commission. Itron undertakes no obligation to update publicly or revise any forward-looking statements.

Investor Conference Call:

Itron will host a teleconference with institutional investors and analysts at 1:45 p.m. Pacific Time (4:45 p.m. Eastern Time), on Thursday, October 16, 2003 to discuss financial results for the quarter. Internet users can hear a simultaneous live webcast of the teleconference at www.itron.com. "About Itron – Investor Relations – Investor Events." Webcast replays will begin shortly after the conclusion of the call and will be available through November 30, 2003. A telephone replay of the call will also be available approximately one hour after the conclusion of the live call, for 48 hours, and is accessible by dialing 800-428-6051 (Domestic) or 973-709-2089 (International), passcode 307430.

About Itron:

Itron is a leading technology provider and critical source of knowledge to the global energy and water industries. More than 2,800 utilities worldwide rely on Itron technology to deliver the knowledge they require to optimize the delivery and use of energy and water. Itron delivers value to its clients by providing industry-leading solutions for meter data collection, energy information management, demand side management and response, load forecasting, analysis and consulting services,

transmission and distribution system design and optimization, Web-based workforce automation, commercial and industrial customer care and residential energy management.

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