Itron

Knowledge to Shape Your Future

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www.itron.com

ITRON

2007 ANNUAL REPORT

THE SMART FUTURE

2007
ANNUAL REPORT

ITRON

Itron is a leading technology provider and critical source of knowledge to the global energy and water industries. Itron operates in two divisions: as Itron in North America and as Actaris outside of North America. Our company is the world's leading provider of metering, data collection, and software solutions, with nearly 8,000 utilities worldwide relying on our technology to optimize the delivery and use of energy and water. Itron delivers industry-leading solutions for electricity, gas, and water utilities by offering meters; data collection and communication systems, including automated meter reading (AMR) and advanced metering infrastructure (AMI); meter data management and utility software applications; and comprehensive project management, installation, and consulting services.

the future will require smarter thinking

with increasing
populations

and

rapidly growing
economies,

there will
continue to be

an increase
in the demand

for electricity,

natural gas,

and water

this demand comes at a time when utilities are challenged by cost constraints, by regulatory requirements, and by environmental concerns

the solution

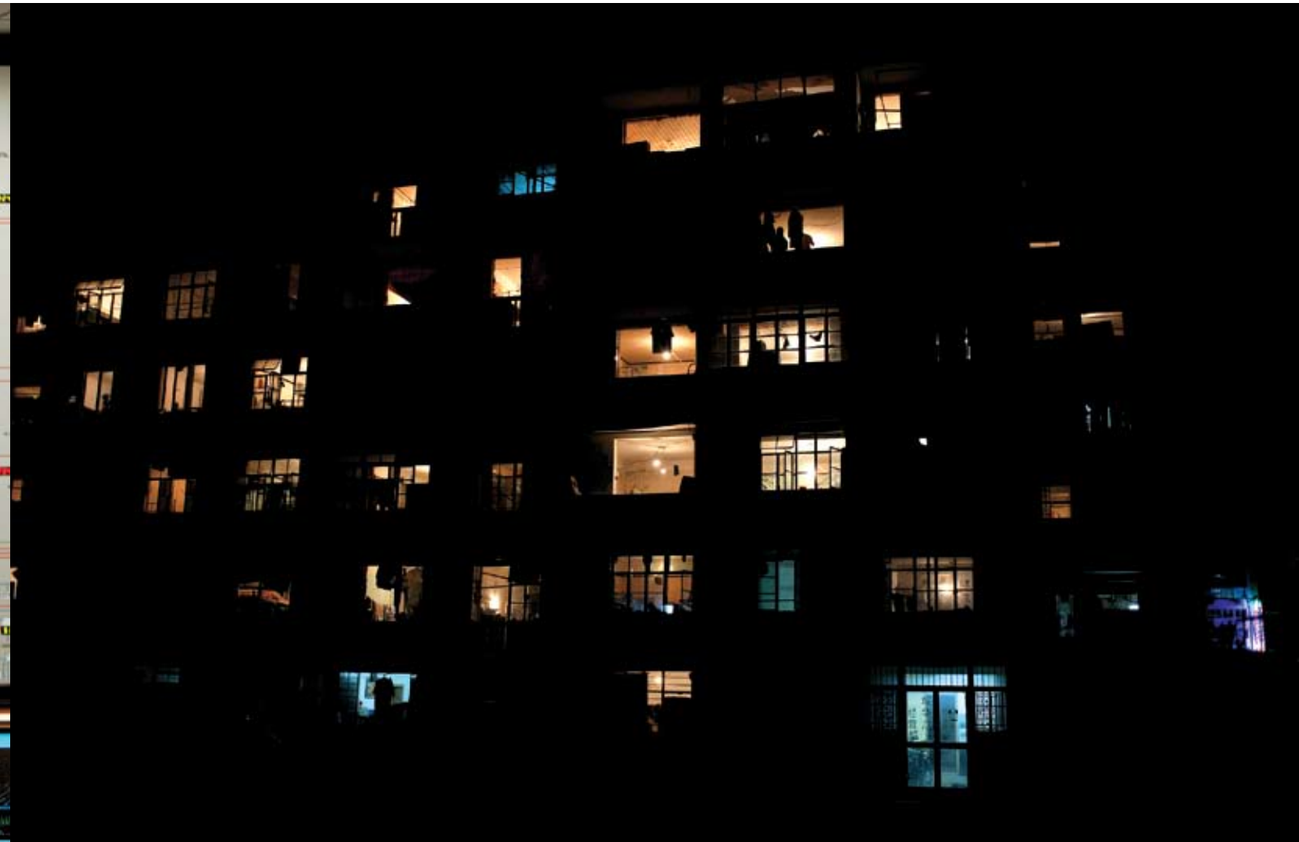
is to provide utilities with the knowledge they need

to optimize their resources

knowledge

that enables them to better understand

and serve their customers



knowledge

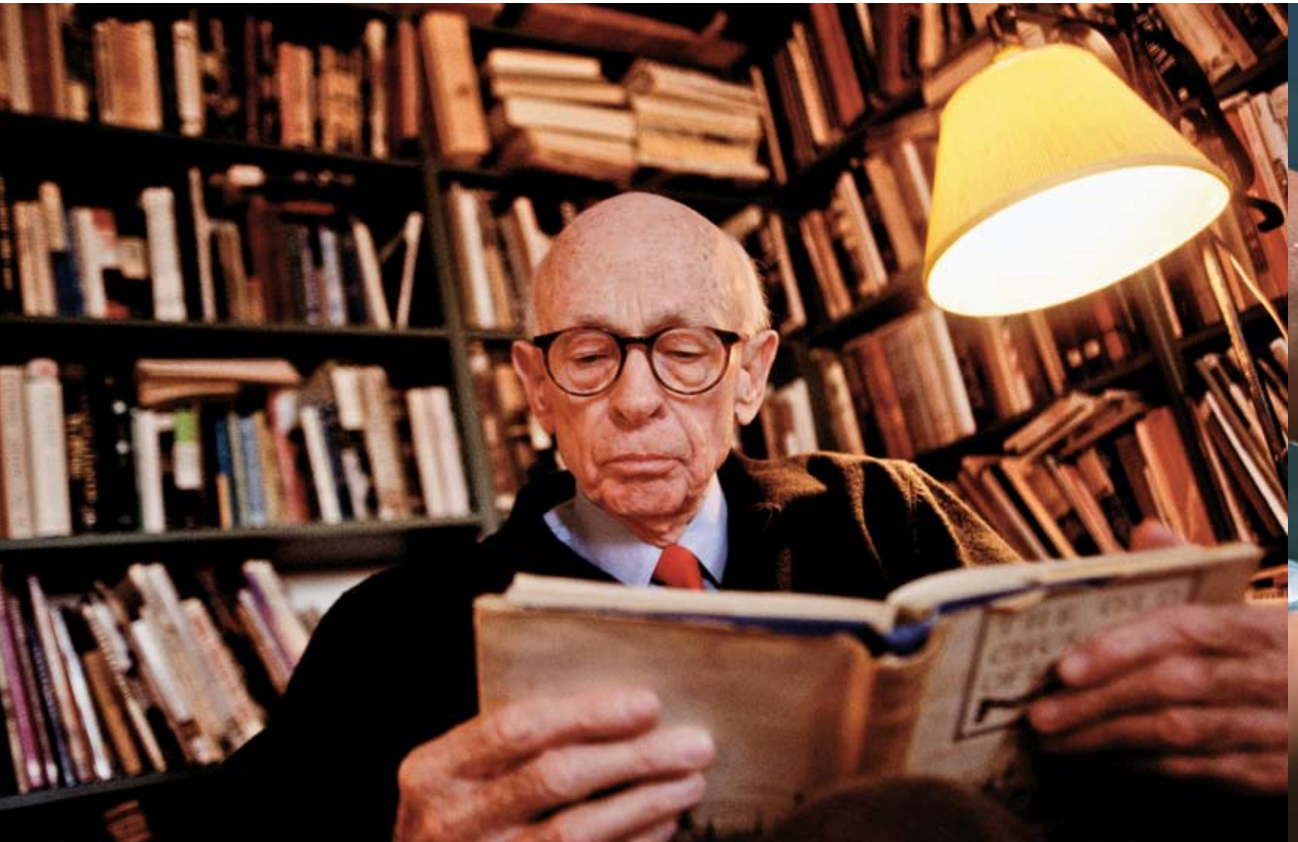
that gives their
customers

new control over their
energy needs

knowledge

that allows all of us
to better manage
and conserve

valuable resources



BY PROVIDING INFORMATION
AND KNOWLEDGE,
ITRON REVOLUTIONIZED THE FIELD
OF ENERGY AND WATER
INTELLIGENCE.

AFTER 30 YEARS OF LEADING
THE INDUSTRY,
NO ONE IS BETTER POSITIONED
THAN ITRON TO LEAD
THE NEXT 30.

30 Years of Smarter Thinking

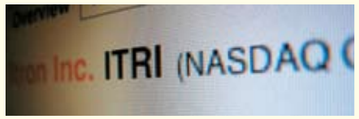
Itron was formed to find a more efficient way for utilities to read meters. After we revolutionized how utilities collected meter data, we then helped them transform what they could do with that valuable information. Today, our OpenWay and other technology platforms enable utilities to operate efficiently; have two-way, real-time communication with their customers; control loads; detect water leaks; and enable communication with in-home devices. Tomorrow? Enabling a smart grid that's good for utilities, their customers, and the environment.

1977

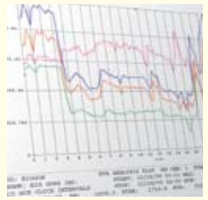
1978

1984

1992



1993



1996

1977
Backed by the local utility, a small group of innovative engineers intent on finding better, more efficient ways to read meters, hatched an idea for the company's first product in a small building in Hauser Lake, Idaho. Idaho Electronics became Itron.

1978
Itron launched the Data Meter, the first portable computer for reading meters and printing the bill on-site.

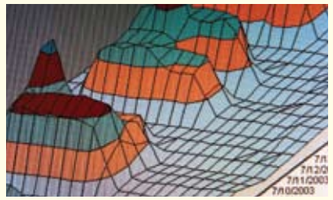
1984
Itron released a repackaged DCH handheld computer that eliminated the printer and was more portable. More than 20 large utilities placed orders for the system, thrusting Itron into a leading position for meter data collection systems.

1992
Itron acquired a leading provider of mobile AMR systems for gas utilities. The technology was used to develop an electric module so that electricity and gas utilities could collect data via wireless handheld and vehicle-based systems.

1993
Itron completed an initial public offering of the company's stock.

1995
Itron expanded its technology to serve water utilities and municipalities worldwide and was one of the first companies to offer AMR for the water market.

1996
Itron acquired MV-90, an industry-leading metering software application for the collection, analysis, and application of advanced meter data from commercial and industrial energy users.



2003

2004

2006

OpenWay® by Itron

2007

ACTARIS an Itron Company

2007

2002
Itron acquired software solutions for distribution system design, field workforce management, and energy forecasting.

2003
Itron expanded its footprint with the acquisition of best-in-class software tools for management, analysis, and application of metering-based data to optimize the delivery and usage of energy and water.

2004
Itron acquired Schlumberger Electricity Metering, the industry leader in solid-state electricity metering technology, and built an integrated platform for measurement and collection of meter data.

2005
Itron reached significant milestones: 45 million meters automated worldwide, 3,000 utility customers in 65 countries, and more than $550 million in revenues.

2006
Itron enhanced the way water utilities monitor their distribution systems with the acquisition of leading acoustical leak-detection technology.

2007
Itron acquired Actaris Metering Systems, significantly expanding the company's global footprint while adding gas and water metering products to our portfolio.

2007
Itron introduced OpenWay, a new system for the AMI market, allowing utilities to communicate with their customers in unprecedented ways.

SUMMARY OF CONSOLIDATED FINANCIAL DATA

in thousands, except per share

FISCAL YEAR	2007	2006	2005	2004	2003
OPERATIONS					
Revenues	$1,464,048	$644,042	$552,690	$399,194	$316,965
Operating income	$ 46,473	$ 61,743	$ 46,238	$ 3,962	$ 21,694
Net income (loss)	$ (16,144)	$ 33,759	$ 33,061	$ (5,257)	$ 10,478
Diluted earnings (loss) per share	$ (0.55)	$ 1.28	$ 1.33	$ (0.25)	$ 0.48
Non-GAAP net income	$ 87,312	$ 55,608	$ 45,556	$ 20,553	$ 29,325
Non-GAAP diluted earnings per share	$ 2.81	$ 2.12	$ 1.84	$ 0.93	$ 0.89
BALANCE SHEET					
Total assets	$3,050,566	$988,522	$598,884	$557,151	$303,489
Total debt	$1,590,541	$469,324	$166,929	$278,235	$ 52,269
Total shareholders' equity	$ 758,802	$390,982	$317,534	$184,430	$177,244

Non-GAAP results exclude the amortization of intangible assets and debt placement fees, restructurings, and aquisition-related charges for in-process research and development and inventory. On a pre-tax basis, these amounts totaled $149,260 in 2007, $35,502 in 2006, $44,124 in 2005, $43,304 in 2004, and $13,906 in 2003. In 2005, non-GAAP also excluded $14.1 million in tax benefits. Management believes that non-GAAP results provide useful information related to the ongoing operations of our business and enhance the overall understanding of our current and future performance. A schedule reconciling GAAP to non-GAAP results is available on our website at www.itron.com.

To our shareholders:

To sum up Itron's year in a single word, 2007 has been transformational. With the acquisition of Actaris in April, Itron has grown from a predominantly North American company to a global enterprise with operations in more than 60 countries. We expanded from 2,500 people to nearly 9,000 worldwide.[1] Our revenues increased from $644 million in 2006 to more than $1.7 billion in 2007 on an annualized, pro forma basis. Today, we serve more than 8,000 utility customers and own a company that has shipped hundreds of millions of electricity, gas, and water meters; we are the world's leading supplier of meters. We also provide the industry-leading technologies that utilities rely on every day to collect, manage, analyze, and apply their critical usage data.

Our new global footprint and worldwide customer relationships set the stage for tremendous opportunities going forward. Yet Itron's transformation is far more than a matter of scale, and it's even bigger than the promising synergies of the acquisition. It is also a transformation led by our introduction of a breakthrough technology at a remarkably opportune time. In 2007, Itron introduced OpenWay®, an advanced metering infrastructure (AMI) solution that is pivotal to the industry's movement toward smart metering and, ultimately, the smart grid needed to support the utility of the future.

Together, these 2007 milestones—the acquisition of Actaris and the introduction of OpenWay—are not only changing our company, but they are addressing an unprecedented set of requirements in the industry we serve. It's no coincidence that Itron's own transformation dovetails with this rapid and significant change in the marketplace.

In 2007, a convergence of conditions accelerated the pace of technology adoption across the industry. Around the world, populations and energy demands continue to increase, while tightening regulatory requirements, increasing costs, and environmental constraints make it impossible for utilities to build their way out of the problem. Due to generation constraints, many utilities serving densely populated markets in the United States are now drawing on their reserve margins to meet electricity demands. At the same time, intensifying concern over climate change and the need to reduce carbon emissions has led to industry directives in some parts of the world and to mandates in others, with more to come. In parts of the United States and in many regions around the world, water supply shortages are forcing governments and people to make difficult decisions about how to manage this precious and finite resource for the long term. The ability to meet these challenges requires more frequent, accurate, and integrated information

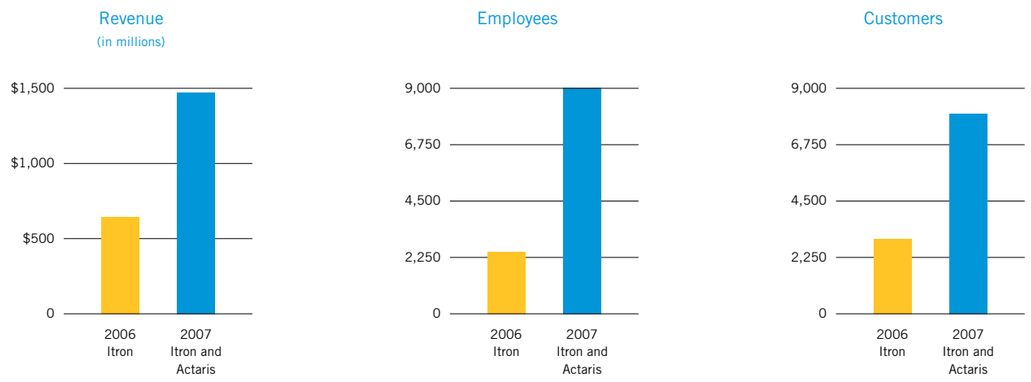
about how energy and water are used—information that is only available through more advanced technologies.

This confluence of macro trends creates a whole new backdrop across our global marketplace. Utilities are now evaluating, testing, and considering the adoption of new technology at an unprecedented rate. We no longer need to evangelize about the benefits of automated meter reading (AMR) and AMI; utilities and regulators are setting the pace and dictating the requirements. This places Itron in an enviable position—a position we have worked hard to earn. Together, our expanded global marketplace and our leading AMI and AMR solutions make Itron uniquely capable of helping utilities and their customers address their most pressing challenges.

Since the acquisition closed in April, Actaris' people, products, and worldwide presence confirm that we made the right acquisition at the right time. Having completed the financial and IT integration of the acquisition, we are now focused on taking full advantage of the synergies between our technologies and expertise for short- and long-term gains. The opportunities are significant for our company and our customers.

From a geographic perspective, Actaris' global market presence[2] is extremely complementary. It fulfills one of Itron's key strategies: to expand globally while leveraging our strong reputation, customer relationships, and market share in North America. Actaris brings us an immediate global presence and an established sales and distribution channel as a trusted supplier to utilities worldwide. In turn, Itron brings advanced electronic metering technology, AMR and AMI technology, and software and systems expertise to the Actaris worldwide customer base. We will also be looking for ways to expand opportunities for Actaris' gas and water meter technology in North America.

1 **Itron and Actaris**

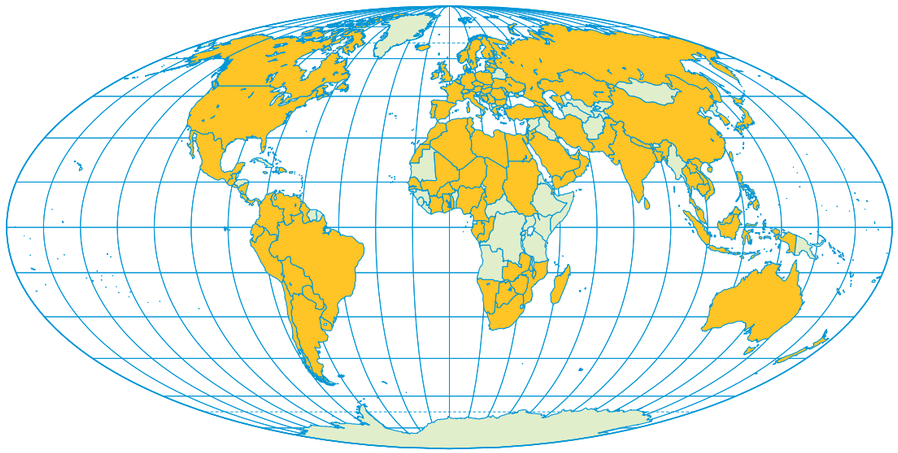


Many of us at Itron and Actaris have worked together in the past, and we share a deep appreciation for the strengths each of us brings to the table. At Itron, we recognize the value of Actaris' 100-year history, global customer relationships, and understanding of the international community—from the nuances of multiple cultures and technology standards to currencies and regulatory issues. The more we work together, the more impressed we are with the people and the business they run. We know better than to tinker with success; as a division of Itron, Actaris operates fundamentally as it did prior to the acquisition. This has eliminated many of the typical risks of such a large acquisition, and it magnifies the opportunities ahead for both Itron North America and Actaris.

Most of Actaris' business is in its electricity, gas, and water meters and the growing number of communications technologies embedded in them. This healthy global business grows at an average annual rate of 5 to 6 percent, primarily through meter replacements and new installations. In addition, the prospects for large-scale electricity meter change-outs across Europe are extremely encouraging due to the European Union's directive of customer choice and its established culture of conservation. These influences drive mounting demand for increased functionality, more frequent meter readings, and improved energy and water services—all of which require advanced technology and communications. Actaris' global stature as a trusted metering provider helps us address these significant opportunities.

Actaris is also a global innovator in prepayment metering, which is an increasingly sought-after technology in specific markets around the world. In countries such as Mozambique, Nigeria, and South Africa, prepayment systems make it financially feasible for utilities to invest in the infrastructure to bring gas and electricity into far-flung regions where residents do not even have street addresses. In Azerbaijan, Actaris prepayment

2 **Actaris Worldwide Customer Base** (countries with Actaris customers are in yellow)



technology will enable consumers to prepurchase electricity through credit cards embedded with a smart chip.[3] Additionally, two-way prepayment systems communicate usage and other information back to the utilities, giving them valuable insight into energy consumption.

Actaris is also addressing the fast-growing global focus on water conservation, which is driving the need for the timely, accurate consumption data that high-quality meters and AMR solutions deliver. Given that over 30 percent of the water used in the world is unmetered, Actaris is well positioned to leverage this sizable opportunity.

Actaris has a saying that expresses its business philosophy very well: "We are a global company that operates locally." For more than a century, Actaris has emphasized local operations and relationships. We are excited to join forces with a company that shares our focus on listening to, and working closely with, our customers.

As we expanded our global opportunities with Actaris, we launched a smart technology revolution in the North America electricity market with OpenWay. Our introduction of OpenWay in 2007 gives utilities and their customers intelligent new ways to control and conserve energy.[4] The key is OpenWay's two-way communication technology, which supports the most advanced meter data collection, enables a utility's customers to take part in demand response and energy conservation programs, and supports the ongoing development and deployment of the smart grid that is a cornerstone to building the utility of the future.

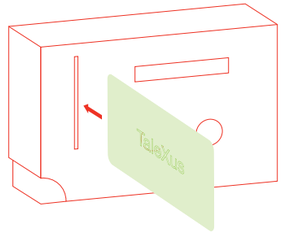
Even the development of our AMI technology was transformational for Itron—and for our industry. In 2005, we listened to our customers and determined that their changing needs called for an entirely new generation of technology, not merely an extension of an existing one. We dedicated more than 100 talented people and $100 million of R&D and

3 **Actaris TaleXus® Prepayment System**

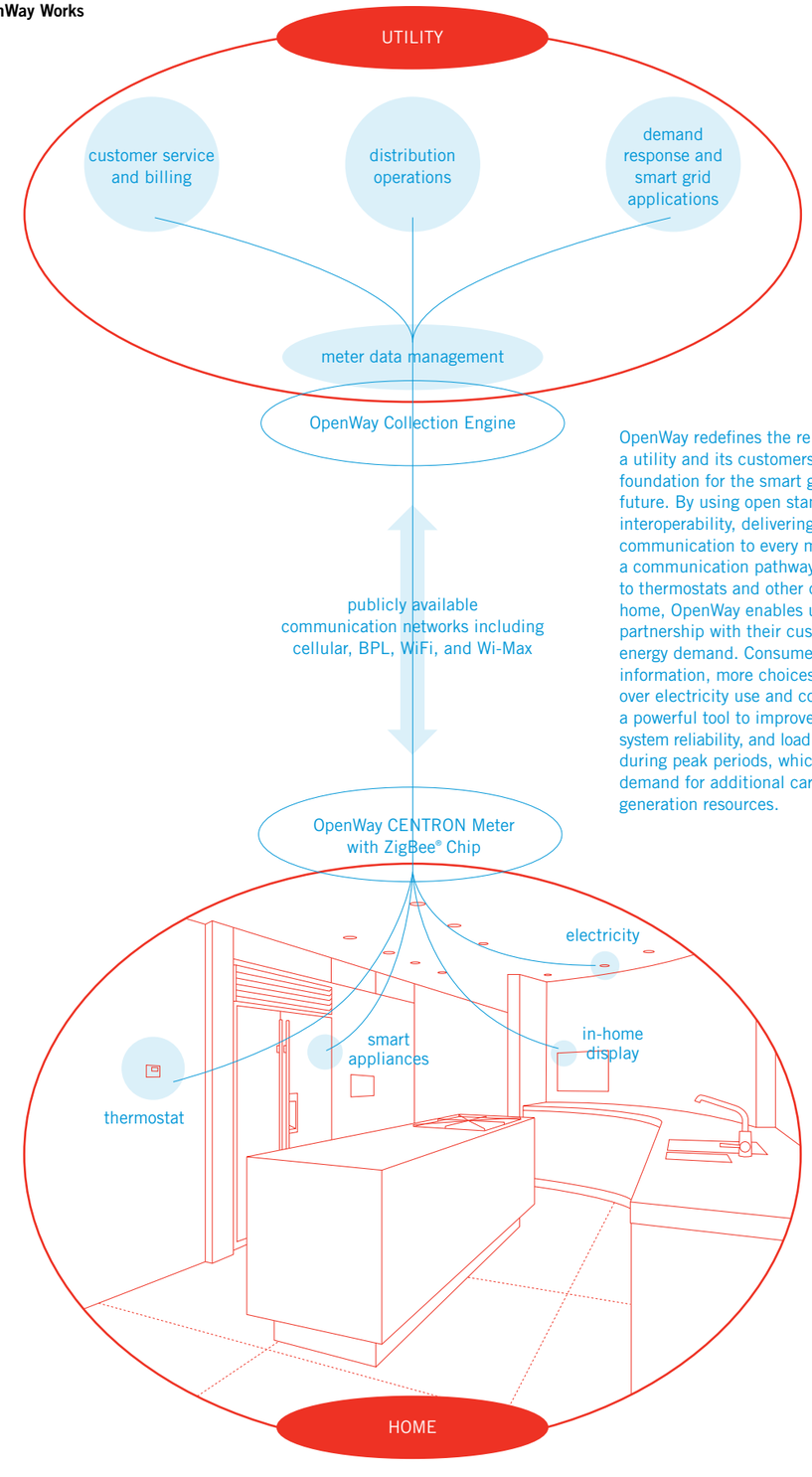
The TaleXus System has been used worldwide by nearly 2.3 million customers.

The system works by allowing customers to charge their smartcards with credit from vendors such as grocery stores or petrol stations. At home, the customer inserts the smartcard into an attachment on the residential meter to credit the meter with the energy that has been purchased.

The two-way communication enabled by the system allows the utility not only to receive customer data (at the point of the sales transaction) but also to manage the meter remotely, sending actions such as tariff and meter configuration changes.



4 **How OpenWay Works**



OpenWay redefines the relationship between a utility and its customers while building a foundation for the smart grid of the future. By using open standards to ensure interoperability, delivering two-way communication to every meter, and creating a communication pathway from the meter to thermostats and other devices in the home, OpenWay enables utilities to work in partnership with their customers to manage energy demand. Consumers gain more information, more choices, and more control over electricity use and costs. Utilities gain a powerful tool to improve price stability, system reliability, and load shedding capability during peak periods, which should lower demand for additional carbon-emitting generation resources.

other resources to rethink the solution and create the industry's first, truly smart meter for the residential mass market. OpenWay is the only AMI technology built from the ground up to embrace the open standards and interoperability that are so vital to the smart grid. While other AMI solutions on the market are developed as extensions of existing products, OpenWay is at the beginning of its life cycle. Only OpenWay provides an AMI platform with the headroom utilities want and need as they look to future-proof their technology investments.

In the United States, Texas and California utilities are at the forefront of this migration to AMI. Texas is driven by deregulation, while California has a mandate to move to AMI by the California Public Utility Commission. The result is the same: the large investor-owned utilities in both states are currently evaluating AMI, with plans to begin deployment in late 2008, following technology trials.

OpenWay's first deployment has already proven itself at CenterPoint Energy in Texas. With 10,000 new OpenWay CENTRON® meters installed in its service territory since spring 2007, CenterPoint marks an important milestone of proven field deployment with results that have met, and sometimes exceeded, customer expectations.

Late in 2007, we announced our first large AMI contract with Southern California Edison (SCE),[5] the second-largest utility in California and one of the largest in the United States. In 2008, SCE will expand the number of OpenWay meters installed in order to test integration of their chosen AMI system providers. SCE intends to gain commission approval by the second half of 2008, followed by full deployment. We believe this $480 million contract is just the beginning of a new wave of technology adoption. The momentum continues with several other large-scale customers that are far down the evaluation path.

5 **SCE Leads the Way—with OpenWay**

Southern California Edison (SCE) is an industry leader in moving toward the smart grid of the future. The utility has selected Itron's OpenWay system to provide the communication backbone for the rollout of 5.3 million smart meters to its electricity customers beginning in 2009. OpenWay is central to the Edison SmartConnect program, a key component of SCE's leadership in managing increasing demand for electricity and providing environmental leadership through energy efficiency, demand management, electricity transportation, and smart technologies. Paul De Martini, Director of the Edison SmartConnect project, has some thoughts on the OpenWay technology, excerpted from a *Utilipoint International* article published January 21, 2008.

What were the most important factors in SCE's selection of OpenWay?

There were several important factors: Itron bid a technology that met both our business and technical requirements. The commercial aspects—pricing, warranties, and product roadmap—were in alignment with our development timeline. The technical requirements were equally important. We considered the product delivery dates for the capability sets that match our business case and performance of the product during indoor and outdoor lab and field testing conducted in 2007. We took into account the overall capability of the firm itself, including their management team and resources.

How did OpenWay perform in your field trials?

The field tests went very well. The first field test was designed to challenge the communication technology. We selected five of the most difficult communication environments and terrains. In every case, the system performed very well. We were able to get all of the interval data, which will be important for time-based rates, and the quality exceeded our high expectations going in.

The near-term outlook for expanding our AMI business is remarkable. For many North American utilities, 2008 will be an intense period of assessing and testing AMI technology, setting the stage for significant sales and revenue growth in 2009 and beyond. Never before in the history of Itron have we been simultaneously proposing billions of dollars of business for advanced systems. In 2008, in addition to the utilities that are expected to launch initial deployments or trial orders in the range of 10,000 units, and then move on to full deployments in late 2008 or early 2009, we expect other utilities that have not yet been public about their AMI deployment plans to begin such discussions in earnest with their commissions. We expect Europe to follow; there the potential market for AMI looks like the United States did about two years ago. Industry directives and mandates are driving a similar sense of urgency to address the double bind of growing demands and tightening regulations through advanced technology solutions. What we see confirms our belief that increasing levels of technology will eventually be deployed on meter platforms, changing the nature of the industry in Europe as it is changing in the United States.

With interest in our AMI technology growing at a rapid pace, utilities that would have ordinarily been taking AMR shipments in 2007 began considering moving directly to AMI. This caused a temporary suspension in AMR adoption by electricity utilities, resulting in lower than expected sales in the U.S. electricity market during the year. Some might say that this is a good problem to have: introducing a new technology so compelling that the market is eager to adopt it. In the electricity market, we believe it's not a matter of whether utilities will choose AMI or AMR, but when.

While the market for AMI is promising and powerful, Itron continues to sell our industry-leading AMR technology every day. With an AMR market share of over 50 percent

How does OpenWay fit into SCE's future plans for developing the smart grid?

A part of a broader view that SCE is developing is how we're approaching the use of technology in a carbon-constrained world. We see a greater need for renewable generation, and this is evidenced by the actions we have taken to increase our renewable energy portfolio. We are close to 20 percent for renewables, the largest in the United States. The more renewables we include in our portfolio, the more we need the smart grid to manage the intermittent nature of resources. Many come in after the peak period, so dispatching during the peak becomes critical.

On the customer side, we foresee battery storage at home provided by plug-in vehicles. A Department of Energy study concluded that about 70 percent of the cars and light trucks on the road today could be fueled off-peak, without adding any infrastructure in terms of generation and transmission. The sensor capabilities, voltage measurement, and fundamental capabilities that this AMI technology can provide are the critical link for supporting customer-side renewable generation.

To accommodate future renewable options, we need upgradable firmware to support new profiles that will be developed to support new applications. Our load factor has been dropping (approaching 50 percent) since our peak demand keeps growing—we have experienced an average increase of 1,000 MW per year in our peak demand since 2001. We are running out of options, and we want to take brownouts and blackouts off the table. Taking that farther, we want to consider all viable options for meeting peak demand—demand response, energy conservation, and consumer renewable resources, to name a few.

Who would have thought three years ago we would be discussing the range of possibilities enabled by a meter project like this? People today talk about what you can do with AMI once it's available. Two years ago, we were still debating in the industry what AMI is and whether we should invest. Now it's changed to discussing the opportunities it provides to address a whole host of issues the utility industry is facing.

in North America, we have shipped more than 60 million points of AMR to more than 1,500 customers. In 2007, we signed a $100 million contract to provide MidAmerican and Rocky Mountain Power with 2.1 million electricity AMR meters and gas modules. We closed a $40 million fixed-network AMR deal with the Trinidad & Tobago Electricity Commission in the Caribbean—Itron North America's largest international contract to date. We also signed contracts for water AMR fixed networks in Detroit and Dallas. We continue to invest in R&D across our AMR product portfolio and release products that bring ever greater operational efficiencies to our customers through advances in technology. New bookings and continued interest validate that our migratable, ChoiceConnect™ AMR platform continues to be a popular and proven solution for utilities choosing to automate, especially as we begin to look at leveraging the global market opportunities and synergies we acquired with Actaris.

Itron's global market opportunity is enormous.[6] Today, less than 6 percent of the world's 2.5 billion electricity, gas, and water meters have been automated—even as emerging directives, mandates, and business conditions require results that only such advanced technologies can deliver. We expect market penetration and adoption rates to grow as, for the first time, federal regulators, utility commissions, utilities, and consumers are aligned on the pressing need for greater energy and water intelligence. As the industry leader, Itron is working closely with our customers around the world to help them make the most of this opportunity to shape the future.[7]

As we enter 2008, I am impressed by the enthusiasm and energy I see across Itron and our customer base. The industry we serve is on the verge of making changes that will revolutionize the way people think about, use, and conserve energy and water—and Itron is uniquely positioned to provide the solutions it will take. We have an exciting business that has grown to global scale with the addition of Actaris. Now we are putting more technology on top of our existing meter platforms, which are positioned around the world as the meters of choice for many customers. We have the customer intimacy that counts in the utility business, with a long-standing track record of delivering value, quality, and reliability. And we have a global force of talented, dedicated people who work hard to not only earn our customers' business every day, but to keep it.

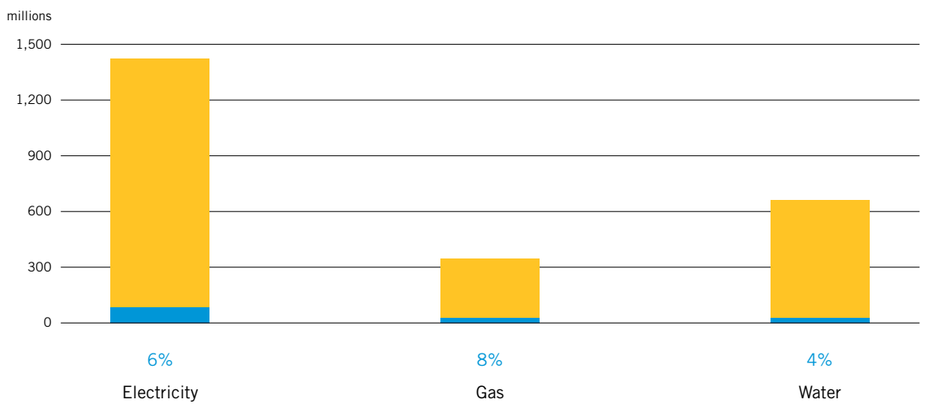
There has never been a more exciting time to be part of this industry, and never a more opportune moment to be leading it. It's especially gratifying to be part of a company where our technology leadership is not only delivering strong value to our customers and shareholders; it's making a significant difference in the quality of life for generations to come.

As ever, I appreciate your support and interest in Itron.

LeRoy D. Nosbaum

Chairman and Chief Executive Officer

6 **AMR/AMI Penetration Worldwide**



7 **Future Changes Affecting Our Industry**

A five-year measuring period for the Kyoto Protocol began in 2008 to decrease greenhouse gas emissions by 5 percent from 1990 levels for 36 industrialized nations and the European Community.

Forty percent of senior electrical engineers and shift supervisors in the electricity utility industry will be eligible for retirement in 2009.

By 2010, the world market for water and wastewater is expected to exceed $412 billion.

Natural gas is expected to fuel 22 percent of the electricity produced in the United States by 2016.

By 2017, the forecast is for peak demand for U.S. electricity to increase by 17.7 percent from 2007; current committed and uncommitted resources to meet demand is 12.7 percent.

Capacity margins for electricity supply in the United States are expected to shrink from 15 percent to less than 10 percent by 2017; some regions are expected to have negative capacity margins.

The European Union will reduce greenhouse gas emissions by 20 percent by 2020.

Global energy demand is expected to grow by 54 percent, and the world will need 22 percent more water to maintain current per-capita usage levels by 2025.

DIRECTORS AND OFFICERS

Directors

Michael B. Bracy	Former Executive Vice President and Chief Financial Officer, NorAm Energy Corporation (Retired)
Ted C. DeMerritt	Former Chairman and Chief Executive Officer, Olsy North America, Inc. (Retired)
Kirby A. Dyess	Principal, Austin Capital Management, LLC / Former Corporate Vice President, Intel Capital
Jon E. Eliassen	Managing Director, Terrapin Capital Group, LLP / Former Chief Financial Officer, Avista Corp. (Retired)
Charles H. Gaylord, Jr.	Former Executive Vice President, Intuit, Inc. (Retired)
Thomas S. Glanville	Managing Partner, Eschelon Energy Partners, LP
Sharon L. Nelson	Former Chief of the Consumer Protection Division, Washington State Attorney General's Office (Retired)
Gary E. Pruitt	Chief Executive Officer, Univar N.V.
Graham M. Wilson	Chairman, GraWil Consultants, Inc. / Former Executive Vice President and Chief Financial Officer, Westcoast Energy, Inc. (Retired)

Officers

LeRoy D. Nosbaum	Chairman and Chief Executive Officer
Steven M. Helmbrecht	Senior Vice President and Chief Financial Officer
John W. Holleran	Senior Vice President, General Counsel and Corporate Secretary
Philip C. Mezey	Senior Vice President and Chief Operating Officer, Itron North America
Malcolm Unsworth	Senior Vice President and Chief Operating Officer, Actaris
Deloris R. Duquette	Vice President, Investor Relations and Corporate Communications
Charles E. McAtee, Jr.	Vice President, Information Technology
Jared P. Serff	Vice President, Competitive Resources

CORPORATE AND SHAREHOLDER INFORMATION

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Itron, Inc.
2111 North Molter Road
Liberty Lake, WA 99019

Annual Meeting
Tuesday, May 6, 2008
Itron Corporate Headquarters
2111 North Molter Road
Liberty Lake, WA 99019

Form 10-K
A copy of the company's Form 10-K is available at www.itron.com or at the Securities and Exchange Commission Web site.

Shareholder Inquiries
Please contact
Investor Relations:
(800) 635-5461

Common Stock
Itron Common Stock is traded on the Nasdaq National Market under the symbol ITRI. No cash dividends have been declared on the Company's Common Stock.

Independent Auditors
Ernst and Young, LLP
Seattle, Washington

Legal Counsel
Perkins Coie
Seattle, Washington

Transfer Agent
Mellon Investor Services
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Jersey City, NJ 07310

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