Triodos Investment Management

ITRON INC

MEETING DATE	Fri, 12 May 2017 8:00 am	TYPE	AGM	ISSUE DATE	Mon, 08 May 2017
MEETING LOCATION	Davenport Hotel, Porter Room, 10 South Post Street, Spokane, Washington				
CURRENT INDICES	PIRC Global				
SECTOR	Instruments for measuring and testing of electricity and electric signals				

	PROPOSALS	ADVICE
1.1	**Re-elect Frank M. Jaehnert** Independent Non-Executive Director.	**For**
1.2	**Re-elect Jerome J. Lande** Non-Executive Director. Not considered independent as he holds executive positions at Scopia Capital Management LP, which holds 11.77% of the Company's common stock. There is sufficient independent representation on the Board.	**For**
1.3	**Re-elect Timothy M. Leyden** Independent Non-Executive Director.	**For**
1.4	**Re-elect Gary E. Pruitt** Non-Executive Director. Not considered independent owing to a tenure of over nine years. However, there is sufficient independent representation on the Board.	**For**
2	**Advisory Vote on Executive Compensation** The Company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The voting outcome for this resolution reflects the balance of opinion on the adequacy of disclosure, the balance of performance and reward. The compensation rating is: CCE. The Company granted long-term incentives in the form of performance-based restricted stock units (PRSUs) (50%), time-vested restricted stock units (RSUs) (25%) and stock options (25%). PRSUs are based on non-GAAP earnings per share (EPS) and relative total shareholder return (TSR). The Company has disclosed the financial targets for its short-term and long-term incentives, but has not provided information with respect to the strategic goals. Also, the targets were set to a non-GAAP standards, which allows the Company discretion in adjusting the figure. Based on these concerns, Triodos opposes this resolution.	**Oppose**
3	**Approve the Frequency of Future Advisory Votes on Executive Compensation** The Company is providing shareholders with an advisory vote on whether the advisory vote on executive compensation should be held every one, two or three years. The Board is required by Section 951 of The Dodd-Frank Wall Street Reform and Consumer Protection Act to offer this vote on the frequency of a say-on-pay proposal not less than every six years, although they have the option to offer this proposal more often. The Board of Directors recommends an annual vote. It is considered that an annual vote on executive compensation is best practice for companies. Executive compensation comprises both fixed and variable pay elements, with the variable including share based incentive awards and cash bonuses over which the compensation committee have discretion. Decisions affecting the quantum and design of variable pay are made annually by the committee and it is therefore appropriate that shareholder approval is sought at the maximum frequency permitted by the new legislation. Contentious compensation payments and issues could occur in the intervening years between votes, if the frequency is less than annually. A one year frequency is therefore recommended.	**1**

4 Approve the Second Amended and Restates 2010 Stock Incentive Plan **Oppose**

The Company has put forward a resolution requesting shareholders to approve amendments to the current Itron, Inc. Amended and Restated 2010 Stock Incentive Plan (2010 Plan) to increase the number of shares authorised under the 2010 Plan by 3.00m shares. If shareholders approve the Second Amended 2010 Plan, then at March 1, 2017, we would have had approximately 4.62m shares available for the grant of new awards. The Second Amended 2010 Plan permits the Company to grant options, restricted stock, restricted stock units, stock appreciation rights and performance-based awards. Employees, directors, consultants, agents, advisors and independent contractors of the Company or a related corporation are eligible to receive each type of award offered under the Second Amended 2010 Plan. The Compensation Committee will administer the Second Amended 2010 Plan which has the power to select the individuals to receive awards, determine the terms and conditions of all awards, and interpret the provisions of the Second Amended 2010 Plan. The grant date fair value of all awards granted to any non-employee director, plus all cash payable during the calendar year, may not exceed $500,000. The Second Amended 2010 Plan limits awards granted to an individual participant in any fiscal year to: no more than 300,000 shares subject to any award; up to 300,000 additional shares subject to awards to new hires; and no more than $4.00m payable in cash with respect to any award.

As performance conditions may be attached to awards at the Committee's discretion, there are concerns that the Committee will have considerable flexibility in the payout of discretionary awards and as a result awards may not be subject to robust enough performance targets, and be insufficiently challenging. As a result an oppose vote is recommended.

5 Appoint the Auditors **Oppose**

Deloitte proposed. Non-audit fees represented 45.09% of audit fees during the year under review. This level of non-audit fees raises some concerns about the independence of the statutory auditor. It is noted that for fiscal year 2014 and 2015, professional services were performed by EY. Auditor rotation is considered a positive factor.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 2 - Advisory Vote on Executive Compensation

The Company has achieved: an average level of disclosure; and an average balance for rewards.

Disclosure: C- Annual cash incentives are based on total Company consolidated revenue and adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) and strategic goals. The Company granted long-term incentives in the form of performance-based restricted stock units (PRSUs) (50%), time-vested restricted stock units (RSUs) (25%) and stock options (25%). PRSUs are based on non-GAAP earnings per share (EPS) and relative total shareholder return (TSR). The Company has disclosed the financial targets for its short-term and long-term incentives, but has not provided information with respect to the strategic goals. Also, the targets were set to a non-GAAP standards, which allows the Company discretion in adjusting the figure.

Balance: C- For fiscal 2016, annual cash awards were not excessive, with overall pay levels below peer group averages.In addition, awarded pay for the CEO is aligned with companies of a similar market capitalisation. However, the CEO's maximum opportunity exceeds 200% of his base salary which is not considered best practice. Half of the long-term incentives have no performance conditions. In addition, whilst the amount of reward derived from stock options is determined by share price growth, the awards of options have no performance conditions attached. Thus an increase in share price over the lifespan of an option (and falls are unusual) can reward executives even in circumstances of poor relative performance.

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