

# Red Hat GAAP to Non-GAAP Reconciliation Quarterly

(Unaudited)

(In thousands - except per share amounts)

	Q316		Q416		Q117		Q217		Q317		Q417		Q118		Q218	
	Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End	
	11/30/2015		2/29/2016		5/31/2016		8/31/2016		11/30/2016		2/28/2017		5/31/2017		8/31/2017	
<b>GAAP Operating Income as reported</b>	\$	68,877	\$	71,772	\$	75,363	\$	81,884	\$	80,773	\$	94,225	\$	87,608	\$	134,559
Add: Non-cash share-based compensation expense Cost of Revenue		4,074		3,946		4,305		4,054		4,037		4,157		3,948		4,261
Add: Non-cash share-based compensation expense S&M		17,192		19,703		18,440		20,361		26,624		27,952		20,612		20,817
Add: Non-cash share-based compensation expense R&D		13,059		12,511		12,002		12,969		13,814		13,639		13,447		14,220
Add: Non-cash share-based compensation expense G&A		9,082		9,608		6,528		7,973		10,266		5,409		5,711		7,649
<b>Total Non-cash share-based compensation expense</b>		<b>43,407</b>		<b>45,768</b>		<b>41,275</b>		<b>45,357</b>		<b>54,741</b>		<b>51,157</b>		<b>43,718</b>		<b>46,947</b>
Add: Amortization of intangible assets Cost of Revenue		3,100		3,434		3,623		3,846		4,233		3,861		3,836		4,326
Add: Amortization of intangible assets S&M		2,330		1,730		1,916		1,905		1,695		1,562		1,459		1,583
Add: Amortization of intangible assets R&D		312		(13)		34		34		34		35		34		35
Add: Amortization of intangible assets G&A		1,238		1,711		1,753		1,848		1,690		1,787		1,826		2,227
<b>Total Amortization of intangible assets</b>		<b>6,980</b>		<b>6,862</b>		<b>7,326</b>		<b>7,633</b>		<b>7,652</b>		<b>7,245</b>		<b>7,155</b>		<b>8,171</b>
Add: Transaction costs related to business combinations		3,792		40		—		1,789		—		—		142		1,220
<b>Non-GAAP Operating Income</b>	<b>\$</b>	<b>123,056</b>	<b>\$</b>	<b>124,442</b>	<b>\$</b>	<b>123,964</b>	<b>\$</b>	<b>136,663</b>	<b>\$</b>	<b>143,166</b>	<b>\$</b>	<b>152,627</b>	<b>\$</b>	<b>138,623</b>	<b>\$</b>	<b>190,897</b>
<b>GAAP Operating Margin as reported</b>		13.2%		13.2%		13.3%		13.7%		13.1%		15.0%		12.9%		18.6%
<b>Non-GAAP Operating Margin</b>		23.5%		22.9%		21.8%		22.8%		23.3%		24.3%		20.5%		26.4%
<b>GAAP Net Income as reported</b>	\$	46,848	\$	53,036	\$	61,184	\$	58,772	\$	67,943	\$	65,803	\$	73,190	\$	96,859
GAAP provision for income taxes		19,135		15,732		11,169		20,663		8,775		25,870		11,740		34,971
<b>GAAP Income before provision for income taxes</b>		<b>65,983</b>		<b>68,768</b>		<b>72,353</b>		<b>79,435</b>		<b>76,718</b>		<b>91,673</b>		<b>84,930</b>		<b>131,830</b>
Add: Non-cash share-based compensation expense		43,407		45,768		41,275		45,357		54,741		51,157		43,718		46,947
Add: Amortization of intangible assets		6,980		6,862		7,326		7,633		7,652		7,245		7,155		8,171
Add: Non-cash interest expense related to the debt discount		4,664		4,686		4,731		4,753		4,800		4,820		4,867		4,890
Add: Transaction costs related to business combinations		3,792		40		—		1,789		—		—		142		1,220
<b>Non-GAAP adjusted income before provision for taxes</b>		<b>124,826</b>		<b>126,124</b>		<b>125,685</b>		<b>138,967</b>		<b>143,911</b>		<b>154,895</b>		<b>140,812</b>		<b>193,058</b>
Non-GAAP provision for income taxes		36,200		29,094		33,507		37,739		33,160		45,203		39,115		54,790
<b>Non-GAAP adjusted net income (basic and diluted)</b>	<b>\$</b>	<b>88,626</b>	<b>\$</b>	<b>97,030</b>	<b>\$</b>	<b>92,178</b>	<b>\$</b>	<b>101,228</b>	<b>\$</b>	<b>110,751</b>	<b>\$</b>	<b>109,692</b>	<b>\$</b>	<b>101,697</b>	<b>\$</b>	<b>138,268</b>
<b>GAAP net income per share:</b>																
Basic	\$	0.26	\$	0.29	\$	0.34	\$	0.33	\$	0.38	\$	0.37	\$	0.41	\$	0.55
Diluted	\$	0.25	\$	0.29	\$	0.33	\$	0.32	\$	0.37	\$	0.36	\$	0.40	\$	0.53
<b>Non-GAAP adjusted net income per share:</b>																
Basic	\$	0.48	\$	0.53	\$	0.51	\$	0.56	\$	0.62	\$	0.62	\$	0.57	\$	0.78
Diluted	\$	0.48	\$	0.52	\$	0.50	\$	0.55	\$	0.61	\$	0.61	\$	0.56	\$	0.77
<b>Weighted average shares outstanding:</b>																
Basic		182,850		182,099		181,168		180,322		179,233		177,802		177,243		177,257
GAAP Diluted		186,094		184,888		184,187		183,346		182,682		181,197		181,810		183,021
Dilution offset from convertible note hedge transactions		(390)		(67)		—		(195)		(514)		(492)		(1,593)		(2,706)
<b>Non-GAAP Diluted</b>		<b>185,704</b>		<b>184,821</b>		<b>184,187</b>		<b>183,151</b>		<b>182,168</b>		<b>180,705</b>		<b>180,217</b>		<b>180,315</b>

**Red Hat GAAP to Non-GAAP Reconciliation Quarterly (continued)**

(Unaudited)	Q316		Q416		Q117		Q217		Q317		Q417		Q118		Q218	
(In thousands - except per share amounts)	Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End	
	<u>11/30/2015</u>		<u>2/29/2016</u>		<u>5/31/2016</u>		<u>8/31/2016</u>		<u>11/30/2016</u>		<u>2/28/2017</u>		<u>5/31/2017</u>		<u>8/31/2017</u>	
Non-GAAP adjusted income before provision for income taxes	\$	124,826	\$	126,124	\$	125,686	\$	138,967	\$	143,911	\$	154,895	\$	140,812	\$	193,058
GAAP estimated annual effective tax rate		29.0%		23.1%		27.0%		27.0%		27.0%		29.5%		27.5%		27.6%
Provision for income taxes on non-GAAP adjusted income before discrete tax expenses (benefits)		36,200		29,094		33,935		37,521		38,856		45,698		38,723		53,425
Discrete tax expenses (benefits), excluding discrete benefits related to share-based compensation		—		—		(428)		218		(5,696)		(495)		392		1,365
Provision for income taxes on non-GAAP adjusted income, excluding discrete tax benefits related to share-based compensation	\$	36,200	\$	29,094	\$	33,507	\$	37,739	\$	33,160	\$	45,203	\$	39,115	\$	54,790

# Red Hat GAAP to Non-GAAP Reconciliation Quarterly Gross Margins

(Unaudited)

(In thousands)

	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	<u>11/30/2015</u>	<u>2/29/2016</u>	<u>5/31/2016</u>	<u>8/31/2016</u>	<u>11/30/2016</u>	<u>2/28/2017</u>	<u>5/31/2017</u>	<u>5/31/2017</u>
<b>GAAP Revenue:</b>								
Subscriptions	\$ 457,488	\$ 479,642	\$ 501,665	\$ 531,209	\$ 543,318	\$ 559,588	\$ 596,508	\$ 637,562
Training and services	66,092	63,860	66,234	68,596	71,942	69,252	80,288	85,793
<b>Total subscription, training and services revenue</b>	<b>523,580</b>	<b>543,502</b>	<b>567,899</b>	<b>599,805</b>	<b>615,260</b>	<b>628,840</b>	<b>676,796</b>	<b>723,355</b>
<b>Non-GAAP Cost of revenue:</b>								
Subscriptions	27,321	28,275	30,765	33,828	34,488	36,229	37,834	39,863
Training and services	46,553	45,565	45,355	45,943	47,695	47,960	55,078	58,267
<b>Total cost of subscription, training and services revenue</b>	<b>73,874</b>	<b>73,840</b>	<b>76,120</b>	<b>79,771</b>	<b>82,183</b>	<b>84,189</b>	<b>92,912</b>	<b>98,130</b>
<b>GAAP Gross Profit as reported</b>	<b>442,532</b>	<b>462,282</b>	<b>483,851</b>	<b>512,134</b>	<b>524,807</b>	<b>536,633</b>	<b>576,100</b>	<b>616,638</b>
Add: Non-cash share-based compensation expense	4,074	3,946	4,305	4,054	4,037	4,157	3,948	4,261
Add: Amortization of intangible assets	3,100	3,434	3,623	3,846	4,233	3,861	3,836	4,326
<b>Total Non-GAAP gross profit</b>	<b>449,706</b>	<b>469,662</b>	<b>491,779</b>	<b>520,034</b>	<b>533,077</b>	<b>544,651</b>	<b>583,884</b>	<b>625,225</b>
<b>Cost of revenue reconciliation GAAP to non-GAAP:</b>								
<b>Subscriptions (GAAP)</b>	<b>32,246</b>	<b>33,575</b>	<b>36,545</b>	<b>39,678</b>	<b>40,660</b>	<b>42,095</b>	<b>43,633</b>	<b>46,324</b>
Less: non-cash share-based compensation expense	1,825	1,866	2,157	2,004	1,939	2,005	1,963	2,135
Less: Amortization of intangible assets	3,100	3,434	3,623	3,846	4,233	3,861	3,836	4,326
<b>Subscriptions (non-GAAP)</b>	<b>27,321</b>	<b>28,275</b>	<b>30,765</b>	<b>33,828</b>	<b>34,488</b>	<b>36,229</b>	<b>37,834</b>	<b>39,863</b>
<b>Training and services (GAAP)</b>	<b>48,802</b>	<b>47,645</b>	<b>47,503</b>	<b>47,993</b>	<b>49,793</b>	<b>50,112</b>	<b>57,063</b>	<b>60,393</b>
Less: non-cash share-based compensation expense	2,249	2,080	2,148	2,050	2,098	2,152	1,985	2,126
Less: Amortization of intangible assets	—	—	—	—	—	—	—	—
<b>Training and services (non-GAAP)</b>	<b>46,553</b>	<b>45,565</b>	<b>45,355</b>	<b>45,943</b>	<b>47,695</b>	<b>47,960</b>	<b>55,078</b>	<b>58,267</b>
<b>GAAP Gross Margin</b>	<b>84.5%</b>	<b>85.1%</b>	<b>85.2%</b>	<b>85.4%</b>	<b>85.3%</b>	<b>85.3%</b>	<b>85.1%</b>	<b>85.2%</b>
<b>Non-GAAP Gross Margin</b>	<b>85.9%</b>	<b>86.4%</b>	<b>86.6%</b>	<b>86.7%</b>	<b>86.6%</b>	<b>86.6%</b>	<b>86.3%</b>	<b>86.4%</b>
<b>GAAP Subscription Gross Margin</b>	<b>93.0%</b>	<b>93.0%</b>	<b>92.7%</b>	<b>92.5%</b>	<b>92.5%</b>	<b>92.5%</b>	<b>92.7%</b>	<b>92.7%</b>
<b>Non-GAAP Subscription Gross Margin</b>	<b>94.0%</b>	<b>94.1%</b>	<b>93.9%</b>	<b>93.6%</b>	<b>93.7%</b>	<b>93.5%</b>	<b>93.7%</b>	<b>93.7%</b>
<b>GAAP Training and services Gross Margin</b>	<b>26.2%</b>	<b>25.4%</b>	<b>28.3%</b>	<b>30.0%</b>	<b>30.8%</b>	<b>27.6%</b>	<b>28.9%</b>	<b>29.6%</b>
<b>Non-GAAP Training and services Gross Margin</b>	<b>29.6%</b>	<b>28.6%</b>	<b>31.5%</b>	<b>33.0%</b>	<b>33.7%</b>	<b>30.7%</b>	<b>31.4%</b>	<b>32.1%</b>

**Red Hat GAAP to Non-GAAP Reconciliation – Annual**

(Unaudited)

(In thousands - except per share amounts)

	FY12	FY13	FY14	FY15	FY16	FY17
	Year End	Year End	Year End	Year End	Year End	Year End
	<u>2/29/2012</u>	<u>2/28/2013</u>	<u>2/28/2014</u>	<u>2/28/2015</u>	<u>2/29/2016</u>	<u>2/28/2017</u>
<b>GAAP Operating Income as reported</b>	\$ 199,913	\$ 201,038	\$ 232,290	\$ 249,994	\$ 288,048	\$ 332,245
Add: Non-cash share-based compensation expense – Cost of Revenue	7,880	9,433	11,793	14,027	15,898	16,553
Add: Non-cash share-based compensation expense – S&M	25,060	32,906	40,322	55,203	69,089	93,378
Add: Non-cash share-based compensation expense – R&D	21,570	29,647	34,194	38,517	48,466	52,424
Add: Non-cash share-based compensation expense – G&A	24,757	26,712	27,465	27,485	32,781	30,175
<b>Total Non-cash share-based compensation expense</b>	<b>79,267</b>	<b>98,698</b>	<b>113,774</b>	<b>135,232</b>	<b>166,234</b>	<b>192,530</b>
Add: Amortization of intangible assets – Cost of Revenue	3,533	5,943	10,180	10,672	11,726	15,562
Add: Amortization of intangible assets – S&M	8,348	8,416	8,872	7,838	8,075	7,078
Add: Amortization of intangible assets – R&D	4,194	3,836	3,836	2,417	842	138
Add: Amortization of intangible assets – G&A	3,674	5,328	5,316	5,958	5,160	7,078
<b>Total Amortization of intangible assets</b>	<b>19,749</b>	<b>23,523</b>	<b>28,204</b>	<b>26,885</b>	<b>25,803</b>	<b>29,856</b>
Add: Transaction costs related to business combinations	—	—	—	4,001	3,884	1,789
Add: Facility exit costs	—	3,142	2,171	—	—	—
<b>Non-GAAP Operating Income</b>	<b>\$ 298,929</b>	<b>\$ 326,401</b>	<b>\$ 376,439</b>	<b>\$ 416,112</b>	<b>\$ 483,969</b>	<b>\$ 556,420</b>
<b>GAAP Operating Margin as reported</b>	17.6%	15.1%	15.1%	14.0%	14.0%	13.7%
<b>Non-GAAP Operating Margin</b>	26.4%	24.6%	24.5%	23.3%	23.6%	23.0%
GAAP Net Income as reported	\$ 146,626	\$ 150,204	\$ 178,292	\$ 180,201	\$ 199,365	\$ 253,703
GAAP provision for income taxes	61,383	59,548	61,256	75,297	75,500	66,477
GAAP Income before provision for income taxes	\$ 208,009	\$ 209,752	\$ 239,548	\$ 255,498	\$ 274,865	\$ 320,180
Add: Non-cash share-based compensation expense	79,267	98,698	113,774	135,232	166,234	192,530
Add: Amortization of intangible assets	19,749	23,523	28,204	26,885	25,803	29,856
Add: Non-cash interest expense related to the debt discount	—	—	—	7,292	18,570	19,104
Add: Transaction costs related to business combinations	—	—	—	4,001	3,884	1,789
Add: Facility exit costs	—	3,142	2,171	—	—	—
Non-GAAP adjusted income before provision for taxes	307,025	335,115	383,697	428,908	489,356	563,459
Non-GAAP provision for income taxes	90,603	95,139	98,226	126,399	134,431	149,608
Non-GAAP adjusted net income	\$ 216,422	\$ 239,976	\$ 285,471	\$ 302,509	\$ 354,925	\$ 413,851
GAAP net income per share:						
Basic	\$ 0.76	\$ 0.78	\$ 0.94	\$ 0.97	\$ 1.09	\$ 1.41
Diluted	\$ 0.75	\$ 0.77	\$ 0.93	\$ 0.95	\$ 1.07	\$ 1.39
Non-GAAP adjusted net income per share:						
Basic	\$ 1.12	\$ 1.24	\$ 1.50	\$ 1.62	\$ 1.94	\$ 2.30
Diluted	\$ 1.10	\$ 1.23	\$ 1.49	\$ 1.60	\$ 1.91	\$ 2.27
Weighted average shares outstanding:						
Basic	193,151	193,147	189,920	186,529	182,817	179,642
GAAP Diluted	196,451	195,804	192,036	189,246	186,119	182,961
Dilution offset from convertible note hedge transactions	—	—	—	—	(282)	(292)
Non-GAAP Diluted	196,451	195,804	192,036	189,246	185,837	182,669

**Red Hat GAAP to Non-GAAP Reconciliation Annual (continued)**

(Unaudited)

(In thousands - except per share amounts)

	FY12	FY13	FY14	FY15	FY16	FY17
	Year End	Year End	Year End	Year End	Year End	Year End
	<u>2/29/2012</u>	<u>2/28/2013</u>	<u>2/28/2014</u>	<u>2/28/2015</u>	<u>2/29/2016</u>	<u>2/28/2017</u>
<b>Note FY12, FY14 and FY17 included discrete tax benefits, please see below for provision for income tax breakout:</b>						
Non-GAAP adjusted net income before income tax provision	\$ 307,025		\$ 383,697			\$ 563,459
GAAP effective tax rate, excluding discrete tax items	31.0%		26.7%			27.7%
Non-GAAP provision for income taxes before discrete tax benefit	\$ 92,668		\$ 102,451			\$ 156,010
Discrete tax benefit	(2,065)		(4,225)			(6,402)
Provision for income taxes on Non-GAAP adjusted net income	90,603		98,226			149,608
<b>GAAP Gross Profit as reported</b>	954,555	1,128,217	1,302,015	1,516,290	1,742,601	2,057,425
Add: Non-cash share-based compensation expense	7,880	9,433	11,793	14,027	15,898	16,553
Add: Amortization of intangible assets	3,533	5,943	10,180	10,672	11,726	15,562
<b>Total Non-GAAP gross profit</b>	<b>965,968</b>	<b>1,143,593</b>	<b>1,323,988</b>	<b>1,540,989</b>	<b>1,770,225</b>	<b>2,089,540</b>
<b>GAAP Gross Margin as reported</b>	<b>84.2%</b>	<b>84.9%</b>	<b>84.8%</b>	<b>84.7%</b>	<b>84.9%</b>	<b>85.3%</b>
<b>Non-GAAP Gross Margin</b>	<b>85.2%</b>	<b>86.1%</b>	<b>86.3%</b>	<b>86.1%</b>	<b>86.3%</b>	<b>86.6%</b>

**Red Hat GAAP to Non-GAAP Reconciliation Rolling Average Four Quarter Billings Proxy**

(Unaudited)

(In thousands)

	<u>Q3FY16</u>	<u>Q4FY16</u>	<u>Q1FY17</u>	<u>Q2FY17</u>	Rolling Average Four Quarter Billings Proxy	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>	Rolling Average Four Quarter Billings Proxy	Year-Over- Year Growth Rate
	Quarter End	Quarter End	Quarter End	Quarter End		Quarter End	Quarter End	Quarter End	Quarter End		
	<u>11/30/2015</u>	<u>2/29/2016</u>	<u>5/31/2016</u>	<u>8/31/2016</u>		<u>11/30/2016</u>	<u>2/28/2017</u>	<u>5/31/2017</u>	<u>5/31/2017</u>		
Total Revenue	523,580	543,502	567,899	599,805		615,260	628,840	676,796	723,355		
Change in deferred revenue on Statement of Cash Flows	96,664	220,410	(46,093)	(26,953)		64,181	357,399	(45,717)	(40,575)		
Billings proxy	620,244	763,912	521,806	572,852	619,704	679,441	986,239	631,079	682,780	744,885	20.2%
Adjustment for currency impact to total revenue						(4,981)	1,570	5,145	(2,782)		
Billings Proxy on a Constant Currency basis						674,460	987,809	636,224	679,998	744,623	20.2%