

RED HAT, INC.

Quarterly Non-GAAP Consolidated Statement of Ops
(see Non-GAAP reconciliation on following page)

(Unaudited)

(In thousands - except per share amounts)

	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	5/31/2015	8/31/2015	11/30/2015	2/29/2016	5/31/2016	8/31/2016	11/30/2016	2/28/2017
GAAP Revenue:								
Subscriptions	\$424,793	\$441,526	\$457,488	\$479,642	\$501,665	\$531,209	\$543,318	\$559,588
Training and services	56,208	62,622	66,092	63,860	66,234	68,596	71,942	69,252
Total subscription, training and services revenue	481,001	504,148	523,580	543,502	567,899	599,805	615,260	628,840
Non-GAAP Cost of revenue:								
Subscriptions	25,673	26,574	27,321	28,275	30,765	33,828	34,488	36,229
Training and services	39,424	42,621	46,553	45,565	45,355	45,943	47,695	47,960
Total cost of subscription, training and services revenue	65,097	69,195	73,874	73,840	76,120	79,771	82,183	84,189
Total Non-GAAP gross profit	415,904	434,953	449,706	469,662	491,779	520,034	533,077	544,651
Non-GAAP Operating expense:								
Sales and marketing	181,455	186,309	196,262	207,760	222,892	230,989	238,761	242,924
Research and development	86,307	90,174	91,535	96,000	102,980	108,262	108,621	108,244
General and administrative	34,810	35,332	38,853	41,460	41,943	44,120	42,529	40,856
Total operating expense	302,572	311,815	326,650	345,220	367,815	383,371	389,911	392,024
Non-GAAP Income from operations	113,332	123,138	123,056	124,442	123,964	136,663	143,166	152,627
GAAP Interest income	2,715	2,895	2,874	3,189	3,430	3,392	3,346	3,754
Other income (expense), net	(203)	(1,245)	49	(337)	(553)	84	(1,392)	(304)
Interest expense	(1,116)	(1,113)	(1,153)	(1,170)	(1,156)	(1,172)	(1,209)	(1,182)
Income before provision for income taxes (1)	114,728	123,675	124,826	126,124	125,685	138,967	143,911	154,895
Provision for income taxes	33,271	35,866	36,200	29,094	33,507	37,739	33,160	45,203
Non-GAAP Net income	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$101,228	\$110,751	\$109,692
Non-GAAP Net income-diluted	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$101,228	\$110,751	\$109,692
Non-GAAP Net income per share:								
Basic	\$ 0.44	\$ 0.48	\$ 0.48	\$ 0.53	\$ 0.51	\$ 0.56	\$ 0.62	\$ 0.62
Diluted	\$ 0.44	\$ 0.47	\$ 0.48	\$ 0.52	\$ 0.50	\$ 0.55	\$ 0.61	\$ 0.61
Weighted average shares outstanding:								
Basic	183,131	183,179	182,850	182,099	181,168	180,322	179,233	177,802
GAAP Diluted	186,175	186,750	186,094	184,888	184,187	183,346	182,682	181,197
Dilution offset from convertible note hedge transactions	(51)	(585)	(390)	(67)	—	(195)	(514)	(492)
Non-GAAP Diluted	186,124	186,165	185,704	184,821	184,187	183,151	182,168	180,705
(1) Non-GAAP provision for income taxes:								
Non-GAAP adjusted income before provision for income taxes	\$114,728	\$123,675	\$124,826	\$126,124	\$125,685	\$138,967	\$143,911	\$154,895
GAAP estimated annual effective tax rate	29 %	29 %	29 %	23.1 %	27 %	27 %	27 %	29.5 %
Provision for income taxes on Non-GAAP adjusted net income before discrete tax expenses	33,271	35,866	36,200	29,094	33,935	37,521	38,856	45,698
Discrete tax expenses (benefits), excluding discrete tax expenses (benefits) related to share-based compensation	—	—	—	—	(428)	218	(5,696)	(495)
Provision for income taxes on Non-GAAP adjusted net income excluding discrete tax expenses (benefits) related to share-based compensation	\$ 33,271	\$ 35,866	\$ 36,200	\$ 29,094	\$ 33,507	\$ 37,739	\$ 33,160	\$ 45,203

Red Hat GAAP to Non-GAAP Reconciliation Quarterly

	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	<u>5/31/2015</u>	<u>8/31/2015</u>	<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>
Revenue	\$ 481,001	\$ 504,148	\$ 523,580	\$ 543,502	\$ 567,899	\$ 599,805	\$ 615,260	\$ 628,840
GAAP Gross Profit as reported	\$ 409,604	\$ 428,184	\$ 442,532	\$ 462,282	\$ 483,851	\$ 512,134	\$ 524,807	\$ 536,633
Add: Non-cash share-based compensation expense	3,727	4,151	4,074	3,946	4,305	4,054	4,037	4,157
Add: Amortization of intangible assets	2,573	2,618	3,100	3,434	3,623	3,846	4,233	3,861
Non-GAAP Gross Profit	\$ 415,904	\$ 434,953	\$ 449,706	\$ 469,662	\$ 491,779	\$ 520,034	\$ 533,077	\$ 544,651
GAAP Operating Income as reported	\$ 70,930	\$ 76,470	\$ 68,877	\$ 71,772	\$ 75,363	\$ 81,884	\$ 80,773	\$ 94,225
Add: Non-cash share-based compensation expense Cost of Revenue	3,727	4,151	4,074	3,946	4,305	4,054	4,037	4,157
Add: Non-cash share-based compensation expense S&M	15,412	16,782	17,192	19,703	18,440	20,361	26,624	27,952
Add: Non-cash share-based compensation expense R&D	10,874	12,022	13,059	12,511	12,002	12,969	13,814	13,639
Add: Non-cash share-based compensation expense G&A	6,509	7,582	9,082	9,608	6,528	7,973	10,266	5,409
Total Non-cash share-based compensation expense	36,522	40,537	43,407	45,768	41,275	45,357	54,741	51,157
Add: Amortization of intangible assets Cost of Revenue	2,573	2,618	3,100	3,434	3,623	3,846	4,233	3,861
Add: Amortization of intangible assets S&M	2,005	2,010	2,330	1,730	1,916	1,905	1,695	1,562
Add: Amortization of intangible assets R&D	250	292	312	(13)	34	34	34	35
Add: Amortization of intangible assets G&A	1,052	1,160	1,238	1,711	1,753	1,848	1,690	1,787
Total Amortization of intangible assets	5,880	6,080	6,980	6,862	7,326	7,633	7,652	7,245
Add: Facility exit costs	—	—	—	—	—	—	—	—
Add: Transaction costs related to business combinations	—	51	3,792	40	—	1,789	—	—
Non-GAAP Operating Income	\$ 113,332	\$ 123,138	\$ 123,056	\$ 124,442	\$ 123,964	\$ 136,663	\$ 143,166	\$ 152,627
GAAP Gross Margin as reported	85.2 %	84.9 %	84.5 %	85.1 %	85.2 %	85.4 %	85.3 %	85.3 %
Non-GAAP Gross Margin	86.5 %	86.3 %	85.9 %	86.4 %	86.6 %	86.7 %	86.6 %	86.6 %
GAAP Operating Margin as reported	14.7 %	15.2 %	13.2 %	13.2 %	13.3 %	13.7 %	13.1 %	15.0 %
Non-GAAP Operating Margin	23.6 %	24.4 %	23.5 %	22.9 %	21.8 %	22.8 %	23.3 %	24.3 %
GAAP Net Income as reported	\$ 48,086	\$ 51,395	\$ 46,848	\$ 53,036	\$ 61,184	\$ 58,772	\$ 67,943	\$ 65,803
GAAP provision for income taxes	19,641	20,992	19,135	15,732	11,169	20,663	8,775	25,870
GAAP Income before provision for income taxes	\$ 67,727	\$ 72,387	\$ 65,983	\$ 68,768	\$ 72,353	\$ 79,435	\$ 76,718	\$ 91,673
Add: Non-cash share-based compensation expense	36,522	40,537	43,407	45,768	41,275	45,357	54,741	51,157
Add: Amortization of intangible assets	5,880	6,080	6,980	6,862	7,326	7,633	7,652	7,245
Add: Non-cash interest expense related to the debt discount	4,599	4,620	4,664	4,686	4,731	4,753	4,800	4,820
Add: Facility exit costs	—	—	—	—	—	—	—	—
Add: Transaction costs related to business combinations	—	51	3,792	40	—	1,789	—	—
Non-GAAP adjusted income before provision for taxes	114,728	123,675	124,826	126,124	125,685	138,967	143,911	154,895
Non-GAAP provision for income taxes	33,271	35,866	36,200	29,094	33,507	37,739	33,160	45,203
Non-GAAP adjusted net income	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228	\$ 110,751	\$ 109,692
Non-GAAP adjusted net income-diluted	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228	\$ 110,751	\$ 109,692
GAAP net income per share:								
Basic	\$ 0.26	\$ 0.28	\$ 0.26	\$ 0.29	\$ 0.34	\$ 0.33	\$ 0.38	\$ 0.37
Diluted	\$ 0.26	\$ 0.28	\$ 0.25	\$ 0.29	\$ 0.33	\$ 0.32	\$ 0.37	\$ 0.36
Non-GAAP adjusted net income per share:								
Basic	\$ 0.44	\$ 0.48	\$ 0.48	\$ 0.53	\$ 0.51	\$ 0.56	\$ 0.62	\$ 0.62
Diluted	\$ 0.44	\$ 0.47	\$ 0.48	\$ 0.52	\$ 0.50	\$ 0.55	\$ 0.61	\$ 0.61
Weighted average shares outstanding:								
Basic	183,131	183,179	182,850	182,099	181,168	180,322	179,233	177,802
GAAP Diluted	186,175	186,750	186,094	184,888	184,187	183,346	182,682	181,197
Dilution offset from convertible note hedge transactions	(51)	(585)	(390)	(67)	—	(195)	(514)	(492)
Non-GAAP Diluted	186,124	186,165	185,704	184,821	184,187	183,151	182,168	180,705

Red Hat GAAP to Non-GAAP Reconciliation Quarterly Gross Margins

(Unaudited)
(In thousands)

	Q116 Quarter End <u>5/31/2015</u>	Q216 Quarter End <u>8/31/2015</u>	Q316 Quarter End <u>11/30/2015</u>	Q416 Quarter End <u>2/29/2016</u>	Q117 Quarter End <u>5/31/2016</u>	Q217 Quarter End <u>8/31/2016</u>	Q317 Quarter End <u>11/30/2016</u>	Q417 Quarter End <u>2/28/2017</u>
GAAP Revenue:								
Subscriptions	\$ 424,793	\$ 441,526	\$ 457,488	\$ 479,642	\$501,665	\$531,209	\$543,318	\$559,588
Training and services	56,208	62,622	66,092	63,860	66,234	68,596	71,942	69,252
Total subscription, training and services revenue	481,001	504,148	523,580	543,502	567,899	599,805	615,260	628,840
Non-GAAP Cost of revenue:								
Subscriptions	25,673	26,574	27,321	28,275	30,765	33,828	34,488	36,229
Training and services	39,424	42,621	46,553	45,565	45,355	45,943	47,695	47,960
Total cost of subscription, training and services revenue	65,097	69,195	73,874	73,840	76,120	79,771	82,183	84,189
Total Non-GAAP gross profit	415,904	434,953	449,706	469,662	491,779	520,034	533,077	544,651
Cost of revenue reconciliation GAAP to non-GAAP								
Subscriptions (GAAP)	29,846	30,996	32,246	33,575	36,545	39,678	40,660	42,095
Less: non-cash share-based compensation expense	1,692	1,836	1,825	1,866	2,157	2,004	1,939	2,005
Less: Amortization of intangible assets	2,481	2,586	3,100	3,434	3,623	3,846	4,233	3,861
Subscriptions (non-GAAP)	25,673	26,574	27,321	28,275	30,765	33,828	34,488	36,229
Training and services (GAAP)	41,551	44,968	48,802	47,645	47,503	47,993	49,793	50,112
Less: non-cash share-based compensation expense	2,035	2,315	2,249	2,080	2,148	2,050	2,098	2,152
Less: Amortization of intangible assets	92	32	—	—	—	—	—	—
Training and services (non-GAAP)	39,424	42,621	46,553	45,565	45,355	45,943	47,695	47,960
GAAP Gross Margin	85.2 %	84.9 %	84.5 %	85.1 %	85.2 %	85.4 %	85.3 %	85.3 %
Non-GAAP Gross Margin	86.5 %	86.3 %	85.9 %	86.4 %	86.6 %	86.7 %	86.6 %	86.6 %
GAAP Subscription Gross Margin	93.0 %	93.0 %	93.0 %	93.0 %	92.7 %	92.5 %	92.5 %	92.5 %
Non-GAAP Subscription Gross Margin	94.0 %	94.0 %	94.0 %	94.1 %	93.9 %	93.6 %	93.7 %	93.5 %
GAAP Training and services Gross Margin	26.1 %	28.2 %	26.2 %	25.4 %	28.3 %	30.0 %	30.8 %	27.6 %
Non-GAAP Training and services Gross Margin	29.9 %	31.9 %	29.6 %	28.6 %	31.5 %	33.0 %	33.7 %	30.7 %

RED HAT, INC.**Annual Non-GAAP Consolidated Statement of Ops**

(Unaudited)

(In thousands - except per share amounts)

	FY2012 Year End 2/29/2012	FY2013 Year End 2/28/2013	FY2014 Year End 2/28/2014	FY2015 Year End 2/28/2015	FY2016 Year End 2/29/2016	FY2017 Year End 2/28/2017
Revenue:						
Subscriptions	\$ 965,575	\$ 1,148,341	\$ 1,336,771	\$ 1,561,234	\$ 1,803,449	\$ 2,135,780
Training and services	167,528	180,476	197,844	228,255	248,781	276,023
Total subscription, training and services revenue	1,133,103	1,328,817	1,534,615	1,789,489	2,052,230	2,411,803
Cost of revenue:						
Subscriptions	59,109	70,059	81,316	95,865	107,842	135,310
Training and services	108,026	115,165	129,311	152,635	174,163	186,953
Total cost of subscription, training and services revenue	167,135	185,224	210,627	248,500	282,005	322,263
Total gross profit	965,968	1,143,593	1,323,988	1,540,989	1,770,225	2,089,540
Operating expense:						
Sales and marketing	386,226	473,232	548,691	665,346	771,786	935,565
Research and development	182,898	229,667	279,233	326,922	364,014	428,106
General and administrative	97,915	114,293	119,626	132,609	150,456	169,449
Total operating expense	667,039	817,192	947,550	1,124,877	1,286,256	1,533,120
Income from operations	298,929	326,401	376,438	416,112	483,969	556,420
Interest income	8,418	8,245	6,645	8,336	11,673	13,921
Other income (expense), net	(262)	736	774	6,562	(1,735)	(2,164)
Interest expense	(60)	(267)	(160)	(2,102)	(4,551)	(4,718)
Income before provision for income taxes	307,025	335,115	383,697	428,908	489,356	563,459
Provision for income taxes (GAAP tax rate) (1)	90,603	95,139	98,226	126,399	134,431	149,608
Net income	\$ 216,422	\$ 239,976	\$ 285,471	\$ 302,509	\$ 354,925	\$ 413,851
Net income per share at GAAP tax rate:						
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

Note: certain prior year amounts have been reclassified to conform with current year presentation.

Non-GAAP Tax Rate**29.5 %****28.4 %****25.6 %****29.5 %****27.5 %****26.6 %****(1) Note FY12, FY14 and FY17 included discrete tax benefits, please see below for provision for income tax breakout:**

Non-GAAP adjusted net income before income tax provision	\$ 307,025	\$ 383,697	\$ 563,459
GAAP effective tax rate, excluding discrete tax items	31 %	26.7 %	27.7 %
Non-GAAP provision for income taxes before discrete tax benefits	\$ 92,668	\$ 102,451	\$ 156,010
Discrete tax benefits	(2,066)	(4,225)	(6,402)
Provision for income taxes on Non-GAAP adjusted net income	\$ 90,602	\$ 98,226	\$ 149,608

Red Hat GAAP to Non-GAAP Reconciliation – Annual
(Unaudited)
(In thousands - except per share amounts)

	FY12 Year End 2/29/2012	FY13 Year End 2/28/2013	FY14 Year End 2/28/2014	FY15 Year End 2/28/2015	FY16 Year End 2/29/2016	FY17 Year End 2/28/2017
Revenue	\$ 1,133,103	\$ 1,328,817	\$ 1,534,615	\$ 1,789,489	\$ 2,052,230	\$ 2,411,803
GAAP Gross Profit as reported	\$ 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
Non-GAAP Gross Profit	\$ 965,968	\$ 1,143,593	\$ 1,323,988	\$ 1,540,989	\$ 1,770,225	\$ 2,089,540
GAAP Operating Income as reported	\$ 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
Total Non-cash share-based compensation expense	79,267	98,698	113,774	135,232	166,234	192,530
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
Total Amortization of intangible assets	19,749	23,523	28,204	26,885	25,803	29,856
Add: Transaction costs related to business combinations	—	—	—	4,001	3,884	1,789
Add: Facility exit costs	—	3,142	2,171	—	—	—
Non-GAAP Operating Income	\$ 298,929	\$ 326,401	\$ 376,439	\$ 416,112	\$ 483,969	\$ 556,420
GAAP Gross Margin as reported	84.2 %	84.9 %	84.8 %	84.7 %	84.9 %	85.3 %
Non-GAAP Gross Margin	85.2 %	86.1 %	86.3 %	86.1 %	86.3 %	86.6 %
GAAP Operating Margin as reported	17.6 %	15.1 %	15.1 %	14.0 %	14.0 %	13.8 %
Non-GAAP Operating Margin	26.4 %	24.6 %	24.5 %	23.3 %	23.6 %	23.1 %
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 (1)	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

Note: Certain prior year amounts have been reclassified to conform with current year presentation.

(1)Note FY12, FY14 and FY17 included discrete tax benefits, please see below for provision for income tax breakout:

Non-GAAP adjusted net income before income tax provision	\$ 307,025	\$ 383,697	\$ 563,459
GAAP effective tax rate, excluding discrete tax items	31 %	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

**Red Hat GAAP to Non-GAAP Reconciliation Rolling
Average Four Quarters Billings Proxy**
(Unaudited)
(In thousands)

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Rolling	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Rolling	Year-Over-
	Quarter End	Quarter End	Quarter End	Quarter End	Average Four	Quarter End	Quarter End	Quarter End	Quarter End	Average Four	Year Growth
	<u>5/31/2015</u>	<u>8/31/2015</u>	<u>11/30/2015</u>	<u>2/29/2016</u>	Quarter	<u>5/31/2016</u>	<u>8/31/2016</u>	<u>11/30/2016</u>	<u>2/28/2017</u>	Quarter	
					Billings Proxy					Billings Proxy	
Total Revenue	481,001	504,148	523,580	543,502		567,899	599,805	615,260	628,840		
Change in deferred revenue on Statement of Cash Flows	(31,562)	(25,017)	96,664	220,410		(46,093)	(26,953)	64,181	357,399		
Billings Proxy	449,439	479,131	620,244	763,912	578,182	521,806	572,852	679,441	986,239	690,085	19.4 %
Adjustment for currency impact to total revenue						(1,700)	(3,479)	(4,981)	1,570		
Billings Proxy on a Constant Currency basis						520,106	569,373	674,460	987,809	687,937	19.0 %