

GENENTECH, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share amounts)

(Unaudited)

	Three Months	
	Ended March 31,	
	2006	2005
Revenues:		
Product sales	\$ 1,644	\$ 1,186
Royalties	286	232
Contract revenue and other	56	44
Total operating revenues	1,986	1,462
Costs and expenses:		
Cost of sales	262	256
Research and development (includes employee stock-based compensation expense under FAS 123R: 2006-\$33; 2005-\$0)	374	243
Marketing, general and administrative (includes employee stock-based compensation expense under FAS 123R: 2006-\$41; 2005-\$0)	441	310
Collaboration profit sharing	226	176
Recurring charges related to redemption	26	35
Special items: litigation-related	13	11
Total costs and expenses	1,342	1,031
Operating income	644	431
Other income (expense):		
Interest and other income, net ⁽¹⁾	53	18
Interest expense	(19)	(3)
Total other income, net	34	15
Income before taxes	678	446
Income tax provision	257	162
Net income	\$ 421	\$ 284
Earnings per share:		
Basic	\$ 0.40	\$ 0.27
Diluted	\$ 0.39	\$ 0.27
Weighted average shares used to compute earnings per share:		
Basic	1,054	1,047
Diluted	1,075	1,067

(1) "Interest and other income, net" includes interest income, net realized gains from the sale of certain biotechnology equity securities and write-downs for other-than-temporary impairments in the fair value of certain biotechnology debt and equity securities. For further detail, refer to our web site at www.gene.com.

Net income in the first quarter of 2006 includes employee stock-based compensation expense of \$47 million, net of tax, due to our adoption of Statement of Financial Accounting Standards No. 123(R) (or "FAS 123R") on a modified prospective basis on January 1, 2006. No employee stock-based compensation expense was recognized in GAAP-reported amounts in any prior period. Based on the pro forma application of FAS 123 for the calculation of employee stock-based compensation prior to January 1, 2006 (as previously disclosed in our financial statement footnotes of our Form 10-Q for the quarter ended March 31, 2005), pro forma employee stock-based compensation expense in the first quarter of 2005 was \$40 million, net of tax, (or \$0.05 per diluted share), and the resulting pro forma GAAP diluted earnings per share was \$0.22.

GENENTECH, INC.
RECONCILIATION OF GAAP to NON-GAAP NET INCOME

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2006	2005
GAAP net income	\$ 421	\$ 284
Employee stock-based compensation expense under FAS 123R ⁽¹⁾ included in the following operating expenses:		
Research and development	33	-
Marketing, general and administrative	41	-
Recurring charges related to redemption ⁽²⁾	26	35
Special items: litigation-related ⁽³⁾	13	11
Income tax effect ⁽⁴⁾	(43)	(18)
Non-GAAP net income	\$ 491	\$ 312
 Non-GAAP earnings per share:		
Diluted	\$ 0.46	\$ 0.29
 Non-GAAP weighted average shares used to compute earnings per share ⁽⁵⁾ :		
Diluted	1,076	1,067

(1) Represents employee stock-based compensation expense associated with Genentech's adoption of FAS 123R on January 1, 2006. In the first quarter of 2006, the employee stock-based compensation expense was allocated to the research and development and marketing, general and administrative expense lines in the income statement.

(2) Represents the amortization of other intangible assets related to the 1999 redemption of Genentech's Special Common Stock.

(3) Includes accrued interest and bond costs related to the City of Hope trial judgment in the first quarters of 2006 and 2005, net of amounts received in the first quarter of 2005 on a separate litigation matter.

(4) Reflects the income tax benefit on employee stock-based compensation expense under FAS 123R, recurring charges related to redemption, and litigation-related special items.

(5) Weighted average shares used to compute non-GAAP diluted earnings per share were computed exclusive of the methodology used to determine dilutive securities under FAS 123R.

2006 Reconciliation of GAAP and Non-GAAP EPS

Our 2006 non-GAAP EPS estimate does not include: (i) recurring amortization charges related to the 1999 redemption of our stock by Roche, which are estimated to be approximately \$105 million on a pretax basis in 2006, (ii) litigation-related special items for accrued interest and associated bond costs on the City of Hope judgment and net amounts paid on other litigation settlements, which are currently estimated to be approximately \$54 million on a pretax basis in 2006, and (iii) employee stock-based compensation expense associated with our adoption of FAS 123R on January 1, 2006, which we expect the net of tax diluted EPS impact to be in the range of \$0.15 to \$0.17 per share for 2006. Our 2006 GAAP EPS would include the items listed above as well as any other potential special charges related to existing or future litigation or its resolution, or changes in accounting principles, all of which may be significant. The statements regarding the amounts relating to the 1999 Roche redemption of our stock, litigation-related special items and employee stock-based compensation expense are forward-looking and such statements are predictions and involve risks and uncertainties such that actual results may differ materially. The amounts identified above could be affected by a number of factors, including a re-valuation of certain intangible assets, greater than expected litigation-related costs, the number of options granted to employees, our stock price and certain valuation assumptions concerning our stock. We disclaim, and do not undertake, any obligation to update or revise any of these forward-looking statements.

GENENTECH, INC.
CONSOLIDATED BALANCE SHEETS DATA

(In millions)

(Unaudited)

	March 31, 2006	December 31, 2005
Selected financial data:		
Cash, cash equivalents and short-term investments	\$ 2,284	\$ 2,365
Accounts receivable - product sales, net	615	554
Accounts receivable - royalties, net	332	297
Accounts receivable - other, net ⁽¹⁾	187	199
Inventories	804	703
Long-term marketable debt and equity securities	1,658	1,449
Property, plant and equipment, net	3,565	3,349
Goodwill	1,315	1,315
Other intangible assets	548	574
Other long-term assets ⁽¹⁾	1,093	1,074
Total assets	12,712	12,147
Total current liabilities	1,750	1,660
Long-term debt ⁽²⁾	2,103	2,083
Total liabilities	4,818	4,677
Total stockholders' equity	7,894	7,470
Year-to-date:		
Capital expenditures ⁽²⁾	\$ 253	\$ 1,400
Total GAAP ⁽³⁾ depreciation and amortization expense	96	370
Less: redemption related amortization expense ⁽⁴⁾	(26)	(123)
Non-GAAP ⁽⁵⁾ depreciation and amortization expense	\$ 70	\$ 247

(1) Certain reclassifications have been made at December 31, 2005 to conform to the presentation at March 31, 2006.

(2) Capital expenditures exclude approximately \$27 million at March 31, 2006 and \$94 million at December 31, 2005 in capitalized costs related to our accounting for a construction project of which we are considered to be the owner during the construction period. We have recognized related amounts as a construction financing obligation in long-term debt.

(3) Reflects operating results in accordance with U.S. generally accepted accounting principles (or "GAAP").

(4) Represents the amortization of other intangible assets related to the 1999 redemption of Genentech's Special Common Stock.

(5) Non-GAAP amounts exclude amortization of other intangible assets related to the 1999 redemption of Genentech's Special Common Stock.

GENENTECH, INC.
NET PRODUCT SALES DETAIL

(In millions)

(Unaudited)

	Three Months Ended March 31,	
	2006	2005
Net U.S. Product Sales		
Rituxan	\$ 477	\$ 440
Avastin	398	203
Herceptin	290	130
Tarceva	93	48
Nutropin products	87	90
Xolair	95	65
Thrombolytics	59	50
Pulmozyme	49	44
Raptiva	21	17
Total U.S. product sales	\$ 1,569	\$ 1,087
Net product sales to collaborators	75	99
Total Product Sales	\$ 1,644	\$ 1,186