

GENENTECH, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share amounts)

(Unaudited)

	Three Months		Year	
	Ended December 31,		Ended December 31,	
	2006	2005	2006	2005
Revenues:				
Product sales	\$ 2,244	\$ 1,577	\$ 7,640	\$ 5,488
Royalties	389	265	1,354	935
Contract revenue	81	51	290	210
Total operating revenues	2,714	1,893	9,284	6,633
Costs and expenses:				
Cost of sales	338	245	1,181	1,011
Research and development (includes employee stock-based compensation expense: three months—2006—\$38; 2005—\$0; full year 2006—\$140; 2005—\$0)	555	412	1,773	1,262
Marketing, general and administrative (includes employee stock-based compensation expense: three months—2006—\$45; 2005—\$0; full year 2006—\$169; 2005—\$0)	600	429	2,014	1,435
Collaboration profit sharing	270	228	1,005	823
Recurring charges related to redemption	26	27	105	123
Special items: litigation-related	14	13	54	58
Total costs and expenses	1,803	1,354	6,132	4,712
Operating income	911	539	3,152	1,921
Other income (expense):				
Interest and other income, net ⁽¹⁾	77	43	325	142
Interest expense	(18)	(23)	(74)	(50)
Total other income, net	59	20	251	92
Income before taxes	970	559	3,403	2,013
Income tax provision	376	220	1,290	734
Net income	\$ 594	\$ 339	\$ 2,113	\$ 1,279
Earnings per share:				
Basic	\$ 0.56	\$ 0.32	\$ 2.01	\$ 1.21
Diluted	\$ 0.55	\$ 0.31	\$ 1.97	\$ 1.18
Weighted average shares used to compute earnings per share:				
Basic	1,054	1,055	1,053	1,055
Diluted	1,072	1,080	1,073	1,081

(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 three months and year ended December 31, 2006 includes employee stock-based compensation expense of \$41 million and \$182 million, net of tax, respectively, 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 period prior to January 1, 2006. Based on the pro forma application of FAS 123 for the calculation of employee stock-based compensation prior to January 1, 2006 (based upon the amounts previously reported in Genentech's financial statement footnotes), pro forma employee stock-based compensation expense in the fourth quarter of 2005 was \$49 million, net of tax, (or \$0.05 per diluted share), and the resulting pro forma GAAP net income was \$290 million (or \$0.27 per diluted share). Pro forma employee stock-based compensation expense for the full year of 2005 was \$175 million, net of tax, (or \$0.16 per diluted share), and the resulting pro forma GAAP net income was \$1.1 billion (or \$1.02 per diluted share).

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

(In millions, except per share amounts)
(Unaudited)

	Three Months		Year	
	Ended December 31,		Ended December 31,	
	2006	2005	2006	2005
GAAP net income	\$ 594	\$ 339	\$ 2,113	\$ 1,279
Employee stock-based compensation expense under FAS 123R ⁽¹⁾ included in the following operating expenses:				
Research and development	38	-	140	-
Marketing, general and administrative	45	-	169	-
Recurring charges related to redemption ⁽²⁾	26	27	105	123
Special items: litigation-related ⁽³⁾	14	13	54	58
Income tax effect ⁽⁴⁾	(58)	(16)	(191)	(73)
Non-GAAP net income	<u>\$ 659</u>	<u>\$ 363</u>	<u>\$ 2,390</u>	<u>\$ 1,387</u>
Non-GAAP earnings per share:				
Diluted	<u>\$ 0.61</u>	<u>\$ 0.34</u>	<u>\$ 2.23</u>	<u>\$ 1.28</u>
Non-GAAP weighted average shares used to compute earnings per share ⁽⁵⁾ :				
Diluted	<u>1,072</u>	<u>1,080</u>	<u>1,074</u>	<u>1,081</u>

- (1) Represents employee stock-based compensation expense associated with Genentech's adoption of FAS 123R on January 1, 2006. In the three months and year ended December 31, 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 in the fourth quarters and the full years of 2006 and 2005 related to the City of Hope trial judgment and amounts paid in the second quarter of 2005 related to a litigation settlement, 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.

2007 Reconciliation of GAAP and Non-GAAP EPS Estimates

Our 2007 non-GAAP EPS estimate does not include the effects of: (i) recurring amortization charges related to the 1999 redemption of our stock by Roche, which are estimated to be approximately \$104 million on a pretax basis in 2007, (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 2007, (iii) income tax effect of \$63 million on recurring charges related to redemption and litigation-related special items, (iv) employee stock-based compensation expense, which we expect the net of tax diluted EPS impact to be in the range of \$0.23 to \$0.25 per share for 2007, (v) the cumulative effect of a change in accounting principle related to sabbatical leave associated with Genentech's adoption of Emerging Issues Task Force Issue No. 06-2 on January 1, 2007, which we expect the net of tax diluted EPS impact to be approximately \$0.02 per share for 2007, and (vi) any in-process R&D charge and amortization of intangible assets that would result if we acquire Tanox, Inc. Our 2007 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.
SELECTED CONSOLIDATED FINANCIAL DATA

(In millions)
(Unaudited)

	December 31, 2006	December 31, 2005
Selected consolidated balance sheet data:		
Cash, cash equivalents and short-term investments	\$ 2,493	\$ 2,365
Accounts receivable - product sales, net	965	554
Accounts receivable - royalties, net	453	297
Accounts receivable - other, net ⁽¹⁾	248	199
Inventories	1,178	703
Long-term marketable debt and equity securities	1,832	1,449
Property, plant and equipment, net	4,173	3,349
Goodwill	1,315	1,315
Other intangible assets	476	574
Other long-term assets ⁽¹⁾	1,342	1,074
Total assets	14,842	12,147
Total current liabilities	2,157	1,660
Long-term debt ⁽²⁾	2,204	2,083
Total liabilities	5,364	4,677
Total stockholders' equity	9,478	7,470

	Year Ended December 31,	
	2006	2005
Selected consolidated cash flow data:		
Capital expenditures ⁽²⁾	\$ 1,214	\$ 1,400
Total GAAP ⁽³⁾ depreciation and amortization expense	407	370
Less: redemption related amortization expense ⁽⁴⁾	(105)	(123)
Non-GAAP depreciation and amortization expense	\$ 302	\$ 247

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

(2) Capital expenditures exclude approximately \$104 million at December 31, 2006, and \$94 million at December 31, 2005 in capitalized costs related to our accounting for construction projects of which we are considered to be the owner during the construction period. We have recognized a related amount 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 stock.