

**GENENTECH, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
*(In millions, except per share amounts)*  
*(Unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Revenues:		
Product sales	\$ 2,329	\$ 1,644
Royalties	419	286
Contract revenue	95	56
Total operating revenues	2,843	1,986
Costs and expenses:		
Cost of sales (includes employee stock-based compensation expense: three months–2007–\$16; 2006–\$0)	392	262
Research and development (includes employee stock-based compensation expense: three months–2007–\$38; 2006–\$33)	610	374
Marketing, general and administrative (includes employee stock-based compensation expense: three months–2007–\$46; 2006–\$41)	491	441
Collaboration profit sharing	252	226
Recurring charges related to redemption	26	26
Special items: litigation-related	13	13
Total costs and expenses	1,784	1,342
Operating income	1,059	644
Other income (expense):		
Interest and other income, net <sup>(1)</sup>	74	53
Interest expense	(18)	(19)
Total other income, net	56	34
Income before taxes	1,115	678
Income tax provision	409	257
Net income	\$ 706	\$ 421
Earnings per share:		
Basic	\$ 0.67	\$ 0.40
Diluted	\$ 0.66	\$ 0.39
Weighted average shares used to compute earnings per share:		
Basic	1,053	1,054
Diluted	1,071	1,075

(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](http://www.gene.com).

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

*(In millions, except per share amounts)*

*(Unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
GAAP net income	\$ 706	\$ 421
Employee stock-based compensation expense under FAS 123R <sup>(1)</sup> included in the following operating expenses:		
Cost of sales	16	-
Research and development	38	33
Marketing, general and administrative	46	41
Recurring charges related to redemption <sup>(2)</sup>	26	26
Special items: litigation-related <sup>(3)</sup>	13	13
Income tax effect <sup>(4)</sup>	(53)	(43)
Non-GAAP net income	\$ 792	\$ 491
 Non-GAAP earnings per share:		
Diluted	\$ 0.74	\$ 0.46
 Non-GAAP weighted average shares used to compute earnings per share <sup>(5)</sup> :		
Diluted	1,071	1,076

(1) Represents employee stock-based compensation expense associated with FAS 123R. No employee stock-based compensation expense was recognized in GAAP-reported cost of sales in any period ending prior to January 1, 2007.

(2) Represents the amortization of intangible assets related to the 1999 redemption of Genentech's common stock by Roche Holdings, Inc.

(3) Includes accrued interest and bond costs in the first quarters of 2007 and 2006 related to the City of Hope trial judgment.

(4) Reflects the income tax effects of excluding employee stock-based compensation expense under FAS 123R, recurring charges related to the redemption of our common stock, 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 common stock by Roche Holdings, Inc., 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 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 the redemption of our common stock 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, and (v) 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. Note that our cumulative effect of a change in accounting principle related to sabbatical leave associated with our adoption of Emerging Issues Task Force Issue No. 06-2 on January 1, 2007, which was \$26 million, net of tax, was recognized as an adjustment to retained earnings and not expensed as previously communicated.

The statements regarding the amounts relating to the 1999 Roche redemption of our common 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)*

	<u>March 31,</u> <u>2007</u>	<u>December</u> <u>31, 2006</u>
<b>Selected consolidated balance sheet data:</b>		
Cash, cash equivalents and short-term investments	\$ 2,903	\$ 2,493
Accounts receivable - product sales, net	1,077	965
Accounts receivable - royalties, net	481	453
Accounts receivable - other, net	134	248
Inventories	1,297	1,178
Long-term marketable debt and equity securities	1,889	1,832
Property, plant and equipment, net	4,353	4,173
Goodwill	1,315	1,315
Other intangible assets	449	476
Other long-term assets	1,397	1,342
Total assets	15,688	14,842
Total current liabilities <sup>(1)</sup>	2,078	2,010
Long-term debt <sup>(2)</sup>	2,267	2,204
Total liabilities	5,540	5,364
Total stockholders' equity	10,148	9,478

	<u>Three Months</u> <u>Ended March 31,</u>	
	<u>2007</u>	<u>2006</u>
<b>Selected consolidated cash flow data:</b>		
Capital expenditures <sup>(2)</sup>	\$ 209	\$ 253
Total GAAP <sup>(3)</sup> depreciation and amortization expense	106	96
Less: redemption related amortization expense <sup>(4)</sup>	(26)	(26)
Non-GAAP depreciation and amortization expense	<u>\$ 80</u>	<u>\$ 70</u>

(1) Certain reclassifications have been made at December 31, 2006 to conform to the March 31, 2007 presentation.

(2) Capital expenditures exclude approximately \$57 million at March 31, 2007 and \$27 million at March 31, 2006 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 related amounts as a construction financing obligation in long-term debt. The balances in long-term debt related to the construction financing obligation are \$276 million at March 31, 2007 and \$216 million at December 31, 2006.

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

(4) Represents the amortization of intangible assets related to the 1999 redemption of Genentech's common stock by Roche Holdings, Inc.