

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2007	2006	2007	2006
Revenues:				
Product sales	\$ 2,321	\$ 1,941	\$ 7,094	\$ 5,395
Royalties	524	364	1,427	966
Contract revenue	63	79	234	208
Total operating revenues	<u>2,908</u>	<u>2,384</u>	<u>8,755</u>	<u>6,569</u>
Costs and expenses:				
Cost of sales (includes employee stock-based compensation expense: three months-2007-\$16; 2006-\$0; nine months-2007-\$49; 2006-\$0)	406	297	1,227	843
Research and development (includes employee stock-based compensation expense: three months-2007-\$37; 2006-\$35; nine months-2007-\$114; 2006-\$101)	615	454	1,828	1,218
Marketing, general and administrative (includes employee stock-based compensation expense: three months-2007-\$44; 2006-\$41; nine months-2007-\$137; 2006-\$124)	541	501	1,564	1,414
Collaboration profit sharing	276	250	805	735
In-process research and development ⁽¹⁾	77	-	77	-
Gain on acquisition ⁽¹⁾	(121)	-	(121)	-
Recurring charges related to redemption and acquisition	38	26	90	79
Special items: litigation-related	14	13	41	40
Total costs and expenses	<u>1,846</u>	<u>1,541</u>	<u>5,511</u>	<u>4,329</u>
Operating income	1,062	843	3,244	2,240
Other income (expense):				
Interest and other income, net ⁽²⁾	84	74	233	249
Interest expense	(18)	(19)	(53)	(56)
Total other income, net	<u>66</u>	<u>55</u>	<u>180</u>	<u>193</u>
Income before taxes	1,128	898	3,424	2,433
Income tax provision	443	330	1,286	914
Net income	<u>\$ 685</u>	<u>\$ 568</u>	<u>\$ 2,138</u>	<u>\$ 1,519</u>
Earnings per share:				
Basic	<u>\$ 0.65</u>	<u>\$ 0.54</u>	<u>\$ 2.03</u>	<u>\$ 1.44</u>
Diluted	<u>\$ 0.64</u>	<u>\$ 0.53</u>	<u>\$ 2.00</u>	<u>\$ 1.41</u>
Weighted average shares used to compute earnings per share:				
Basic	<u>1,053</u>	<u>1,053</u>	<u>1,053</u>	<u>1,053</u>
Diluted	<u>1,069</u>	<u>1,072</u>	<u>1,070</u>	<u>1,074</u>

(1) Represents one-time items related to our acquisition of Tanox, Inc. in the third quarter of 2007.

(2) "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 equity securities. For further detail, refer to our web site at www.gene.com.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
GAAP net income	\$ 685	\$ 568	\$ 2,138	\$ 1,519
Royalty revenue ⁽¹⁾	(3)	-	(3)	-
Employee stock-based compensation expense under FAS 123R ⁽²⁾ included in the following operating expenses:				
Cost of sales	16	-	49	-
Research and development	37	35	114	101
Marketing, general and administrative	44	41	137	124
In-process research and development ⁽³⁾	77	-	77	-
Gain on acquisition ⁽³⁾	(121)	-	(121)	-
Recurring charges related to redemption and acquisition ⁽⁴⁾	38	26	90	79
Special items: litigation-related ⁽⁵⁾	14	13	41	40
Income tax effect ⁽⁶⁾	(9)	(46)	(117)	(132)
Non-GAAP net income	<u>\$ 778</u>	<u>\$ 637</u>	<u>\$ 2,405</u>	<u>\$ 1,731</u>
Non-GAAP earnings per share:				
Diluted	<u>\$ 0.73</u>	<u>\$ 0.59</u>	<u>\$ 2.25</u>	<u>\$ 1.61</u>
Non-GAAP weighted average shares used to compute earnings per share ⁽⁷⁾ :				
Diluted	<u>1,067</u>	<u>1,072</u>	<u>1,069</u>	<u>1,074</u>

(1) Represents recognition of deferred royalty revenue in the third quarter of 2007.

(2) 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.

(3) Represents one-time items related to our acquisition of Tanox, Inc. in the third quarter of 2007.

(4) Represents the amortization of intangible assets related to the 1999 redemption of our common stock by Roche Holdings, Inc. and our acquisition of Tanox, Inc. in the third quarter of 2007.

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

(6) 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, litigation-related special items and items related to our acquisition of Tanox, Inc.

(7) 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.

Reconciliation of 2007 GAAP and Non-GAAP EPS Estimates

Our 2007 non-GAAP EPS estimate excludes 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) items related to our acquisition of Tanox, Inc., including a one-time in-process research and development charge of \$77 million, amortization of intangible assets in the amount of \$28 million on a pretax basis in 2007, recognition of deferred royalty revenue of approximately \$6 million on a pretax basis in 2007, a one-time gain on acquisition of \$121 million on a pretax basis in 2007, and the income tax effect on these items of \$40 million. 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 or adoption of accounting principles, all of which may be significant.

The statements regarding the amounts relating to the 1999 Roche redemption of our common stock, amortization of intangible assets and recognition of deferred royalty revenue associated with the acquisition of Tanox, Inc., 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)

	September 30, 2007	December 31, 2006
Selected consolidated balance sheet data:		
Cash, cash equivalents and short-term investments	\$ 2,920	\$ 2,493
Accounts receivable - product sales, net	1,012	965
Accounts receivable - royalties, net	716	453
Accounts receivable - other, net	185	248
Inventories	1,425	1,178
Long-term marketable debt and equity securities	1,952	1,832
Property, plant and equipment, net	4,758	4,173
Goodwill	1,574	1,315
Other intangible assets	1,208	476
Other long-term assets	1,281	1,342
Total assets	17,444	14,842
Total current liabilities ⁽¹⁾	2,056	2,010
Long-term debt ⁽²⁾	2,346	2,204
Total liabilities	5,812	5,364
Total stockholders' equity	11,632	9,478

	Nine Months Ended September 30,	
	2007	2006
Selected consolidated cash flow data:		
Capital expenditures ⁽²⁾	\$ 692	\$ 888
Total GAAP ⁽³⁾ depreciation and amortization expense	345	298
Less: redemption and acquisition related amortization expense ⁽⁴⁾	(90)	(79)
Non-GAAP depreciation and amortization expense	\$ 255	\$ 219

(1) Certain reclassifications have been made at December 31, 2006 to conform to the September 30, 2007 presentation.

(2) Capital expenditures exclude approximately \$156 million at September 30, 2007 and \$158 million at September 30, 2006 in capitalized costs related to our accounting for construction projects for 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 \$350 million at September 30, 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 our common stock by Roche Holdings, Inc. and our acquisition of Tanox, Inc. in the third quarter of 2007.