

**GENENTECH, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

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

	Three Months		Year	
	Ended December 31,		Ended December 31,	
	2007	2006	2007	2006
Revenues:				
Product sales	\$ 2,349	\$ 2,244	\$ 9,443	\$ 7,640
Royalties	558	389	1,984	1,354
Contract revenue	63	81	297	290
Total operating revenues	2,970	2,714	11,724	9,284
Costs and expenses:				
Cost of sales (includes employee stock-based compensation expense: three months-2007-\$22; 2006-\$0; full year-2007-\$71; 2006-\$0)	344	338	1,571	1,181
Research and development (includes employee stock-based compensation expense: three months-2007-\$39; 2006-\$38; full year-2007-\$153; 2006-\$140)	618	555	2,446	1,773
Marketing, general and administrative (includes employee stock-based compensation expense: three months-2007-\$42; 2006-\$45; full year-2007-\$179; 2006-\$169)	692	600	2,256	2,014
Collaboration profit sharing	275	270	1,080	1,005
In-process research and development <sup>(1)</sup>	-	-	77	-
Gain on acquisition <sup>(1)</sup>	-	-	(121)	-
Recurring charges related to redemption and acquisition	43	26	132	105
Special items: litigation-related	14	14	54	54
Total costs and expenses	1,986	1,803	7,495	6,132
Operating income	984	911	4,229	3,152
Other income (expense):				
Interest and other income, net <sup>(2)</sup>	40	77	273	325
Interest expense	(22)	(18)	(76)	(74)
Total other income, net	18	59	197	251
Income before taxes	1,002	970	4,426	3,403
Income tax provision	370	376	1,657	1,290
Net income	\$ 632	\$ 594	\$ 2,769	\$ 2,113
Earnings per share:				
Basic	\$ 0.60	\$ 0.56	\$ 2.63	\$ 2.01
Diluted	\$ 0.59	\$ 0.55	\$ 2.59	\$ 1.97
Weighted average shares used to compute earnings per share:				
Basic	1,053	1,054	1,053	1,053
Diluted	1,068	1,072	1,069	1,073

(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 debt and biotechnology 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)*

	Three Months		Year	
	Ended December 31,		Ended December 31,	
	2007	2006	2007	2006
GAAP net income	\$ 632	\$ 594	\$ 2,769	\$ 2,113
Royalty revenue <sup>(1)</sup>	(4)	-	(6)	-
Employee stock-based compensation expense under FAS 123R <sup>(2)</sup> included in the following operating expenses:				
Cost of sales	22	-	71	-
Research and development	39	38	153	140
Marketing, general and administrative	42	45	179	169
In-process research and development <sup>(3)</sup>	-	-	77	-
Gain on acquisition <sup>(3)</sup>	-	-	(121)	-
Recurring charges related to redemption and acquisition <sup>(4)</sup>	43	26	132	105
Special items: litigation-related <sup>(5)</sup>	14	14	54	54
Income tax effect <sup>(6)</sup>	(51)	(58)	(166)	(191)
Non-GAAP net income	<u>\$ 737</u>	<u>\$ 659</u>	<u>\$ 3,142</u>	<u>\$ 2,390</u>
Non-GAAP earnings per share:				
Diluted	<u>\$ 0.69</u>	<u>\$ 0.61</u>	<u>\$ 2.94</u>	<u>\$ 2.23</u>
Non-GAAP weighted average shares used to compute earnings per share <sup>(7)</sup> :				
Diluted	<u>1,066</u>	<u>1,072</u>	<u>1,068</u>	<u>1,074</u>

(1) Represents recognition of deferred royalty revenue.

(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 fourth quarters and full year 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 and similar 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 2008 GAAP and Non-GAAP EPS Estimates**

Our 2008 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. and our acquisition of Tanox, Inc., which are estimated to be approximately \$172 million on a pretax basis in 2008, (ii) litigation-related and similar special items for accrued interest and associated bond costs on the City of Hope judgment which are currently estimated to be in the range of \$9 million to \$18 million on a pretax basis in 2008, (iii) recognition of deferred royalty revenue of approximately \$15 million on a pretax basis in 2008, (vi) income tax effect of \$65 million to \$68 million on recurring charges related to the redemption of our common stock and our acquisition of Tanox, Inc., litigation-related and similar special items, and recognition of deferred royalty revenue, and (v) employee stock-based compensation expense, which we expect the net of tax diluted EPS impact to be in the range of \$0.25 to \$0.27 per share for 2008. Our 2008 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 and similar 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 and similar costs, changes in or adoption of accounting principles, 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, 2007	December 31, 2006
<b>Selected consolidated balance sheet data:</b>		
Cash, cash equivalents and short-term investments	\$ 3,975	\$ 2,493
Accounts receivable - product sales, net	847	965
Accounts receivable - royalties, net	620	453
Accounts receivable - other, net	299	248
Inventories	1,493	1,178
Long-term marketable debt and equity securities	2,090	1,832
Property, plant and equipment, net	4,986	4,173
Goodwill	1,577	1,315
Other intangible assets	1,168	476
Other long-term assets	366	1,342
Total assets	18,940	14,842
Total current liabilities <sup>(1)</sup>	3,918	2,010
Long-term debt <sup>(2)</sup>	2,402	2,204
Total liabilities	7,035	5,364
Total stockholders' equity	11,905	9,478

	Year Ended December 31,	
	2007	2006
<b>Selected consolidated cash flow data:</b>		
Capital expenditures <sup>(2)</sup>	\$ 977	\$ 1,214
Total GAAP <sup>(3)</sup> depreciation and amortization expense	492	407
Less: redemption and acquisition related amortization expense <sup>(4)</sup>	(132)	(105)
Non-GAAP depreciation and amortization expense	\$ 360	\$ 302

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

(2) Capital expenditures exclude approximately \$203 million at December 31, 2007 and \$104 million at December 31, 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 \$399 million at December 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 our common stock by Roche Holdings, Inc. and our acquisition of Tanox, Inc. in the third quarter of 2007.