

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

	Three Months	
	Ended March 31,	
	2008	2007
Revenues:		
Product sales	\$ 2,379	\$ 2,329
Royalties	616	419
Contract revenue	68	95
Total operating revenues	<u>3,063</u>	<u>2,843</u>
Costs and expenses:		
Cost of sales (includes employee stock-based compensation expense: three months–2008–\$22; 2007–\$16)	389	392
Research and development (includes employee stock-based compensation expense: three months–2008–\$42; 2007–\$38)	617	610
Marketing, general and administrative (includes employee stock-based compensation expense: three months–2008 and 2007–\$46)	517	491
Collaboration profit sharing	279	252
Recurring charges related to redemption and acquisition	43	26
Special items: litigation-related	<u>(301)</u>	<u>13</u>
Total costs and expenses	<u>1,544</u>	<u>1,784</u>
Operating income	1,519	1,059
Other income (expense):		
Interest and other income, net ⁽¹⁾	74	74
Interest expense	<u>(18)</u>	<u>(18)</u>
Total other income, net	56	56
Income before taxes	1,575	1,115
Income tax provision	592	409
Net income	<u>\$ 983</u>	<u>\$ 706</u>
Earnings per share:		
Basic	<u>\$ 0.93</u>	<u>\$ 0.67</u>
Diluted	<u>\$ 0.92</u>	<u>\$ 0.66</u>
Weighted average shares used to compute earnings per share:		
Basic	<u>1,053</u>	<u>1,053</u>
Diluted	<u>1,068</u>	<u>1,071</u>

(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 debt and 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 March 31,	
	2008	2007
GAAP net income	\$ 983	\$ 706
Royalty revenue ⁽¹⁾	(4)	-
Employee stock-based compensation expense under FAS 123R ⁽²⁾ included in the following operating expenses:		
Cost of sales	22	16
Research and development	42	38
Marketing, general and administrative	46	46
Recurring charges related to redemption and acquisition ⁽³⁾	43	26
Special items: litigation-related ⁽⁴⁾	(301)	13
Income tax effect ⁽⁵⁾	64	(53)
Non-GAAP net income	<u>\$ 895</u>	<u>\$ 792</u>
Non-GAAP earnings per share:		
Diluted	<u>\$ 0.84</u>	<u>\$ 0.74</u>
Non-GAAP weighted average shares used to compute earnings per share ⁽⁶⁾ :		
Diluted	<u>1,066</u>	<u>1,071</u>

(1) Represents recognition of deferred royalty revenue.

(2) Represents employee stock-based compensation expense associated with FAS 123R.

(3) 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 2007.

(4) Includes accrued interest and bond costs in the first quarters of 2008 and 2007 related to the City of Hope trial judgment. Amount for the first quarter of 2008 also includes the City of Hope litigation settlement of \$315 million as a result of the California Supreme Court ruling.

(5) 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.

(6) 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 the company forecasts to be approximately \$172 million on a pretax basis in 2008, (ii) the net litigation settlement related to the City of Hope (COH) judgment which the company forecasts to be (\$301) million on a pretax basis in 2008, (iii) recognition of deferred royalty revenue associated with the accounting for our acquisition of Tanox, Inc., which the company forecasts to be approximately (\$15) million on a pretax basis in 2008, (iv) income tax effect on recurring charges related to the redemption of our common stock and our acquisition of Tanox, Inc., the net litigation settlement related to the COH judgment, and recognition of deferred royalty revenue, which the company forecasts to be approximately (\$56) million in 2008, and (v) employee stock-based compensation expense, which the company forecasts to be in the range of \$0.25 to \$0.27 per share for 2008 on an after-tax basis. 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)

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Selected consolidated balance sheet data:		
Cash, cash equivalents and short-term investments	\$ 4,857	\$ 3,975
Accounts receivable - product sales, net	889	847
Accounts receivable - royalties, net	701	620
Accounts receivable - other, net	228	299
Inventories	1,469	1,493
Long-term marketable debt and equity securities	2,201	2,090
Property, plant and equipment, net	5,135	4,986
Goodwill	1,577	1,577
Other intangible assets	1,127	1,168
Other long-term assets	378	366
Total assets	19,995	18,940
Total current liabilities	3,657	3,918
Long-term debt ⁽¹⁾	2,460	2,402
Total liabilities	6,889	7,035
Total stockholders' equity	13,106	11,905

	<u>Three Months</u> <u>Ended March 31,</u>	
	<u>2008</u>	<u>2007</u>
Selected consolidated cash flow data:		
Capital expenditures ⁽¹⁾	\$ 200	\$ 209
Total GAAP depreciation and amortization expense	139	106
Less: redemption and acquisition related amortization expense ⁽²⁾	(43)	(26)
Non-GAAP depreciation and amortization expense	<u>\$ 96</u>	<u>\$ 80</u>

(1) Capital expenditures exclude approximately \$42 million at March 31, 2008 and \$57 million at March 31, 2007 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 \$440 million at March 31, 2008 and \$399 million at December 31, 2007.

(2) 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 2007.