

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

	Three Months Ended June 30,		Six Months Ended June30,	
	2008	2007	2008	2007
Revenues:				
Product sales	\$ 2,536	\$ 2,443	\$ 4,915	\$ 4,773
Royalties	629	484	1,244	903
Contract revenue	71	77	140	171
Total operating revenues	<u>3,236</u>	<u>3,004</u>	<u>6,299</u>	<u>5,847</u>
Costs and expenses:				
Cost of sales (includes employee stock-based compensation expense: three months–2008–\$18; 2007–\$16; six months–2008–\$41; 2007–\$33)	441	429	831	821
Research and development (includes employee stock-based compensation expense: three months–2008–\$38; 2007–\$39; six months–2008–\$80; 2007–\$77)	649	603	1,266	1,213
Marketing, general and administrative (includes employee stock-based compensation expense: three months–2008–\$41; 2007–\$47; six months–2008–\$87; 2007–\$93)	559	532	1,076	1,023
Collaboration profit sharing	313	277	592	529
Recurring charges related to redemption and acquisition	43	26	86	52
Special items: litigation-related	2	13	(300)	26
Total costs and expenses	<u>2,007</u>	<u>1,880</u>	<u>3,551</u>	<u>3,664</u>
Operating income	1,229	1,124	2,748	2,183
Other income (expense):				
Interest and other income, net ⁽¹⁾	93	75	166	149
Interest expense	(15)	(17)	(32)	(35)
Total other income, net	<u>78</u>	<u>58</u>	<u>134</u>	<u>114</u>
Income before taxes	1,307	1,182	2,882	2,297
Income tax provision	525	435	1,118	844
Net income	<u>\$ 782</u>	<u>\$ 747</u>	<u>\$ 1,764</u>	<u>\$ 1,453</u>
Earnings per share:				
Basic	<u>\$ 0.74</u>	<u>\$ 0.71</u>	<u>\$ 1.68</u>	<u>\$ 1.38</u>
Diluted	<u>\$ 0.73</u>	<u>\$ 0.70</u>	<u>\$ 1.65</u>	<u>\$ 1.36</u>
Weighted average shares used to compute earnings per share:				
Basic	<u>1,051</u>	<u>1,053</u>	<u>1,052</u>	<u>1,053</u>
Diluted	<u>1,064</u>	<u>1,070</u>	<u>1,066</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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
GAAP net income	\$ 782	\$ 747	\$ 1,764	\$ 1,453
Royalty revenue ⁽¹⁾	(4)	-	(8)	-
Employee stock-based compensation expense under FAS 123R included in the following operating expenses:				
Cost of sales	18	16	41	33
Research and development	38	39	80	77
Marketing, general and administrative	41	47	87	93
Recurring charges related to redemption and acquisition ⁽²⁾	43	26	86	52
Special items: litigation-related ⁽³⁾	2	13	(300)	26
Income tax effect ⁽⁴⁾	(49)	(54)	16	(107)
Non-GAAP net income	<u>\$ 871</u>	<u>\$ 834</u>	<u>\$ 1,766</u>	<u>\$ 1,627</u>
Non-GAAP earnings per share:				
Diluted	<u>\$ 0.82</u>	<u>\$ 0.78</u>	<u>\$ 1.66</u>	<u>\$ 1.52</u>
Non-GAAP weighted average shares used to compute earnings per share ⁽⁵⁾ :				
Diluted	<u>1,062</u>	<u>1,068</u>	<u>1,064</u>	<u>1,070</u>

(1) Represents recognition of deferred royalty revenue.

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

(3) Includes accrued interest and bond costs in the second quarters and the first six months of 2008 and 2007 related to the City of Hope trial judgment. In addition, the amount for the first six months of 2008 includes a litigation settlement recorded as a result of the California Supreme Court ruling on the matter in April 2008.

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

(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.

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 judgment which the company forecasts to be \$300 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., litigation-related and similar special items, 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 revaluation 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)

	June 30, 2008	December 31, 2007
Selected consolidated balance sheet data:		
Cash, cash equivalents and short-term investments	\$ 4,505	\$ 3,975
Accounts receivable - product sales, net	889	847
Accounts receivable - royalties, net	732	620
Accounts receivable - other, net	200	299
Inventories	1,406	1,493
Long-term marketable debt and equity securities	1,832	2,090
Property, plant and equipment, net	5,266	4,986
Goodwill	1,577	1,577
Other intangible assets	1,083	1,168
Other long-term assets	308	366
Total assets	19,119	18,940
Total current liabilities	2,705	3,918
Long-term debt ⁽¹⁾	2,475	2,402
Total liabilities	5,834	7,035
Total stockholders' equity	13,285	11,905

	Six Months Ended June 30,	
	2008	2007
Selected consolidated cash flow data:		
Capital expenditures ⁽¹⁾	\$ 398	\$ 475
Total GAAP depreciation and amortization expense	285	215
Less: redemption and acquisition related amortization expense ⁽²⁾	(86)	(52)
Non-GAAP depreciation and amortization expense	\$ 199	\$ 163

(1) Capital expenditures exclude approximately \$75 million for the six months ended June 30, 2008 and \$101 million for the six months ended June 30, 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 \$466 million at June 30, 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 2007 acquisition of Tanox, Inc.