

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2008	2007	2008	2007
Revenues:				
Product sales	\$ 2,634	\$ 2,321	\$ 7,549	\$ 7,094
Royalties	687	524	1,932	1,427
Contract revenue	91	63	230	234
Total operating revenues	<u>3,412</u>	<u>2,908</u>	<u>9,711</u>	<u>8,755</u>
Costs and expenses:				
Cost of sales (includes employee stock-based compensation expense: three months–2008–\$20; 2007–\$16; nine months–2008–\$62; 2007–\$49)	409	406	1,240	1,227
Research and development (includes employee stock-based compensation expense: three months–2008–\$39; 2007–\$37; nine months–2008–\$119; 2007–\$114)	777	615	2,043	1,828
Marketing, general and administrative (includes employee stock-based compensation expense: three months–2008–\$44; 2007–\$44; nine months–2008–\$130; 2007–\$137)	611	541	1,687	1,564
Collaboration profit sharing	315	276	907	805
Write-off of in-process research and development related to acquisition ⁽¹⁾	-	77	-	77
Gain on acquisition ⁽¹⁾	-	(121)	-	(121)
Recurring amortization charges related to redemption and acquisition ⁽²⁾	43	38	129	90
Special items: litigation-related	40	14	(260)	41
Total costs and expenses	<u>2,195</u>	<u>1,846</u>	<u>5,746</u>	<u>5,511</u>
Operating income	1,217	1,062	3,965	3,244
Other income (expense):				
Interest and other income (expense), net ⁽³⁾	(33)	84	133	233
Interest expense	(25)	(18)	(57)	(53)
Total other income (expense), net	<u>(58)</u>	<u>66</u>	<u>76</u>	<u>180</u>
Income before taxes	1,159	1,128	4,041	3,424
Income tax provision	428	443	1,546	1,286
Net income	<u>\$ 731</u>	<u>\$ 685</u>	<u>\$ 2,495</u>	<u>\$ 2,138</u>
Earnings per share:				
Basic	<u>\$ 0.69</u>	<u>\$ 0.65</u>	<u>\$ 2.37</u>	<u>\$ 2.03</u>
Diluted	<u>\$ 0.68</u>	<u>\$ 0.64</u>	<u>\$ 2.34</u>	<u>\$ 2.00</u>
Weighted average shares used to compute earnings per share:				
Basic	<u>1,055</u>	<u>1,053</u>	<u>1,053</u>	<u>1,053</u>
Diluted	<u>1,071</u>	<u>1,069</u>	<u>1,067</u>	<u>1,070</u>

(1) Represents non-recurring items related to our 2007 acquisition of Tanox, Inc.

(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) "Interest and other income (expense), net" includes interest income, realized gains and losses from the sale of debt and equity securities, write-downs for other-than-temporary impairments in the fair value of certain debt and equity securities and mark-to-market valuation adjustments for various 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		Nine Months	
	Ended September 30,		Ended September 30,	
	2008	2007	2008	2007
GAAP net income	\$ 731	\$ 685	\$ 2,495	\$ 2,138
Royalty revenue ⁽¹⁾	(4)	(3)	(12)	(3)
Employee stock-based compensation expense under FAS 123R included in the following operating expenses:				
Cost of sales	20	16	62	49
Research and development	39	37	119	114
Marketing, general and administrative	44	44	130	137
Purchase accounting adjustments ⁽²⁾	15	-	15	-
Roche proposal-related fees incurred on behalf of the Special Committee ⁽³⁾	6	-	6	-
Write-off of in-process research and development related to acquisition ⁽⁴⁾	-	77	-	77
Gain on acquisition ⁽⁴⁾	-	(121)	-	(121)
Recurring amortization charges related to redemption and acquisition ⁽⁵⁾	43	38	129	90
Special items: litigation-related ⁽⁶⁾	40	14	(260)	41
Income tax effect ⁽⁷⁾	(71)	(9)	(55)	(117)
Non-GAAP net income	<u>\$ 863</u>	<u>\$ 778</u>	<u>\$ 2,629</u>	<u>\$ 2,405</u>
Non-GAAP earnings per share:				
Diluted	<u>\$ 0.81</u>	<u>\$ 0.73</u>	<u>\$ 2.47</u>	<u>\$ 2.25</u>
Non-GAAP weighted average shares used to compute earnings per share ⁽⁸⁾ :				
Diluted	<u>1,071</u>	<u>1,067</u>	<u>1,065</u>	<u>1,069</u>

- (1) Represents recognition of deferred royalty revenue related to our 2007 acquisition of Tanox, Inc.
- (2) Represents asset impairment charges recorded as purchase accounting adjustments related to our 2007 acquisition of Tanox, Inc.
- (3) Represents costs incurred by the company on behalf of the Special Committee in connection with its review of the Roche proposal (Proposal), as well as legal costs incurred in defense of the Special Committee and/or its individual members in shareholder lawsuits filed in connection with the Proposal.
- (4) Represents non-recurring items related to our 2007 acquisition of Tanox, Inc.
- (5) 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.
- (6) Includes accrued interest and bond costs in the third quarter of 2007, and first nine months of 2008 and 2007, and the net settlement in the first nine months of 2008 related to the City of Hope trial judgment. Amounts in the third quarter and first nine months of 2008 also include additional costs accrued related to the City of Hope contract dispute based on the status of negotiations between the parties on amounts owed for periods subsequent to the original court judgment rendered in 2002.
- (7) 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, items related to our acquisition of Tanox, Inc. and items related to the Proposal.
- (8) 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 2007 acquisition of Tanox, Inc., which the company forecasts to be approximately \$172 million on a pretax basis in 2008, (ii) items related to the City of Hope litigation, including the net litigation settlement related to the City of Hope judgment for \$300 million on a pretax basis in 2008, and \$40 million of additional pretax costs accrued related to the City of Hope contract dispute based on the status of negotiations between the parties on amounts owed for periods subsequent to the original court judgment rendered in 2002, (iii) items related to our acquisition of Tanox, Inc., including recognition of deferred royalty revenue which the company forecasts to be approximately \$15 million on a pretax basis in 2008, and purchase accounting adjustments which the company currently forecasts to be \$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, recognition of deferred royalty revenue, and purchase accounting adjustments which the company forecasts to be approximately (\$34) million in 2008, (v) employee stock-based compensation expense, which the company forecasts to be approximately \$0.25 per share for 2008 on an after-tax basis, and (vi) after tax costs incurred by the company on behalf of the Special Committee in connection with its review of the Proposal, as well as legal costs incurred in defense of the Special Committee and/or its individual members in shareholder lawsuits filed in connection with the Proposal which the company cannot reasonably estimate for 2008 due to the uncertainty of the outcome of the Proposal. 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, Tanox, Inc. acquisition, litigation-related and similar special items, employee stock-based compensation expense, and Proposal-related costs incurred by the company on behalf of the Special Committee 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, changes in tax rates, the outcome of the Proposal, 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>September 30,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Selected consolidated balance sheet data:		
Cash, cash equivalents and short-term investments	\$ 5,932	\$ 3,975
Accounts receivable - product sales, net	862	847
Accounts receivable - royalties, net	734	620
Accounts receivable - other, net	232	299
Inventories	1,408	1,493
Long-term marketable debt and equity securities	2,606	2,090
Property, plant and equipment, net	5,320	4,986
Goodwill	1,590	1,577
Other intangible assets	1,046	1,168
Other long-term assets	358	366
Total assets	20,611	18,940
Commercial paper	536	599
Total current liabilities	2,836	3,918
Long-term debt ⁽¹⁾	2,504	2,402
Total liabilities	5,985	7,035
Total stockholders' equity	14,626	11,905

	<u>Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>
Selected consolidated cash flow data:		
Capital expenditures ⁽¹⁾	\$ 569	\$ 692
Total GAAP depreciation and amortization expense	433	345
Less: redemption and acquisition related amortization expense ⁽²⁾	(129)	(90)
Non-GAAP depreciation and amortization expense	<u>\$ 304</u>	<u>\$ 255</u>

(1) Capital expenditures exclude approximately \$104 million for the nine months ended September 30, 2008 and \$156 million for the nine months ended September 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 \$495 million at September 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.