

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

	Three Months		Year	
	Ended December 31,		Ended December 31,	
	2008	2007	2008	2007
Revenues:				
Product sales	\$ 2,981	\$ 2,349	\$ 10,531	\$ 9,443
Royalties	607	558	2,539	1,984
Contract revenue	119	63	348	297
Total operating revenues	<u>3,707</u>	<u>2,970</u>	<u>13,418</u>	<u>11,724</u>
Costs and expenses:				
Cost of sales	503	344	1,744	1,571
Research and development	757	618	2,800	2,446
Marketing, general and administrative	718	692	2,405	2,256
Collaboration profit sharing	322	275	1,228	1,080
Write-off of in-process research and development related to acquisition <sup>(1)</sup>	-	-	-	77
Gain on acquisition <sup>(1)</sup>	-	-	-	(121)
Recurring amortization charges related to redemption and acquisition <sup>(2)</sup>	43	43	172	132
Special items: litigation-related	-	14	(260)	54
Total costs and expenses	<u>2,343</u>	<u>1,986</u>	<u>8,089</u>	<u>7,495</u>
Operating income	1,364	984	5,329	4,229
Other income (expense):				
Interest and other income, net <sup>(3)</sup>	51	40	184	273
Interest expense	(25)	(22)	(82)	(76)
Total other income, net	<u>26</u>	<u>18</u>	<u>102</u>	<u>197</u>
Income before taxes	1,390	1,002	5,431	4,426
Income tax provision	459	370	2,004	1,657
Net income	<u>\$ 931</u>	<u>\$ 632</u>	<u>\$ 3,427</u>	<u>\$ 2,769</u>
Earnings per share:				
Basic	<u>\$ 0.88</u>	<u>\$ 0.60</u>	<u>\$ 3.25</u>	<u>\$ 2.63</u>
Diluted	<u>\$ 0.87</u>	<u>\$ 0.59</u>	<u>\$ 3.21</u>	<u>\$ 2.59</u>
Weighted average shares used to compute earnings per share:				
Basic	<u>1,052</u>	<u>1,053</u>	<u>1,053</u>	<u>1,053</u>
Diluted	<u>1,065</u>	<u>1,068</u>	<u>1,067</u>	<u>1,069</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, 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](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,	
	2008	2007	2008	2007
GAAP net income	\$ 931	\$ 632	\$ 3,427	\$ 2,769
Royalty revenue <sup>(1)</sup>	(4)	(4)	(15)	(6)
Employee stock-based compensation expense under FAS 123R included in the following operating expenses:				
Cost of sales	20	22	82	71
Research and development	33	39	152	153
Marketing, general and administrative	35	42	165	179
Asset impairment charges <sup>(2)</sup>	-	-	15	-
Roche Proposal-related fees incurred on behalf of the Special Committee <sup>(3)</sup>	8	-	14	-
Write-off of in-process research and development related to acquisition <sup>(4)</sup>	-	-	-	77
Gain on acquisition <sup>(4)</sup>	-	-	-	(121)
Recurring amortization charges related to redemption and acquisition <sup>(5)</sup>	43	43	172	132
Special items: litigation-related <sup>(6)</sup>	-	14	(260)	54
Income tax effect <sup>(7)</sup>	(52)	(51)	(109)	(166)
Non-GAAP net income	<u>\$ 1,014</u>	<u>\$ 737</u>	<u>\$ 3,643</u>	<u>\$ 3,142</u>
Non-GAAP earnings per share:				
Diluted	<u>\$ 0.95</u>	<u>\$ 0.69</u>	<u>\$ 3.42</u>	<u>\$ 2.94</u>
Non-GAAP weighted average shares used to compute earnings per share <sup>(8)</sup> :				
Diluted	<u>1,063</u>	<u>1,066</u>	<u>1,065</u>	<u>1,068</u>

(1) Represents recognition of deferred royalty revenue related to our 2007 acquisition of Tanox, Inc.

(2) Represents asset impairment charges related to our 2007 acquisition of Tanox, Inc. recorded as marketing, general and administrative expense in the third quarter of 2008.

(3) Represents costs incurred by the company on behalf of the Special Committee in connection with its review of the Roche 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 Roche 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 fourth quarter and full year of 2007, and the net settlement in the full year of 2008 related to the City of Hope trial judgment. Amount for the full year of 2008 also includes 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 Roche 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 2009 GAAP and Non-GAAP EPS Estimates**

Our 2009 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 \$123 million on a pretax basis in 2009, (ii) 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 2009, (iii) income tax effect on recurring charges related to the redemption of our common stock and our acquisition of Tanox, Inc. and recognition of deferred royalty revenue which the company forecasts to be approximately \$42 million in 2009, (iv) employee stock-based compensation expense, which the company forecasts to be in the range of \$0.20 to \$0.22 per share for 2009 on an after-tax basis, and (v) after tax costs incurred by the company on behalf of the Special Committee in connection with its review of the Roche 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 Roche Proposal, which the company cannot reasonably estimate for 2009 due to the uncertainty of the outcome of the Roche Proposal. Our 2009 GAAP EPS would include these 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, 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 greater than expected litigation-related and similar costs, changes in or adoption of accounting principles, changes in tax rates, the number of options granted to employees, and 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. Please also refer to the risk factors identified in Genentech's periodic reports filed with the Securities and Exchange Commission.

**GENENTECH, INC.**  
**SELECTED CONSOLIDATED FINANCIAL DATA**

*(In millions)*

*(Unaudited)*

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
<b>Selected consolidated balance sheet data:</b>		
Cash, cash equivalents and short-term investments	\$ 6,198	\$ 3,975
Accounts receivable - product sales, net	1,039	847
Accounts receivable - royalties, net	680	620
Accounts receivable - other, net	222	299
Inventories	1,299	1,493
Long-term marketable debt and equity securities	3,347	2,090
Property, plant and equipment, net	5,404	4,986
Goodwill	1,590	1,577
Other intangible assets	1,008	1,168
Other long-term assets	365	366
Total assets	21,787	18,940
Commercial paper	500	599
Total current liabilities	3,095	3,918
Long-term debt <sup>(1)</sup>	2,329	2,402
Total liabilities	6,116	7,035
Total stockholders' equity	15,671	11,905

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
<b>Selected consolidated cash flow data:</b>		
Capital expenditures <sup>(1)</sup>	\$ 751	\$ 977
Total GAAP depreciation and amortization expense	592	492
Less: redemption and acquisition related amortization expense <sup>(2)</sup>	<u>(172)</u>	<u>(132)</u>
Non-GAAP depreciation and amortization expense	<u>\$ 420</u>	<u>\$ 360</u>

(1) Capital expenditures exclude approximately \$117 million at December 31, 2008 and \$203 million at December 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 \$306 million at December 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 2007 acquisition of Tanox, Inc.