

GAAP vs. Non-GAAP Reconciliation 2008 & Beyond

Non-GAAP estimates for 2008 EPS and pretax operating margin and for EPS growth in 2006-2010 exclude the effects of redemption-related charges, litigation-related special items, employee stock-based compensation expense, and certain items associated with the acquisition of Tanox, Inc., including recognition of deferred royalty revenue and recurring amortization of intangible assets, described below, together with the related tax effects of excluding such items, as well as potential special charges related to existing or future litigation or its resolution or changes in or adoption of accounting principles, any of which may be significant.

Recurring Charges related to the Redemption:

GAAP financial measures include recurring amortization charges related to the redemption of our callable putable common stock by Roche and the related taxes. On a GAAP basis, the company forecasts these recurring charges to range from approximately \$104 million on a pretax basis in 2008 to approximately \$7 million on a pretax basis in 2010. The non-GAAP financial measures exclude the effects of these charges.

Special items — litigation related:

GAAP financial measures include the net litigation settlement related to the City of Hope judgment, which the company forecasts to be approximately \$300 million on a pretax basis in 2008. The non-GAAP financial measures exclude the effects of these special items.

Employee Stock-based Compensation Expense:

GAAP financial measures include employee stock-based compensation expense associated with Genentech's adoption of Statement of Financial Accounting Standards No. 123R on January 1, 2006, and the company forecasts the net of tax diluted EPS impact will be in the range of \$0.25 to \$0.27 per share for 2008. The non-GAAP financial measures exclude the effects of these special items.

Items related to the acquisition of Tanox, Inc.

GAAP financial measures include items related to the acquisition of Tanox, Inc., including recognition of deferred royalty revenue and recurring amortization of intangible assets. The non-GAAP financial measures exclude the effects of these special items. The company forecasts the annual recurring amortization charges of intangible assets to be approximately \$68 million on a pretax basis in 2008 through 2010, and the company forecasts the recognition of approximately \$15 million of deferred royalty revenue on a pretax basis in 2008 through 2010.

The income tax provision (benefit) on the above items is calculated based on the income or expense amounts multiplied by our expected effective tax rate.

The estimates of non-GAAP Cost of Sales, R&D, and MG&A expenses for 2008 exclude the effects of employee stock-based compensation expense.

Free Cash Flow:

Genentech's free cash flow measure is defined as cash from ongoing operations less gross capital expenditures. Cash from ongoing operations is derived from the "net cash provided by operating activities" line in our consolidated statements of cash flows excluding the effect of changes in the investment trading portfolio, but this number may be adjusted for items that would allow the measure to better reflect the operational performance of the Company. These adjustments include, for example, cash receipts or payments related to litigation settlements, investments in trading securities and other potential items, any of which may be significant.

For the six months ended June 30, 2008, cash from ongoing operations represents net cash provided by operating activities, excluding the effects of changes in the trading portfolio of \$16 million and the after-tax effect of the City of Hope litigation settlement payment of \$291 million. For the six months ended June 30, 2007, cash from ongoing operations represents net cash provided by operating activities, excluding the effect of changes in the trading portfolio of \$72 million.

The reconciliation above contains forward-looking statements regarding charges related to the 1999 Roche redemption of Genentech's common stock, litigation-related special items, employee stock-based compensation and the acquisition of Tanox, Inc. Such statements are predictions and involve risks and uncertainties and actual results may differ materially. Among other things, such charges could be affected by a number of factors including a re-valuation of certain intangible assets, greater than expected litigation-related costs, change in or adoption of accounting principles, the number of options granted to employees, Genentech's stock price and certain valuation assumptions concerning Genentech stock. Please also refer to Genentech's periodic reports filed with the Securities and Exchange Commission. Genentech disclaims, and does not undertake, any obligation to update or revise any forward-looking statements in this reconciliation.