

GILEAD SCIENCES, INC.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION
(in millions, except percentages and per share amounts)

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016
Cost of goods sold reconciliation:										
GAAP cost of goods sold	\$ 882	\$ 998	\$ 1,064	\$ 1,062	\$ 4,006	\$ 1,193	\$ 864	\$ 1,129	\$ 1,075	\$ 4,261
Acquisition related-amortization of purchased intangibles	(206)	(207)	(207)	(206)	(826)	(210)	(210)	(210)	(214)	(844)
Stock-based compensation expenses	(3)	(3)	(3)	(2)	(11)	(3)	(4)	(4)	(3)	(14)
Other ⁽¹⁾	1	—	2	3	6	3	3	3	2	11
Non-GAAP cost of goods sold	\$ 674	\$ 788	\$ 856	\$ 857	\$ 3,175	\$ 983	\$ 653	\$ 918	\$ 860	\$ 3,414
Product gross margin reconciliation:										
GAAP product gross margin	88.1 %	87.7 %	87.0 %	87.4 %	87.5 %	84.5 %	88.7 %	84.8 %	85.1 %	85.8 %
Acquisition related-amortization of purchased intangibles	2.8 %	2.5 %	2.5 %	2.4 %	2.6 %	2.7 %	2.7 %	2.8 %	3.0 %	2.8 %
Non-GAAP product gross margin ⁽²⁾	90.9 %	90.3 %	89.6 %	89.8 %	90.1 %	87.2 %	91.5 %	87.6 %	88.1 %	88.6 %
Research and development expenses reconciliation:										
GAAP research and development expenses	\$ 696	\$ 818	\$ 743	\$ 757	\$ 3,014	\$ 1,265	\$ 1,484	\$ 1,141	\$ 1,208	\$ 5,098
Up-front collaboration expenses	—	—	—	—	—	(368)	—	(5)	—	(373)
Acquisition related expenses-acquired IPR&D	—	(66)	—	—	(66)	—	(400)	—	—	(400)
Acquisition related-IPR&D impairment	—	—	—	—	—	(114)	—	(117)	(201)	(432)
Stock-based compensation expenses	(42)	(42)	(44)	(45)	(173)	(41)	(44)	(44)	(47)	(176)
Other ⁽¹⁾	(3)	(8)	14	67	70	27	—	6	(1)	52
Non-GAAP research and development expenses	\$ 651	\$ 702	\$ 713	\$ 779	\$ 2,845	\$ 769	\$ 1,040	\$ 981	\$ 959	\$ 3,749
Selling, general and administrative expenses reconciliation:										
GAAP selling, general and administrative expenses	\$ 645	\$ 812	\$ 903	\$ 1,066	\$ 3,426	\$ 685	\$ 890	\$ 831	\$ 992	\$ 3,398
Stock-based compensation expenses	(47)	(51)	(50)	(50)	(198)	(44)	(47)	(47)	(52)	(190)
Other ⁽¹⁾	2	—	(3)	(3)	(4)	(3)	(5)	(4)	(2)	(14)
Non-GAAP selling, general and administrative expenses	\$ 600	\$ 761	\$ 850	\$ 1,013	\$ 3,224	\$ 638	\$ 838	\$ 780	\$ 938	\$ 3,194
Operating margin reconciliation:										
GAAP operating margin	70.7 %	68.1 %	67.3 %	66.1 %	68.0 %	59.7 %	58.4 %	58.7 %	55.3 %	58.0 %
Up-front collaboration expenses	— %	— %	— %	— %	— %	4.7 %	— %	0.1 %	— %	1.2 %
Acquisition related-amortization of purchased intangibles	2.7 %	2.5 %	2.5 %	2.4 %	2.5 %	2.7 %	2.7 %	2.8 %	2.9 %	2.8 %
Acquisition related expenses-acquired IPR&D	— %	0.8 %	— %	— %	0.2 %	— %	5.1 %	— %	— %	1.3 %
Acquisition related-IPR&D impairment	— %	— %	— %	— %	— %	1.5 %	— %	1.6 %	2.7 %	1.4 %
Stock-based compensation expenses	1.2 %	1.2 %	1.2 %	1.1 %	1.1 %	1.1 %	1.2 %	1.3 %	1.4 %	1.3 %
Other ⁽¹⁾	— %	0.1 %	(0.2)%	(0.8)%	(0.2)%	(0.3)%	— %	(0.1)%	— %	(0.1)%
Non-GAAP operating margin ⁽²⁾	74.7 %	72.7 %	70.8 %	68.9 %	71.7 %	69.3 %	67.5 %	64.3 %	62.3 %	65.9 %
Other income (expense) reconciliation:										
GAAP other income (expense), net	\$ 21	\$ 35	\$ 52	\$ 46	\$ 154	\$ 81	\$ 88	\$ 119	\$ 140	\$ 428
Other ⁽¹⁾	—	—	1	—	1	—	—	—	—	—
Non-GAAP other income (expense), net	\$ 21	\$ 35	\$ 53	\$ 46	\$ 155	\$ 81	\$ 88	\$ 119	\$ 140	\$ 428
Effective tax rate reconciliation:										
GAAP effective tax rate	17.3 %	18.4 %	16.1 %	13.8 %	16.4 %	20.8 %	20.5 %	22.2 %	20.9 %	21.1 %
Up-front collaboration expenses	— %	— %	— %	— %	— %	(1.5)%	— %	— %	— %	(0.4)%
Acquisition related-amortization of purchased intangibles	(0.4)%	(0.5)%	(0.2)%	— %	(0.3)%	(0.7)%	(0.7)%	(0.4)%	(1.5)%	(0.8)%
Acquisition related expenses-acquired IPR&D	— %	(0.2)%	— %	— %	— %	— %	(1.5)%	— %	— %	(0.4)%
Stock-based compensation expenses	— %	— %	0.4 %	— %	0.1 %	— %	— %	— %	— %	— %
Other ⁽¹⁾	— %	— %	— %	0.1 %	— %	0.1 %	— %	— %	— %	— %
Non-GAAP effective tax rate ⁽²⁾	16.9 %	17.7 %	16.3 %	13.9 %	16.2 %	18.7 %	18.3 %	21.8 %	19.4 %	19.5 %
Net income attributable to Gilead reconciliation:										
GAAP net income attributable to Gilead	\$ 4,333	\$ 4,492	\$ 4,600	\$ 4,683	\$ 18,108	\$ 3,566	\$ 3,497	\$ 3,330	\$ 3,108	\$ 13,501
Up-front collaboration expenses	—	—	—	—	—	368	—	5	—	373
Acquisition related-amortization of purchased intangibles	201	202	202	203	808	204	204	204	206	818
Acquisition related expenses-acquired IPR&D	—	66	—	—	66	—	400	—	—	400
Acquisition related-IPR&D impairment	—	—	—	—	—	99	—	74	198	371
Stock-based compensation expenses	69	71	44	67	251	64	69	70	73	276
Other ⁽¹⁾	1	14	(10)	(64)	(59)	(27)	7	(6)	—	(26)
Non-GAAP net income attributable to Gilead	\$ 4,604	\$ 4,845	\$ 4,836	\$ 4,889	\$ 19,174	\$ 4,274	\$ 4,177	\$ 3,677	\$ 3,585	\$ 15,713
Diluted earnings per share reconciliation:										
GAAP diluted earnings per share	\$ 2.76	\$ 2.92	\$ 3.06	\$ 3.18	\$ 11.91	\$ 2.53	\$ 2.58	\$ 2.49	\$ 2.34	\$ 9.94
Up-front collaboration expenses	—	—	—	—	—	0.26	—	—	—	0.27
Acquisition related-amortization of purchased intangibles	0.13	0.13	0.13	0.14	0.53	0.14	0.15	0.15	0.16	0.60
Acquisition related expenses-acquired IPR&D	—	0.04	—	—	0.04	—	0.30	—	—	0.29
Acquisition related-IPR&D impairment	—	—	—	—	—	0.07	—	0.06	0.15	0.27
Stock-based compensation expenses	0.04	0.05	0.03	0.05	0.17	0.05	0.05	0.05	0.06	0.20
Other ⁽¹⁾	—	—	(0.01)	(0.04)	(0.04)	(0.02)	0.01	—	—	(0.02)
Non-GAAP diluted earnings per share ⁽²⁾	\$ 2.94	\$ 3.15	\$ 3.22	\$ 3.32	\$ 12.61	\$ 3.03	\$ 3.08	\$ 2.75	\$ 2.70	\$ 11.57
Shares used in per share calculation (diluted) reconciliation:										
GAAP shares used in per share calculation (diluted)	1,569	1,540	1,503	1,472	1,521	1,412	1,355	1,339	1,327	1,358
Share impact of current stock-based compensation rules	(1)	—	(1)	—	—	(1)	(1)	(1)	(1)	(1)
Non-GAAP shares used in per share calculation (diluted)	1,568	1,540	1,502	1,472	1,521	1,411	1,354	1,338	1,326	1,358
Non-GAAP adjustment summary:										
Cost of goods sold adjustments	\$ 208	\$ 210	\$ 208	\$ 205	\$ 831	\$ 210	\$ 211	\$ 211	\$ 215	\$ 847
Research and development expenses adjustments	45	116	30	(22)	169	496	444	160	249	1,349
Selling, general and administrative expenses adjustments	45	51	53	53	202	47	52	51	54	204
Other income (expense) adjustments	—	—	1	—	1	—	—	—	—	—
Total non-GAAP adjustments before tax	298	377	292	236	1,203	753	707	422	518	2,400
Income tax effect	(28)	(30)	(58)	(34)	(150)	(45)	(32)	(74)	(40)	(191)
Other ⁽¹⁾	1	6	2	4	13	—	5	(1)	(1)	3
Total non-GAAP adjustments after tax	\$ 271	\$ 353	\$ 236	\$ 206	\$ 1,066	\$ 708	\$ 680	\$ 347	\$ 477	\$ 2,212

Notes:

⁽¹⁾ Amounts related to consolidation of a contract manufacturer, contingent consideration and/or other individually insignificant amounts

⁽²⁾ Amounts may not sum due to rounding

Management believes the non-GAAP information presented above is useful for investors, taken in conjunction with Gilead's GAAP financial statements, because management uses such information internally for its operating, budgeting and financial planning purposes. Non-GAAP information is not prepared under a comprehensive set of accounting rules and should only be used to supplement an understanding of Gilead's operating results as reported under United States generally accepted accounting principles. Non-GAAP measures may be defined and calculated differently by other companies in the same industry.