

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

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016	Q1 2017	Q2 2017	Q3 2017	YTD 2017
Cost of goods sold reconciliation:									
GAAP cost of goods sold	\$ 1,193	\$ 864	\$ 1,129	\$ 1,075	\$ 4,261	\$ 957	\$ 1,126	\$ 1,032	\$ 3,115
Acquisition-related- amortization of purchased intangibles	(210)	(210)	(210)	(214)	(844)	(210)	(210)	(209)	(629)
Stock-based compensation expenses	(3)	(4)	(4)	(3)	(14)	(4)	(4)	(4)	(12)
Other ⁽¹⁾	3	3	3	2	11	—	(20)	2	(18)
Non-GAAP cost of goods sold	\$ 983	\$ 653	\$ 918	\$ 860	\$ 3,414	\$ 743	\$ 892	\$ 821	\$ 2,456
Product gross margin reconciliation:									
GAAP product gross margin	84.5 %	88.7 %	84.8 %	85.1 %	85.8 %	85.0 %	84.0 %	83.9 %	84.3 %
Acquisition-related- amortization of purchased intangibles	2.7 %	2.7 %	2.8 %	3.0 %	2.8 %	3.3 %	3.0 %	3.3 %	3.2 %
Other ⁽¹⁾	— %	— %	— %	— %	— %	— %	0.3 %	— %	0.1 %
Non-GAAP product gross margin ⁽²⁾	87.2 %	91.5 %	87.6 %	88.1 %	88.6 %	88.3 %	87.3 %	87.2 %	87.6 %
Research and development expenses reconciliation:									
GAAP research and development expenses	\$ 1,265	\$ 1,484	\$ 1,141	\$ 1,208	\$ 5,098	\$ 931	\$ 864	\$ 789	\$ 2,584
Up-front collaboration expenses	(368)	—	(5)	—	(373)	—	—	—	—
Acquisition-related expenses- acquired IPR&D	—	(400)	—	—	(400)	—	—	—	—
Acquisition-related- IPR&D impairment	(114)	—	(117)	(201)	(432)	—	—	—	—
Stock-based compensation expenses	(41)	(44)	(44)	(47)	(176)	(42)	(47)	(53)	(142)
Other ⁽¹⁾	27	—	6	(1)	32	—	(5)	9	4
Non-GAAP research and development expenses	\$ 769	\$ 1,040	\$ 981	\$ 959	\$ 3,749	\$ 889	\$ 812	\$ 745	\$ 2,446
Selling, general and administrative expenses reconciliation:									
GAAP selling, general and administrative expenses	\$ 685	\$ 890	\$ 831	\$ 992	\$ 3,398	\$ 850	\$ 897	\$ 879	\$ 2,626
Acquisition-related- transaction costs	—	—	—	—	—	—	—	(12)	(12)
Stock-based compensation expenses	(44)	(47)	(47)	(52)	(190)	(43)	(51)	(56)	(150)
Other ⁽¹⁾	(3)	(5)	(4)	(2)	(14)	—	(19)	(5)	(24)
Non-GAAP selling, general and administrative expenses	\$ 638	\$ 838	\$ 780	\$ 938	\$ 3,194	\$ 807	\$ 827	\$ 806	\$ 2,440
Operating margin reconciliation:									
GAAP operating margin	59.7 %	58.4 %	58.7 %	55.3 %	58.0 %	57.9 %	59.6 %	58.5 %	58.7 %
Up-front collaboration expenses	4.7 %	— %	0.1 %	— %	1.2 %	— %	— %	— %	— %
Acquisition-related- amortization of purchased intangibles	2.7 %	2.7 %	2.8 %	2.9 %	2.8 %	3.2 %	2.9 %	3.2 %	3.1 %
Acquisition-related expenses- acquired IPR&D	— %	5.1 %	— %	— %	1.3 %	— %	— %	— %	— %
Acquisition-related- IPR&D impairment	1.5 %	— %	1.6 %	2.7 %	1.4 %	— %	— %	— %	— %
Acquisition-related- transaction costs	— %	— %	— %	— %	— %	— %	— %	0.2 %	0.1 %
Stock-based compensation expenses	1.1 %	1.2 %	1.3 %	1.4 %	1.3 %	1.4 %	1.4 %	1.7 %	1.5 %
Other ⁽¹⁾	(0.3)%	— %	(0.1)%	— %	(0.1)%	— %	0.6 %	(0.1)%	0.2 %
Non-GAAP operating margin ⁽²⁾	69.3 %	67.5 %	64.3 %	62.3 %	65.9 %	62.5 %	64.6 %	63.6 %	63.6 %
Interest expense reconciliation:									
GAAP interest expense	\$ (230)	\$ (227)	\$ (242)	\$ (265)	\$ (964)	\$ (261)	\$ (269)	\$ (291)	\$ (821)
Acquisition-related- transaction costs	—	—	—	—	—	—	—	18	18
Non-GAAP income expense	\$ (230)	\$ (227)	\$ (242)	\$ (265)	\$ (964)	\$ (261)	\$ (269)	\$ (273)	\$ (803)
Effective tax rate reconciliation:									
GAAP effective tax rate	20.8 %	20.5 %	22.2 %	20.9 %	21.1 %	25.4 %	25.4 %	26.1 %	25.6 %
Up-front collaboration expenses	(1.5)%	— %	— %	— %	(0.4)%	— %	— %	— %	— %
Acquisition-related- amortization of purchased intangibles	(0.7)%	(0.7)%	(0.4)%	(1.5)%	(0.8)%	(1.2)%	(1.1)%	(1.2)%	(1.2)%
Acquisition-related expenses- acquired IPR&D	— %	(1.5)%	— %	— %	(0.4)%	— %	— %	— %	— %
Stock-based compensation expenses ⁽³⁾	— %	— %	— %	— %	— %	0.6 %	0.5 %	0.8 %	0.6 %
Other ⁽¹⁾	0.1 %	— %	— %	— %	— %	— %	(0.1)%	— %	— %
Non-GAAP effective tax rate ⁽²⁾	18.7 %	18.3 %	21.8 %	19.4 %	19.5 %	24.8 %	24.7 %	25.7 %	25.0 %
Net income attributable to Gilead reconciliation:									
GAAP net income attributable to Gilead	\$ 3,566	\$ 3,497	\$ 3,330	\$ 3,108	\$ 13,501	\$ 2,702	\$ 3,073	\$ 2,718	\$ 8,493
Up-front collaboration expenses	368	—	5	—	373	—	—	—	—
Acquisition-related- amortization of purchased intangibles	204	204	204	206	818	202	202	201	605
Acquisition-related expenses- acquired IPR&D	—	400	—	—	400	—	—	—	—
Acquisition-related- IPR&D impairment	99	—	74	198	371	—	—	—	—
Acquisition-related- transaction costs	—	—	—	—	—	—	—	24	24
Stock-based compensation expenses ⁽³⁾	64	69	70	73	276	45	61	55	161
Other ⁽¹⁾	(27)	7	(6)	—	(26)	—	36	(8)	28
Non-GAAP net income attributable to Gilead	\$ 4,274	\$ 4,177	\$ 3,677	\$ 3,585	\$ 15,713	\$ 2,949	\$ 3,372	\$ 2,990	\$ 9,311
Diluted earnings per share reconciliation:									
GAAP diluted earnings per share	\$ 2.53	\$ 2.58	\$ 2.49	\$ 2.34	\$ 9.94	\$ 2.05	\$ 2.33	\$ 2.06	\$ 6.44
Up-front collaboration expenses	0.26	—	—	—	0.27	—	—	—	—
Acquisition-related- amortization of purchased intangibles	0.14	0.15	0.15	0.16	0.60	0.15	0.15	0.15	0.46
Acquisition-related expenses- acquired IPR&D	—	0.30	—	—	0.29	—	—	—	—
Acquisition-related- IPR&D impairment	0.07	—	0.06	0.15	0.27	—	—	—	—
Acquisition-related- transaction costs	—	—	—	—	—	—	—	0.02	0.02
Stock-based compensation expenses ⁽³⁾	0.05	0.05	0.05	0.06	0.20	0.03	0.05	0.04	0.12
Other ⁽¹⁾	(0.02)	0.01	—	—	(0.02)	—	0.03	(0.01)	0.02
Non-GAAP diluted earnings per share ⁽²⁾	\$ 3.03	\$ 3.08	\$ 2.75	\$ 2.70	\$ 11.57	\$ 2.23	\$ 2.56	\$ 2.27	\$ 7.06
Shares used in per share calculation (diluted)									
	1,412	1,355	1,339	1,327	1,358	1,320	1,317	1,319	1,319
Non-GAAP adjustment summary:									
Cost of goods sold adjustments	\$ 210	\$ 211	\$ 211	\$ 215	\$ 847	\$ 214	\$ 234	\$ 211	\$ 659
Research and development expenses adjustments	496	444	160	249	1,349	42	52	44	138
Selling, general and administrative expenses adjustments	47	52	51	54	204	43	70	73	186
Interest expense adjustments	—	—	—	—	—	—	—	18	18
Total non-GAAP adjustments before tax	753	707	422	518	2,400	299	356	346	1,001
Income tax effect ⁽³⁾	(45)	(32)	(74)	(40)	(191)	(52)	(57)	(74)	(183)
Other ⁽¹⁾	—	5	(1)	(1)	3	—	—	—	—
Total non-GAAP adjustments after tax	\$ 708	\$ 680	\$ 347	\$ 477	\$ 2,212	\$ 247	\$ 299	\$ 272	\$ 818

Notes:

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

⁽²⁾ Amounts may not sum due to rounding

⁽³⁾ Income tax effect related to stock-based compensation expenses for the three and nine months ended September 30, 2017 include the incremental tax benefit of \$27 million and \$60 million, respectively, recognized from the adoption of Accounting Standards Update 2016-09 "Improvements to Employee Share-Based Payment Accounting"

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.