

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
Cost of goods sold reconciliation:						
GAAP cost of goods sold	\$ 1,193	\$ 864	\$ 1,129	\$ 1,075	\$ 4,261	\$ 957
Acquisition related-amortization of purchased intangibles	(210)	(210)	(210)	(214)	(844)	(210)
Stock-based compensation expenses	(3)	(4)	(4)	(3)	(14)	(4)
Other ⁽¹⁾	3	3	3	2	11	—
Non-GAAP cost of goods sold	\$ 983	\$ 653	\$ 918	\$ 860	\$ 3,414	\$ 743
Product gross margin reconciliation:						
GAAP product gross margin	84.5 %	88.7 %	84.8 %	85.1 %	85.8 %	85.0 %
Acquisition related-amortization of purchased intangibles	2.7 %	2.7 %	2.8 %	3.0 %	2.8 %	3.3 %
Non-GAAP product gross margin ⁽²⁾	87.2 %	91.5 %	87.6 %	88.1 %	88.6 %	88.3 %
Research and development expenses reconciliation:						
GAAP research and development expenses	\$ 1,265	\$ 1,484	\$ 1,141	\$ 1,208	\$ 5,098	\$ 931
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)
Other ⁽¹⁾	27	—	6	(1)	32	—
Non-GAAP research and development expenses	\$ 769	\$ 1,040	\$ 981	\$ 959	\$ 3,749	\$ 889
Selling, general and administrative expenses reconciliation:						
GAAP selling, general and administrative expenses	\$ 685	\$ 890	\$ 831	\$ 992	\$ 3,398	\$ 850
Stock-based compensation expenses	(44)	(47)	(47)	(52)	(190)	(43)
Other ⁽¹⁾	(3)	(5)	(4)	(2)	(14)	—
Non-GAAP selling, general and administrative expenses	\$ 638	\$ 838	\$ 780	\$ 938	\$ 3,194	\$ 807
Operating margin reconciliation:						
GAAP operating margin	59.7 %	58.4 %	58.7 %	55.3 %	58.0 %	57.9 %
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 %
Acquisition related expenses-acquired IPR&D	— %	5.1 %	— %	— %	1.3 %	— %
Acquisition related-IPR&D impairment	1.5 %	— %	1.6 %	2.7 %	1.4 %	— %
Stock-based compensation expenses	1.1 %	1.2 %	1.3 %	1.4 %	1.3 %	1.4 %
Other ⁽¹⁾	(0.3)%	— %	(0.1)%	— %	(0.1)%	— %
Non-GAAP operating margin ⁽²⁾	69.3 %	67.5 %	64.3 %	62.3 %	65.9 %	62.5 %
Effective tax rate reconciliation:						
GAAP effective tax rate	20.8 %	20.5 %	22.2 %	20.9 %	21.1 %	25.4 %
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)%
Acquisition related expenses-acquired IPR&D	— %	(1.5)%	— %	— %	(0.4)%	— %
Stock-based compensation expenses ⁽³⁾	— %	— %	— %	— %	— %	0.6 %
Other ⁽¹⁾	0.1 %	— %	— %	— %	— %	— %
Non-GAAP effective tax rate ⁽²⁾	18.7 %	18.3 %	21.8 %	19.4 %	19.5 %	24.8 %
Net income attributable to Gilead reconciliation:						
GAAP net income attributable to Gilead	\$ 3,566	\$ 3,497	\$ 3,330	\$ 3,108	\$ 13,501	\$ 2,702
Up-front collaboration expenses	368	—	5	—	373	—
Acquisition related-amortization of purchased intangibles	204	204	204	206	818	202
Acquisition related expenses-acquired IPR&D	—	400	—	—	400	—
Acquisition related-IPR&D impairment	99	—	74	198	371	—
Stock-based compensation expenses ⁽³⁾	64	69	70	73	276	45
Other ⁽¹⁾	(27)	7	(6)	—	(26)	—
Non-GAAP net income attributable to Gilead	\$ 4,274	\$ 4,177	\$ 3,677	\$ 3,585	\$ 15,713	\$ 2,949
Diluted earnings per share reconciliation:						
GAAP diluted earnings per share	\$ 2.53	\$ 2.58	\$ 2.49	\$ 2.34	\$ 9.94	\$ 2.05
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
Acquisition related expenses-acquired IPR&D	—	0.30	—	—	0.29	—
Acquisition related-IPR&D impairment	0.07	—	0.06	0.15	0.27	—
Stock-based compensation expenses ⁽³⁾	0.05	0.05	0.05	0.06	0.20	0.03
Other ⁽¹⁾	(0.02)	0.01	—	—	(0.02)	—
Non-GAAP diluted earnings per share ⁽²⁾	\$ 3.03	\$ 3.08	\$ 2.75	\$ 2.70	\$ 11.57	\$ 2.23
Shares used in per share calculation (diluted)						
	1,412	1,355	1,339	1,327	1,358	1,320
Non-GAAP adjustment summary:						
Cost of goods sold adjustments	\$ 210	\$ 211	\$ 211	\$ 215	\$ 847	\$ 214
Research and development expenses adjustments	496	444	160	249	1,349	42
Selling, general and administrative expenses adjustments	47	52	51	54	204	43
Total non-GAAP adjustments before tax	753	707	422	518	2,400	299
Income tax effect ⁽³⁾	(45)	(32)	(74)	(40)	(191)	(52)
Other ⁽¹⁾	—	5	(1)	(1)	3	—
Total non-GAAP adjustments after tax	\$ 708	\$ 680	\$ 347	\$ 477	\$ 2,212	\$ 247

Notes:

⁽¹⁾ Amounts related to 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 months ended March 31, 2017 include the incremental tax benefit of \$20 million 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.