

GILEAD SCIENCES, INC.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION

(unaudited)

(in millions, except percentages and per share amounts)

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY 2018
Cost of goods sold reconciliation:										
GAAP cost of goods sold	\$ 957	\$ 1,126	\$ 1,032	\$ 1,256	\$ 4,371	\$ 1,001	\$ 1,196	\$ 1,086	\$ 1,570	\$ 4,853
Acquisition-related – amortization of purchased intangibles	(210)	(210)	(209)	(283)	(912)	(301)	(300)	(301)	(301)	(1,203)
Stock-based compensation expenses ⁽¹⁾	(4)	(4)	(4)	(12)	(24)	(13)	(21)	(15)	(12)	(61)
Other ⁽²⁾	—	(20)	2	5	(13)	—	—	1	—	1
Non-GAAP cost of goods sold	<u>\$ 743</u>	<u>\$ 892</u>	<u>\$ 821</u>	<u>\$ 966</u>	<u>\$ 3,422</u>	<u>\$ 687</u>	<u>\$ 875</u>	<u>\$ 771</u>	<u>\$ 1,257</u>	<u>\$ 3,590</u>
Product gross margin reconciliation:										
GAAP product gross margin	85.0 %	84.0 %	83.9 %	78.5 %	83.0 %	80.0 %	78.4 %	80.1 %	72.4 %	77.6 %
Acquisition-related – amortization of purchased intangibles	3.3 %	3.0 %	3.3 %	4.8 %	3.6 %	6.0 %	5.4 %	5.5 %	5.3 %	5.5 %
Stock-based compensation expenses ⁽¹⁾	— %	— %	— %	0.2 %	0.1 %	0.3 %	0.4 %	0.3 %	0.2 %	0.3 %
Other ⁽²⁾	— %	0.3 %	— %	(0.1)%	0.1 %	— %	— %	— %	— %	— %
Non-GAAP product gross margin ⁽⁷⁾	<u>88.3 %</u>	<u>87.3 %</u>	<u>87.2 %</u>	<u>83.5 %</u>	<u>86.7 %</u>	<u>86.3 %</u>	<u>84.2 %</u>	<u>85.9 %</u>	<u>77.9 %</u>	<u>83.4 %</u>
Research and development expenses reconciliation:										
GAAP research and development expenses	\$ 931	\$ 864	\$ 789	\$ 1,150	\$ 3,734	\$ 937	\$ 1,192	\$ 939	\$ 1,950	\$ 5,018
Up-front collaboration expenses	—	—	—	—	—	—	(160)	—	(118)	(278)
Acquisition-related – acquired IPR&D	—	—	—	(222)	(222)	—	—	—	—	—
Acquisition-related – IPR&D impairment	—	—	—	—	—	—	—	—	(820)	(820)
Acquisition-related – other costs	—	—	—	(8)	(8)	(16)	(9)	3	1	(21)
Stock-based compensation expenses ⁽¹⁾	(42)	(47)	(53)	(90)	(232)	(103)	(102)	(99)	(75)	(379)
Other ⁽²⁾	—	(5)	9	15	19	(4)	—	1	1	(2)
Non-GAAP research and development expenses	<u>\$ 889</u>	<u>\$ 812</u>	<u>\$ 745</u>	<u>\$ 845</u>	<u>\$ 3,291</u>	<u>\$ 814</u>	<u>\$ 921</u>	<u>\$ 844</u>	<u>\$ 939</u>	<u>\$ 3,518</u>
Selling, general and administrative expenses reconciliation:										
GAAP selling, general and administrative expenses	\$ 850	\$ 897	\$ 879	\$ 1,252	\$ 3,878	\$ 997	\$ 980	\$ 948	\$ 1,131	\$ 4,056
Acquisition-related – transaction costs	—	—	(12)	(36)	(48)	—	—	—	—	—
Acquisition-related – other costs	—	—	—	(46)	(46)	(6)	(9)	(8)	(1)	(24)
Stock-based compensation expenses ⁽¹⁾	(43)	(51)	(56)	(243)	(393)	(104)	(129)	(84)	(88)	(405)
Other ⁽²⁾	—	(19)	(5)	(4)	(28)	(3)	(2)	(4)	(10)	(19)
Non-GAAP selling, general and administrative expenses	<u>\$ 807</u>	<u>\$ 827</u>	<u>\$ 806</u>	<u>\$ 923</u>	<u>\$ 3,363</u>	<u>\$ 884</u>	<u>\$ 840</u>	<u>\$ 852</u>	<u>\$ 1,032</u>	<u>\$ 3,608</u>
Operating margin reconciliation:										
GAAP operating margin	57.9 %	59.6 %	58.5 %	38.5 %	54.1 %	42.3 %	40.4 %	46.9 %	19.7 %	37.1 %
Up-front collaboration expenses	— %	— %	— %	— %	— %	— %	2.8 %	— %	2.0 %	1.3 %
Acquisition-related – amortization of purchased intangibles	3.2 %	2.9 %	3.2 %	4.8 %	3.5 %	5.9 %	5.3 %	5.4 %	5.2 %	5.4 %
Acquisition-related – acquired IPR&D	— %	— %	— %	3.7 %	0.9 %	— %	— %	— %	— %	— %
Acquisition-related – IPR&D impairment	— %	— %	— %	— %	— %	— %	— %	— %	14.2 %	3.7 %
Acquisition-related – transaction costs	— %	— %	0.2 %	0.6 %	0.2 %	— %	— %	— %	— %	— %
Acquisition-related – other costs	— %	— %	— %	0.9 %	0.2 %	0.4 %	0.3 %	0.1 %	— %	0.2 %
Stock-based compensation expenses ⁽¹⁾	1.4 %	1.4 %	1.7 %	5.8 %	2.5 %	4.3 %	4.5 %	3.5 %	3.0 %	3.8 %
Other ⁽²⁾	— %	0.6 %	(0.1)%	(0.3)%	0.1 %	0.1 %	— %	— %	0.2 %	0.1 %
Non-GAAP operating margin ⁽⁷⁾	<u>62.5 %</u>	<u>64.6 %</u>	<u>63.6 %</u>	<u>54.0 %</u>	<u>61.4 %</u>	<u>53.1 %</u>	<u>53.3 %</u>	<u>55.9 %</u>	<u>44.3 %</u>	<u>51.6 %</u>
Interest expense reconciliation:										
GAAP interest expense	\$ (261)	\$ (269)	\$ (291)	\$ (297)	\$ (1,118)	\$ (290)	\$ (266)	\$ (264)	\$ (257)	\$ (1,077)
Acquisition-related – transaction costs	—	—	18	—	18	—	—	—	—	—
Non-GAAP interest expense	<u>\$ (261)</u>	<u>\$ (269)</u>	<u>\$ (273)</u>	<u>\$ (297)</u>	<u>\$ (1,100)</u>	<u>\$ (290)</u>	<u>\$ (266)</u>	<u>\$ (264)</u>	<u>\$ (257)</u>	<u>\$ (1,077)</u>

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Other income (expense), net reconciliation:										
GAAP other income (expense), net	\$ 111	\$ 130	\$ 150	\$ 132	\$ 523	\$ 170	\$ 72	\$ 305	\$ 129	\$ 676
Unrealized (gains) losses from marketable equity securities ⁽³⁾	—	—	—	—	—	(45)	64	(168)	34	(115)
Non-GAAP other income (expense), net	<u>\$ 111</u>	<u>\$ 130</u>	<u>\$ 150</u>	<u>\$ 132</u>	<u>\$ 523</u>	<u>\$ 125</u>	<u>\$ 136</u>	<u>\$ 137</u>	<u>\$ 163</u>	<u>\$ 561</u>
Effective tax rate reconciliation:										
GAAP effective tax rate	25.4 %	25.4 %	26.1 %	280.5 %	65.7 %	24.3 %	12.8 %	21.2 %	99.6 %	30.0 %
Up-front collaboration expenses	— %	— %	— %	— %	— %	— %	0.7 %	— %	(0.3)%	0.1 %
Acquisition-related – amortization of purchased intangibles	(1.2)%	(1.1)%	(1.2)%	(1.1)%	(1.2)%	(2.3)%	(0.8)%	(1.5)%	(6.5)%	(2.0)%
Acquisition-related – acquired IPR&D	— %	— %	— %	(2.1)%	(0.4)%	— %	— %	— %	— %	— %
Acquisition-related – IPR&D impairment	— %	— %	— %	— %	— %	— %	— %	— %	(4.0)%	(0.5)%
Acquisition-related – transaction costs	— %	— %	— %	0.2 %	— %	— %	— %	— %	— %	— %
Acquisition-related – other costs	— %	— %	— %	0.3 %	— %	(0.1)%	0.1 %	— %	— %	— %
Stock-based compensation expenses ⁽¹⁾	0.6 %	0.5 %	0.8 %	2.6 %	0.8 %	0.3 %	0.7 %	(1.0)%	(0.2)%	(0.1)%
Unrealized (gains) losses from marketable equity securities ⁽³⁾	— %	— %	— %	— %	— %	0.6 %	(0.4)%	1.3 %	(5.2)%	(0.1)%
Discrete tax charge ⁽⁵⁾	— %	— %	— %	— %	— %	— %	— %	— %	(57.9)%	(7.5)%
Tax Reform impact ⁽⁶⁾	— %	— %	— %	(258.3)%	(40.6)%	— %	0.5 %	— %	(1.4)%	(0.1)%
Other ⁽²⁾	— %	(0.1)%	— %	0.2 %	— %	— %	— %	— %	— %	— %
Non-GAAP effective tax rate ⁽⁷⁾	<u>24.8 %</u>	<u>24.7 %</u>	<u>25.7 %</u>	<u>22.2 %</u>	<u>24.5 %</u>	<u>22.8 %</u>	<u>13.4 %</u>	<u>19.9 %</u>	<u>24.2 %</u>	<u>19.8 %</u>
Net income (loss) attributable to Gilead reconciliation:										
GAAP net income (loss) attributable to Gilead	\$ 2,702	\$ 3,073	\$ 2,718	\$ (3,865)	\$ 4,628	\$ 1,538	\$ 1,817	\$ 2,097	\$ 3	\$ 5,455
Up-front collaboration expenses	—	—	—	—	—	—	125	—	91	216
Acquisition-related – amortization of purchased intangibles	202	202	201	246	851	281	281	281	281	1,124
Acquisition-related – acquired IPR&D	—	—	—	222	222	—	—	—	—	—
Acquisition-related – IPR&D impairment	—	—	—	—	—	—	—	—	696	696
Acquisition-related – transaction costs	—	—	24	24	48	—	—	—	—	—
Acquisition-related – other costs	—	—	—	36	36	18	14	4	—	36
Stock-based compensation expenses ⁽¹⁾	45	61	55	208	369	160	202	184	135	681
Unrealized (gains) losses from marketable equity securities ⁽³⁾	—	—	—	—	—	(45)	63	(164)	59	(87)
Discrete tax charge ⁽⁵⁾	—	—	—	—	—	—	—	—	588	588
Tax Reform impact ⁽⁶⁾	—	—	—	5,490	5,490	—	(10)	—	14	4
Other ⁽²⁾	—	36	(8)	(18)	10	6	2	1	6	15
Non-GAAP net income attributable to Gilead	<u>\$ 2,949</u>	<u>\$ 3,372</u>	<u>\$ 2,990</u>	<u>\$ 2,343</u>	<u>\$ 11,654</u>	<u>\$ 1,958</u>	<u>\$ 2,494</u>	<u>\$ 2,403</u>	<u>\$ 1,873</u>	<u>\$ 8,728</u>
Diluted earnings / (loss) per share reconciliation:										
GAAP diluted earnings / (loss) per share ⁽⁴⁾	\$ 2.05	\$ 2.33	\$ 2.06	\$ (2.96)	\$ 3.51	\$ 1.17	\$ 1.39	\$ 1.60	\$ 0.00	\$ 4.17
Up-front collaboration expenses	—	—	—	—	—	—	0.10	—	0.07	0.17
Acquisition-related – amortization of purchased intangibles	0.15	0.15	0.15	0.19	0.65	0.21	0.21	0.21	0.22	0.86
Acquisition-related – acquired IPR&D	—	—	—	0.17	0.17	—	—	—	—	—
Acquisition-related – IPR&D impairment	—	—	—	—	—	—	—	—	0.54	0.53
Acquisition-related – transaction costs	—	—	0.02	0.02	0.04	—	—	—	—	—
Acquisition-related – other costs	—	—	—	0.03	0.03	0.01	0.01	—	—	0.03
Stock-based compensation expenses ⁽¹⁾	0.03	0.05	0.04	0.16	0.28	0.12	0.15	0.14	0.10	0.52
Unrealized (gains) losses from marketable equity securities ⁽³⁾	—	—	—	—	—	(0.03)	0.05	(0.13)	0.05	(0.07)
Discrete tax charge ⁽⁵⁾	—	—	—	—	—	—	—	—	0.45	0.45
Tax Reform impact ⁽⁶⁾	—	—	—	4.16	4.16	—	(0.01)	—	0.01	—
Other ⁽²⁾	—	0.03	(0.01)	(0.01)	0.01	—	—	—	—	0.01
Non-GAAP diluted earnings per share ⁽⁷⁾	<u>\$ 2.23</u>	<u>\$ 2.56</u>	<u>\$ 2.27</u>	<u>\$ 1.78</u>	<u>\$ 8.84</u>	<u>\$ 1.48</u>	<u>\$ 1.91</u>	<u>\$ 1.84</u>	<u>\$ 1.44</u>	<u>\$ 6.67</u>

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	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY 2018
Non-GAAP adjustment summary:										
Cost of goods sold adjustments	\$ 214	\$ 234	\$ 211	\$ 290	\$ 949	\$ 314	\$ 321	\$ 315	\$ 313	\$ 1,263
Research and development expenses adjustments	42	52	44	305	443	123	271	95	1,011	1,500
Selling, general and administrative expenses adjustments	43	70	73	329	515	113	140	96	99	448
Interest expense adjustments	—	—	18	—	18	—	—	—	—	—
Other income (expense), net adjustments	—	—	—	—	—	(45)	64	(168)	34	(115)
Total non-GAAP adjustments before tax	299	356	346	924	1,925	505	796	338	1,457	3,096
Income tax effect	(52)	(57)	(74)	(206)	(389)	(85)	(109)	(32)	(189)	(415)
Discrete tax charge ⁽⁵⁾	—	—	—	—	—	—	—	—	588	588
Tax Reform impact ⁽⁶⁾	—	—	—	5,490	5,490	—	(10)	—	14	4
Total non-GAAP adjustments after tax	\$ 247	\$ 299	\$ 272	\$ 6,208	\$ 7,026	\$ 420	\$ 677	\$ 306	\$ 1,870	\$ 3,273

Notes:

- ⁽¹⁾ Amounts include stock-based compensation expenses associated with the acquisition of Kite, which were \$44 million and \$367 million for the three and twelve months ended December 31, 2018, respectively, and \$238 million for both the three and twelve months ended December 31, 2017
- ⁽²⁾ Amounts related to restructuring, contingent consideration and/or other individually insignificant amounts
- ⁽³⁾ Amounts represent fair value adjustments of marketable equity securities recorded in Other income (expense), net, on Gilead's Condensed Consolidated Statements of Income as a result of the adoption of Accounting Standards Update No. 2016-01 "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" in 2018
- ⁽⁴⁾ Shares used in loss per share calculation for the three months ended December 31, 2017 exclude 13 million shares from dilutive equity awards
- ⁽⁵⁾ Amount represents a deferred tax charge resulting from a transfer of acquired intangible assets between wholly owned subsidiaries
- ⁽⁶⁾ Amounts represent impact from the enactment of the 2017 Tax Cuts and Jobs Act (Tax Reform)
- ⁽⁷⁾ 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 U.S. generally accepted accounting principles. Non-GAAP measures may be defined and calculated differently by other companies in the same industry.