

SCIENCE IS...

Charles Hoffman experienced an acute ischemic stroke and was quickly taken to the emergency room and treated with Activase. He has since recovered with no signs of damage from the stroke.



visionary

February 27, 1998

Dear Stockholder,

"What science is..."

At Genentech, science is at the root of everything we do. We intentionally create an environment that encourages scientific excellence. Yet we also purposefully target our science to produce therapeutic products that not only represent significant medical advances, but also could yield a strong growth rate for our company and our investors. Harnessing scientific excellence is only the beginning. Our efforts must benefit mankind and the people who invest their time, money and hope in our capability to deliver important new products.



Arthur D. Levinson, Ph.D.  
President and CEO

The adjectives that head the sections of this report describe science at Genentech. These characteristics of our scientific effort create apt headings for all we do. In a short span of just over two decades at the end of the 20th century, we at Genentech changed the lives of hundreds of thousands of people. In the 21st century, we hope to benefit many more. This is our vision today. It is rooted in many of the ideals that drove Genentech's founding and that have been appropriately modified and enhanced for the coming millennium.

In 1995, we began charting our course into the next century with a four-point strategy for growth. It set a direction for our marketed products, our product development efforts, our business relationships and our financial returns. In 1997 we started to see this strategy realized, with many tangible results. In sum, 1997 was a very good year for Genentech, with much progress made toward our short- and long-term objectives.

In the area of marketed products, we retained strong positions against increased competition in our two main markets — growth hormone therapy and thrombolytic therapy (see page 21). We received three approvals for two new indications for certain of our growth hormone products: short stature associated with Turner syndrome for Nutropin AQ and growth hormone deficiency in adults for Nutropin and Nutropin AQ.

**GENENTECH'S ORIGINAL VISION CONTINUES TODAY: TO COMMERCIALIZE RECOMBINANT DNA TECHNOLOGY EFFECTIVELY FOR THE BETTERMENT OF MANKIND WHILE WORKING TO PROVIDE ENVIABLE GROWTH AND RETURN TO INVESTORS. THIS VISION LAUNCHED THE COMPANY, GAVE BIRTH TO AN INDUSTRY, AND NOW OFFERS THE OPPORTUNITY TO POSITION GENENTECH AS THE PREMIER BIOTECHNOLOGY COMPANY THAT DELIVERS THE RESULTS OF ITS VISION AND HARD WORK.**

We also entered an important new market: oncology. With our partner IDEC Pharmaceuticals Corporation, we received approval for and launched a new cancer product, Rituxan, for the treatment of certain non-

Hodgkin's lymphomas. Rituxan is the first monoclonal antibody approved for therapeutic use in cancer in the United States. It also represents the first new medicine we marketed as part of our new BioOncology initiative. Launched in 1997, this initiative also includes the potential oncology products we have in clinical development, with which we made good progress during the year. For example, following the completion of Phase III trials, we are currently preparing regulatory filings of Herceptin seeking approval for the treatment of breast cancer. We also began clinical safety trials with an antibody to vascular endothelial growth factor (VEGF). Anti-VEGF has potential in treating a variety of solid tumors.

I believe that Herceptin and the anti-VEGF antibody — both humanized monoclonal antibodies — exemplify the vision of Genentech scientists. Several years ago, our scientists led

the effort to create monoclonal antibodies that are humanized so the human body can accept them. On their conviction, we pursued development of a number of these antibodies. Today, our scientists' vision is beginning to bear fruit as we progress in the clinical development of several of these antibodies.

Our BioOncology initiative reflects our plan to focus on specific therapeutic areas that leverage our existing strengths. Other areas of therapeutic focus are cardiovascular medicine and endocrinology, both of which build on our long-term marketing and clinical leadership in these areas. A fourth area of therapeutic focus we call opportunistic — meaning we will continue to pursue exciting opportunities that fall outside our three main areas of focus.

An example is our anti-IgE antibody, another humanized monoclonal antibody. With our partners Novartis AG and Tanox Biosystems, Inc., we have begun pivotal Phase III trials of this antibody for the treatment of allergic asthma.

As the efforts I mentioned with IDEC, Novartis and Tanox demonstrate, strategic alliances are a fundamental component of our strategy. In 1997, we initiated or enhanced several relationships that bring new potential products into our pipeline, including one with Alteon, Inc. This agreement is for the continued development and marketing of Alteon's pimagedine, which is currently in Phase III trials for the potential treatment of the kidney complications associated with diabetes. This molecule fits well in our endocrinology focus. It also complements our own potential medicine for the treatment of another complication of diabetes: nerve growth factor, which is in Phase III trials for the potential treatment of diabetic neuropathy.

Our most significant alliance is with Roche. We collaborate with Roche on several research and development projects, yet we remain operationally independent. During 1997, we agreed to changes in the 1995 ex-U.S. license agreement with Roche, to the benefit of both companies. For the Genentech development projects that Roche opts to develop outside the United States, these changes should better align shared costs and rights with each company's risk.

**“Our goal is to operate as a stand-alone business apart from the put and call.”**

I have touched upon only a few of our accomplishments of 1997. I encourage you to visit the other sections of this report to read about our many other marketed and clinical products and the hope and opportunity they offer.

All of our key accomplishments for the year stem from the four-point strategy we implemented in 1995, which still guides us today. This strategy continues to support our goal to operate as a stand-alone business apart from the put and call. I believe that the fact that our stock price exceeded the \$60 put price in December 1997, a year-and-a-half before stockholders will have the option to put at that price if Roche has not exercised its call option, suggests that our goal to remain functionally independent is realistic.

Our four-point strategy has successfully charted our direction of growth. In 1997, we furthered our vision by also charting our pace of progress into the next century. We refined our Long-Range Plan (LRP) to achieve our objectives. With our LRP we set specific quantitative goals to grow revenues and profits, as we strive for increased earnings growth in 1998 and sustained growth as we move into the next century.

**“Based on our considerable progress to date, we are well on track to meeting our goals.”**

Another Genentech success in 1997 goes right to the heart of our LRP and could, over time, have a significant impact on our bottom line. During the year we implemented or enhanced many efforts geared toward operating every area of the company in as productive and cost-efficient a manner as possible. (For an example of such an initiative, please see page 29.) Such efforts represent a significant part of our plan to build real value in Genentech for all our stockholders.

I realize it will take discipline to accomplish the LRP’s objectives. I and the rest of Genentech’s management team are committed to its targets and benchmarks. Appointments and promotions during the year rounded out our management team to give it the necessary breadth and depth of experience, talent and vision to meet our objectives. Two Genentech veterans with long records of success took on new top-level executive roles: William D. Young was promoted to chief operating officer from executive vice president and Louis J. Lavigne, Jr. was promoted to executive vice president from senior vice president, and continues as chief financial officer. Our Development group gained solid leadership as Susan D. Hellmann, M.D., M.P.H., was promoted to that function’s senior vice president and as John Curd, M.D., was promoted to vice president — Clinical Development. Two long-time Genentech scientists now head up key R&D functions: Joffre B. Baker, Ph.D., as vice president — Research Discovery, and Paula Jardieu, Ph.D., as vice president — Pharmacological Sciences. We promoted another long-time Genentech employee, John M. Whiting, to controller. Two other long-time employees assumed new roles: James P. Panek added Manufacturing to his existing responsibilities to become vice president — Manufacturing, Engineering and Facilities, and Robert Garnick, Ph.D., assumed responsibility for Regulatory Affairs as that function’s vice president. And we hired Lars Barfod to head up our Marketing department as its vice president. I have confidence in Genentech’s management team, and all members have given me their complete commitment to our LRP.

**“We are realizing the value of our pipeline as we deliver more important new medicines to people who need them.”**

I firmly believe Genentech’s employees are ready and able to rise to our objectives. Based on our considerable progress to date, we are well on track to meeting our goals. We are realizing the value of our pipeline as we deliver more important new medicines to people who need them. We have made substantial progress toward increasing value to our stockholders. We are proud of our efforts in 1997. As we continue to achieve our milestones and growth projections, we look to you for your continued support now and into the next century as you share with us the realization of our vision.

Sincerely,

/s/ Arthur D. Levinson

**Arthur D. Levinson, Ph.D.**

President and Chief Executive Officer