

dear stockholders

2003 was an exciting year for Genentech, with significant accomplishments and important developments in all areas of our business.

In looking at the performance of the company over the last decade, it's clear that the successes of 2003 were the result of many years of effort and our long-standing commitment to several important research and development initiatives. Project timelines in biotechnology can span up to 15 years, so what we've seen in 2003 is a convergence of success for a few well-calculated long-term investments, as well as a continuation of our 28-year track record of transforming innovative science into breakthrough therapies for patients. And, while we continue to appreciate these recent milestones, we are also staying focused on the future to ensure we have a strong plan in place to take us through 2004 and beyond.

Important developments in our pipeline in 2003 included the approval and launch of two new products for immunological diseases, Xolair® (Omalizumab) for persistent asthma and RAPTIVA™ (efalizumab) for

chronic plaque psoriasis. In addition, after receiving positive results from the pivotal trial of Avastin™ (bevacizumab) in first-line metastatic colorectal cancer, we filed the Biologics License Application (BLA) and received priority review status from the U.S. Food and Drug Administration (FDA). In February 2004, we received FDA approval for Avastin for use in combination with intravenous 5-Fluorouracil-based chemotherapy as a treatment for patients with first-line—or previously untreated—metastatic cancer of the colon or rectum. Avastin is the first FDA-approved therapy designed to inhibit angiogenesis, the process by which new blood vessels develop, which is necessary to support tumor growth and metastasis. Finally, we filed a supplemental New Drug Application (sNDA) for the additional indication of Nutropin® [somatropin (rDNA origin) for injection]/Nutropin AQ® [somatropin (rDNA origin) injection] for the long-term treatment of idiopathic short stature.

With the approvals of Xolair, RAPTIVA and Avastin, we have exceeded the 5X5 goal of five new products or indications approved by 2005. Our development pipeline, with over 20 projects in various stages, is also well-positioned to exceed our 5X5 goal of leaving 2005 with five significant products in late-stage clinical development. In 2003, we and our collaborators began enrollment in multiple clinical

Arthur D. Levinson

Chairman and Chief Executive Officer



letter to stockholders (cont'd)

trials, including Rituxan® (Rituximab) for rheumatoid arthritis, Lucentis™ (ranibizumab) for age-related macular degeneration, Avastin and Omnitarg™ (pertuzumab) in multiple tumor types, and RAPTIVA for psoriatic arthritis. We also entered more than 10 new projects into our development portfolio, including two new molecular entities: the fully humanized anti-CD20 antibody, which we will jointly develop with Biogen Idec Inc. and Roche, and PRO1762 (formerly Apo2L/TRAIL), which we will jointly develop with Immunex, a subsidiary of Amgen, Inc.

In 2003, we also delivered strong top-line and bottom-line growth, with revenue growth of 28 percent to more than \$3 billion, non-GAAP¹ earnings per share (EPS) growth of 30 percent to \$1.20, and non-GAAP¹ net income growth of 31 percent to \$634.9 million compared to 2002. GAAP EPS for 2003 increased to \$1.06 per share compared to 12 cents per share for 2002, and GAAP net income for 2003 increased to \$562.5 million compared to \$63.8 million for 2002. The average non-GAAP¹ EPS growth from 1999 through 2003 was 28 percent. The average GAAP EPS growth from 1999 through 2003 was 75 percent. Our financial position remains strong, with approximately \$2.9 billion in unrestricted cash and marketable securities.

We remain confident that we will meet or exceed our 5X5 goal of an average annual non-GAAP¹ EPS growth of 25 percent (1999 through 2005). However, given the importance of Rituxan to the overall numbers and the associated profit split, as well as our need to continue to develop new innovative products for the pipeline, our financial productivity goal of 25 percent non-GAAP¹ net income as a percentage of operating revenues remains a significant challenge that will be difficult to meet. For 2004, we are currently expecting year-over-year non-GAAP¹ EPS growth consistent with our previously stated objective of no less than 20 percent annual non-GAAP¹ EPS growth.

Key commercial successes in 2003 include total product sales of \$2.6 billion, a 21 percent increase over 2002. Our marketed products continue to drive performance, with every product reporting growth in 2003. Total oncology sales increased 24 percent over 2002 and now constitute 73 percent of total product sales. We rapidly launched Xolair in July 2003 and RAPTIVA in November 2003, and we ramped up to ship Avastin on the same day that we received FDA approval. We have developed the infrastructure necessary to support a major period of commercialization for the company.

Lajonna
Xolair® Patient



¹ Non-GAAP amounts exclude the recurring charges related to the Redemption, litigation-related special items, cumulative effects of accounting changes, and all related tax effects. See pages 10-11 for the reconciliation to our GAAP numbers.

letter to stockholders (cont'd)

We also finalized several important business development agreements in 2003, including agreements with: Novartis Ophthalmics for ex-North American marketing of Lucentis for age-related macular degeneration; Biogen Idec for the development of one or more new humanized anti-CD20 antibodies for a broad range of diseases; Biogen (now Biogen Idec) for research and development of a BR3 modulator; Curis for a molecule in the hedgehog signaling pathway; and Lonza Group Ltd. for third-party manufacturing of Rituxan. Our 5X5 goal of \$500 million in incremental revenue due to new alliances may be difficult to meet, but importantly, we have entered into more than 40 significant agreements and in-licensing deals since 1999 to add to our future growth prospects.

On the operations front, both our South San Francisco and Vacaville facilities have ramped up manufacturing efforts in order to meet the increased product demand given our successful year. As mentioned above, we entered into a long-term manufacturing agreement with Lonza Biologics, under which Lonza will manufacture commercial quantities of Rituxan at Lonza's production facility in Portsmouth, New Hampshire. Finally, we made progress on our facility in Porriño, Spain (Genentech España) and now expect to bring it online in 2004 to produce Avastin for clinical trials. Both projects

are key to our short- and long-term strategy to maximize our manufacturing capacities and meet demand for our products.

In terms of our ongoing research projects, we continue our extensive work in oncology, including our Tumor Antigen Program and mechanism of action studies. Angiogenesis also remains an important and broad arena of study for us, not only in oncology but also in vascular biology. Immunology is a growing area of expertise and emphasis for Genentech, and we are exploring several promising areas of research, including TNF (tumor necrosis factor) super family members, autoimmunity, transplant issues and allergy/asthma. Finally, we are developing a strong focus on diagnostics for our novel, targeted treatments in order to increase development success rates in our clinical trials and deliver the right drugs to the right patients.

In 2003, we were involved in challenges over contracts and intellectual property. We were pleased that we were able to resolve or make substantial progress in resolving several major contract differences through confidential negotiations. We settled our patent litigation with Amgen, resulting in a one-time payment to Genentech, increasing GAAP earnings per diluted share for 2003 by approximately



Steven
RAPTIVA™ Patient

letter to stockholders (cont'd)

\$0.19. We also settled our litigation with Bayer for a one-time payment from that company. Finally, should we face future challenges over contracts and intellectual property, we believe that our strong intellectual property position will serve us well, as we have over 2,400 applications on full-length DNA sequences (or the protein encoded thereby or the antibody that binds to the protein or uses of the protein or antibody), and we currently hold more than 4,600 patents worldwide and have close to 5,000 patent applications pending.

I would like to highlight a few areas in the political/economic arena of interest to Genentech, including the recent Medicare legislation and generic biologics. The Medicare Prescription Drug, Improvement and Modernization Act was enacted into law in December 2003. While we support the intent of the law, we are concerned about the impact on patient treatment and care of provisions relating to the reform of Average Wholesale Price (AWP) as the basis of oncology reimbursement. We will follow the implementation of AWP reform to make certain that cancer patients continue to receive the best treatments possible for their disease. We currently anticipate limited impact on our business from the multiple changes associated with the Medicare legislation, although we are monitoring the situation closely.

Regarding the issue of generic biologics once patents expire, Genentech does not believe that the technology currently exists to prove a generic biotech product safe and effective outside the New Drug Application (NDA) and Biologics License Application (BLA) process. Potential patient risks could result from providing patients with proteins approved without the requirement that the manufacturer conduct safety and efficacy studies on the protein it makes but rather on the basis of an innovator's proof of safety and efficacy on the innovator's protein. Years of experience have taught us and others in the industry that differing cell lines and manufacturing processes mean different manufacturers will make different protein products. The process defines the product in biotechnology, and Genentech has spent decades optimizing the process to consistently deliver the most reliable product possible. We understand that the concept of generic biologics is of increasing interest, but the issues of safety and efficacy are real and need further exploration and understanding and to be appropriately addressed before moving forward. We are open to working with the FDA and the Congress on the many issues involved.

This past year, the company experienced its largest annual growth in employees in the company's history, recruiting and hiring more than 1,500 new employees.



Grace

Avastin™ Clinical Trial Patient

letter to stockholders (cont'd)

The continued growth of the company depends on our ability to bring highly qualified and talented people into all areas of the company. It also depends on our ability to retain our world-class employees, and Genentech continues to receive external recognition as an employer of choice. *FORTUNE* ranked Genentech #15 on its list of the 100 Best Companies to Work for in America in early 2004. In 2003, *Science* magazine named Genentech “the top employer and most admired company in the biotechnology and pharmaceutical industries” for the second year in a row; *Essence* magazine recognized Genentech as one of 17 “Great Places to Work” for women of color; and *Health* magazine listed Genentech as one of the top 10 healthiest companies for women in the United States.

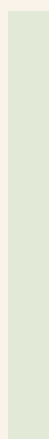
The transforming events of 2003 have positioned us for significant growth ahead, with the potential to launch multiple novel products or indications over the next several years. Translating science into successful product development takes significant effort and planning throughout all areas of the company and requires leveraging our people, science, commercial strengths, intellectual property and manufacturing capacity and expertise while balancing the risks that are inherent to our business. Fortunately, with our financial resources, we are

able to invest both for near-term growth in our product launches and at the same time in our research and development programs to provide longer term growth prospects.

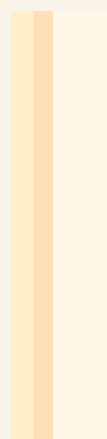
The energies of the management team at Genentech are directed towards the critical activities of the business at hand, as well as long-range planning for growth in the 2006 through 2010 time frame and beyond. We are focusing on the priorities that will allow us to meet our goals while delivering products that have the potential to change the practice of medicine and improve and extend patients’ lives. We remain committed to our 5X5 goals, and we are also well-positioned to fulfill our non-GAAP¹ EPS growth trajectory of annual double-digit growth for 2006 through 2010. In closing, we continue to manage our business with the intent of delivering breakthrough therapies to patients while building sound and consistent growth and continuing to increase shareholder value.



Arthur D. Levinson, Ph.D.
Chairman and Chief Executive Officer
March 2004



Lucy
Herceptin® Patient



¹ Non-GAAP amounts exclude the recurring charges related to the Redemption, litigation-related special items, cumulative effects of accounting changes, and all related tax effects. See page 10 for the reconciliation to our GAAP numbers.