We Are Genentech

2008 Annual Report

We Are Genentech.

Patients inspire and motivate us as we strive to provide breakthrough treatment options.

They are at the center of everything we do.

COVER LEGEND

PATIENTS

P1. JIM
P2. ANGELICA
P3. ZACHARY
P4. CASSANDRA
P5. MILOSH
P6. DAVID
P7. BROOKLYN
P8. JOHN
P9. MARIBEL

EMPLOYEES

E1. REEMA
E2. BOB
E3. CRAIG
E4. KATY
E5. CHRISTINE
E6. JENNIFER
E7. ALEX
E8. DAWN
E9. KENNETH
E10. PAUL
E11. DAVID
E12. ELAINE
E13. KAWA
E14. JONATHAN
E15. SOMASEKAR
E16. DAVID
E17. LARRY
E18. RHONDA
E19. GERALD
E20. WENDY
E21. SONIA
E22. KAREN
E23. JOHN
E24. VERONICA
E25. MARTIN
E26. KUI

Certain patients identified in this annual report are compensated for speaking on behalf of the company.

MISSION AND HORIZON 2010 GOALS

OUR MISSION

Genentech's mission is to be the leading biotechnology company, using human genetic information to discover, develop, manufacture and commercialize medicines to treat people with serious or life-threatening medical conditions. The company is committed to high standards of integrity in contributing to the best interests of patients, the medical profession, our employees and our communities, and to seeking significant returns to our stockholders based on the continual pursuit of scientific and operational excellence.

HORIZON 2010 VISION AND GOALS

Originally announced in March 2004 and updated in 2006, our Horizon 2010 goals will help ensure we are solidly positioned to continue our mission.

VISION: Utilize the science of biotechnology to become a leader in revolutionizing the treatment of patients with cancer, immunological diseases and angiogenic disorders.

GOAL: TO BRING AT LEAST 20 NEW MOLECULES INTO CLINICAL DEVELOPMENT
Status: We added 23 new molecular entities into development from January 1, 2006 through December 31, 2008. In March 2007, we announced that as an internal stretch goal we aim to add a total of 30 new molecular entities into clinical development by the end of 2010.

GOAL: TO BRING AT LEAST 15 MAJOR NEW PRODUCTS OR INDICATIONS ONTO THE MARKET
Status: We received approval for one new product and 11 additional indications for existing products from January 1, 2006 through December 31, 2008.

GOAL: TO ACHIEVE A COMPOUND ANNUAL NON-GAAP EARNINGS PER SHARE GROWTH RATE OF 25 PERCENT[1]
Status: Our non-GAAP earnings per share compound annual growth rate was 39 percent from 2006 through 2008.[1]

GOAL: TO ACHIEVE CUMULATIVE FREE CASH FLOW OF $12 BILLION[2]
Status: Our cumulative free cash flow was approximately $6.8 billion from January 1, 2006 through December 31, 2008.[2]

GOAL: TO BECOME THE NUMBER ONE U.S. ONCOLOGY COMPANY IN SALES
Status: We have been ranked number one in U.S. oncology sales since the first quarter of 2006.

This annual report contains forward-looking statements regarding being number one in oncology sales in the United States; growth in non-GAAP earnings per share (EPS); adding new molecules into development; the approval of new products or indications; achieving $12 billion in free cash flow; the timing and availability of data for clinical studies including for Avastin, Lucentis and Rituxan; and regulatory submissions for several key indications including Tarceva in first-line maintenance therapy for advanced non-small cell lung cancer, Rituxan in chronic lymphocytic leukemia and Avastin in HER2-negative metastatic breast cancer. Such statements are predictions and involve risks and uncertainties such that actual results may differ materially. Such risks and uncertainties include, but are not limited to, delays in site initiation or patient recruitment; the need for additional data, data analysis or clinical studies; coordination with third parties; the results of clinical trials; filing preparation and decision making; U.S. Food and Drug Administration (FDA) actions or delays; failure to obtain or maintain, or changes to, FDA or other regulatory approval; difficulty in obtaining materials from suppliers; unexpected safety, efficacy, manufacturing or distribution issues for us or our contract/collaborator manufacturers; product withdrawals or suspensions; competition; efficacy data concerning any of our products, which shows or is perceived to show similar or improved treatment benefit at a lower dose or shorter duration of therapy; pricing decisions by us or our competitors; our ability to protect our proprietary rights; the outcome of, and expenses associated with, litigation or legal settlements; our cost of sales, other expenses and indebtedness; variations in collaborator sales and expenses; fluctuations in contract revenues and royalties; actions by Roche that are adverse to our interests; decreases in third-party reimbursement rates; the ability of wholesalers to effectively distribute our products, changes in accounting or tax laws or the application or interpretation of such laws; and the outcome of the Roche tender offer to acquire Genentech's outstanding shares. Please also refer to the risk factors in Genentech's periodic reports filed with the Securities and Exchange Commission. Genentech disclaims, and does not undertake, any obligation to update or revise forward-looking statements in this annual report.

[1] The compound annual GAAP EPS growth rate was 40% from 2006 through 2008. The non-GAAP EPS goal for 2006 through 2010 excludes the effects of recurring amortization charges related to the 1999 redemption of our Common Stock by Roche Holdings, Inc. (Redemption); litigation-related and similar special items; employee stock-based compensation expense; costs incurred by the company on behalf of the Special Committee in connection with its review of the Roche proposal to acquire our outstanding shares (Roche Proposal) and the Roche tender offer announced February 9, 2009 (Roche Tender Offer), as well as legal costs incurred in defense of the Special Committee and/or its individual members in shareholder lawsuits filed in connection with the Roche Proposal or Roche Tender Offer; and certain items associated with our 2007 acquisition of Tanox, Inc., including an in-process research and development expense (a non-recurring expense in 2007), recurring recognition of deferred royalty revenue, recurring amortization of intangible assets, a gain pursuant to Emerging Issues Task Force (EITF) No. 04-1, *"Accounting for Preexisting Relationships between the Parties to a Business Combination,"* (EITF 04-1) (a non-recurring gain in 2007), and asset impairment charges (a non-recurring item in 2008); together with the related tax effects of excluding such items, as well as potential and similar special items related to existing or future litigation or its resolution, changes in tax rates, changes in or adoption of accounting principles, or the outcome of the Roche Proposal or Roche Tender Offer, any of which may be significant. GAAP EPS for 2006 through 2010 would include the items described above. See pages 18-19 for the full reconciliation between our non-GAAP and GAAP amounts.

[2] Our free cash flow measure is defined as cash from ongoing operations less gross capital expenditures. Cash from ongoing operations is derived from the "net cash provided by operating activities" line in our consolidated statements of cash flows excluding the effect of changes in the trading portfolio, but this amount may be adjusted for items that would allow the measure to better reflect our operational performance. These adjustments include, for example, cash receipts or payments related to litigation settlements, investments in trading securities and other items, any of which may be significant. In 2008, 2007, and 2006, cash from ongoing operations represents net cash provided by operating activities, excluding the effect of changes in the trading portfolio of $82 million, $360 million, and $29 million, respectively, and the after-tax effect of the payment in the second quarter of 2008 related to the City of Hope National Medical Center litigation settlement of $291 million. Capital expenditures for 2008 exclude a $200 million financing payment related to the construction of a manufacturing facility in Singapore that reduced our 2008 free cash flow.

GAAP = U.S. generally accepted accounting principles

Be Different































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IN BUSINESS FOR LIFE

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