


Advancing Medicine





To Our Stockholders:

2002 was a year of accomplishment for Exelixis.

We achieved our clinical goals. We advanced the rebeccamycin analogue toward pivotal registration trials to begin in 2003, we completed preclinical testing of XL784 and filed our first Investigational New Drug (IND) application on schedule at the end of the first quarter of 2003, and we moved additional promising programs into preclinical development.


We achieved our strategic goals. We formed a landmark alliance with GlaxoSmithKline (GSK) that will fuel our gene-to-drug engine and redefine the synergies between pharmaceutical and biotechnology companies. At the same time, we met our deliverables in

existing corporate partnerships and established new collaborations in combinatorial chemistry with Merck and in agriculture with Renessen.

We exceeded our financial goals for cash burn and cash balance, ending the year with \$222 million. We also further matured as a company, attaining critical mass and excellence in all our operations.

Today, we have a productive technology base, a growing drug pipeline and a financially sound business model. In what was a challenging year for our industry, we exceeded our goals and accelerated our progress toward establishing a sustainable pharmaceutical business and advancing the science of medicine.

George A. Scangos, PhD
President and
Chief Executive Officer,
Exelixis, Inc.



Our long-term strategy is to build a broad-based pharmaceutical company. The initial part of that strategy, which we have accomplished, was to establish a strong, agile, biology-based drug discovery platform. Today, we are able to move development programs rapidly from target through the clinic and derive maximum commercial value from our pipeline by partnering or retaining compounds for our own development. The decision point is Phase 2a—the sweet spot in the value chain where biotech’s efficiencies can yield to a large pharmaceutical company’s strengths in global development, registration and commercialization.

Today, we are implementing that strategy and growing our pipeline. We will initiate next development steps leading to registration of our rebeccamycin analogue around mid-year. This compound has shown promising initial data as a treatment for hepatobiliary tumors. XL784 is our first “home-grown” clinical candidate, for which we filed an IND in late March, and multiple other research-stage programs are progressing through preclinical development. Our partnerships provide substantial funding and support our growth. Our progress results from our strategic investment in building excellence and critical mass at every phase of the process, from target to the clinic. This progress was also a key driver for establishing our collaboration with GSK in 2002.

Jeff Latts, MD, Senior Vice President and Chief Medical Officer, Harold Keer, MD, PhD, Director of Clinical Development, and Geoff Duyk, MD, PhD, Chief Scientific Officer and President of Research and Development, discuss development plans for XL784 and XL119.

Advancing Medicine

In 2002, we advanced our clinical development pipeline. Our most advanced clinical program is the rebeccamycin analogue (XL119), the anticancer compound licensed from Bristol-Myers Squibb (BMS) in 2001, which has been the subject of exploratory Phase 2 trials conducted by the National Cancer Institute in a broad range of tumors. We are very encouraged by results from some of the Phase 2 trials, especially in bile duct tumors, which suggest that the compound is providing therapeutic benefit to patients for whom no other therapy is available.

In a disease that progresses quickly and from which patients usually die within six months or so, results showing partial responses and disease stabilization are encouraging. The compound has been administered to over 400 patients, and the safety profile remains acceptable. Based on these results, we believe that

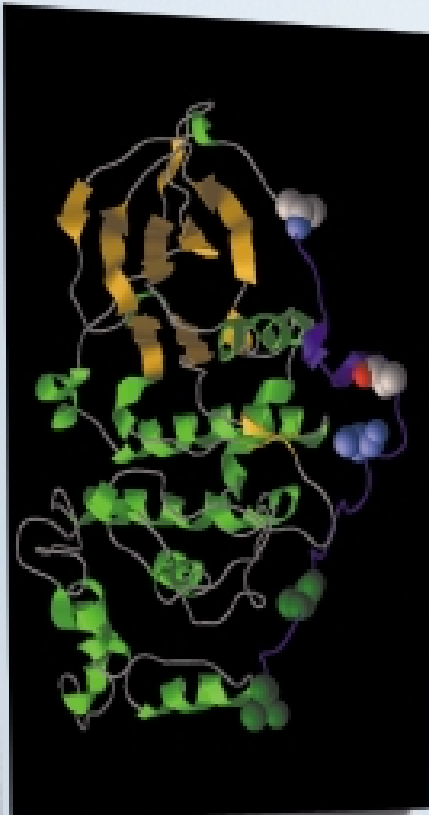
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the compound deserves further development. Drug substance to be used in these trials has been manufactured by third-party suppliers and will be sufficient to support further studies. Later in 2003 we plan to initiate next development steps designed to lead toward registration of this promising anticancer compound.

XL784 is the first small molecule compound developed from our proprietary drug discovery platform for which we have filed an IND. This was a significant achievement for our company and the credit for this success goes to the dedicated people throughout our R&D organization. The target against which XL784 is directed is a cell surface protease involved in cleavage of growth factors that promote cell growth and differentiation. The target was originally discovered in our anti-angiogenesis research program, and shows both anti-angiogenic and anti-proliferative effects. In preclinical studies, XL784 is orally bioavailable, and has shown good potency, pharmacologic activity and a safety profile appropriate to support Phase 1 studies. Our clinical plans include initiating Phase 1 first-in-man studies, to be conducted in healthy volunteers, while we continue to explore the therapeutic utility of the compound in various animal models of disease, including cardiovascular disease.

Preclinical Pipeline. We believe that within our discovery programs there are several compounds that hold promise as future clinical candidates. As of March 2003, we have generated a wide array of potent lead compounds against important new targets for cancer, angiogenesis and inflammation indications. One program is focused on kinases that play a role in restoring apoptosis to DNA-damaged cells. DNA damage can be caused by numerous factors including radiation and chemotherapy, so these compounds could potentially act synergistically with other chemotherapeutic agents. We have discovered and optimized potent inhibitors for one target in this pathway and are currently characterizing these leads in cancer efficacy models. Our protein expression and structural biology expertise greatly facilitated lead optimization and a novel binding site was exploited to provide additional potency.

We have discovered novel inhibitors to a class of targets called receptor tyrosine kinases (RTK) that are involved in angiogenesis as well as tumor growth. While some of these compounds target specific RTKs, we have focused our efforts on engineering inhibitory activity against a wide spectrum of RTKs implicated in cancer progression. Lead compounds from these projects are orally active in preclinical cancer models and are moving into preclinical toxicology studies. Recent high throughput screening efforts have also provided a variety of structurally diverse and highly potent inhibitors for several new biologically interesting kinases. This rich array of early leads in validation and optimization projects should provide a range of opportunities for development candidates and IND compounds over the next few years.



Partnering for Growth

Exelisis' partnerships in pharmaceuticals and in agrochemicals have generated substantial revenue with which we have built our technological base, expanded our pipeline and leveraged our assets. We have been particularly successful in structuring alliances that balance our retained rights to compounds, technology and targets with obligations to our partners.

Leveraging Our Core Platform.

In agrochemicals, we are working with Dow AgroSciences to determine the mechanism of action for specific fungicide and herbicide compounds with unknown molecular targets. Through our 40%-owned joint venture with Bayer, called Genoptera LLC, we are applying our model systems platform and assay development capabilities to identify targets and assays for development of more effective insecticides. In 2002, we received from Bayer considerable milestone payments for these efforts. We have also developed plant model systems to identify genes that may be used to develop crops with improved traits, including superior yield, improved nutritional profiles and higher oil content. In collaboration with Bayer CropScience (formerly Aventis CropScience), through an equally-owned subsidiary,

Agrinomics LLC, we are working to research, develop and commercialize novel genes found through our proprietary ACTTAG™ gene expression technology. In 2002, Agrinomics partnered with Renessen, a joint venture between Monsanto and Cargill, to enhance seed oil content in commercially valuable seed oil crops.

Monetizing Assets. We have built an automated chemical synthesis capability that is unparalleled in robustness, quality, diversity and depth. We believe that continued expansion of our compound library will increase the frequency and quality of generating active lead compounds. We have approximately three million highly diverse, quality-controlled, drug-like small molecule compounds in our screening library, and we generated approximately one million new compounds last year.

Partnering for Growth (cont.)

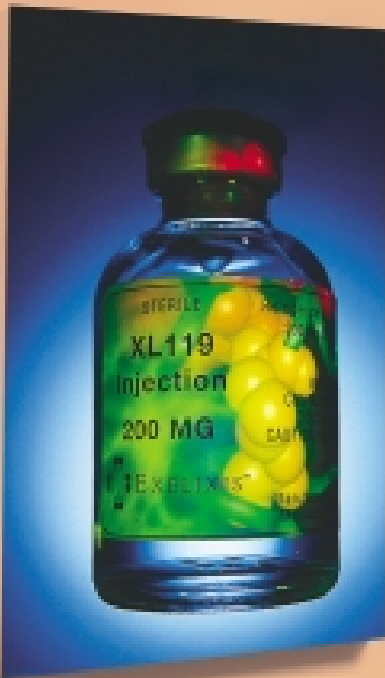
In 2002, and continuing into the first quarter of 2003, we have conducted close to 30 high throughput screens against millions of compounds, an output that is on a par with many pharmaceutical companies. We have established five commercial collaborations with leading pharmaceutical and biotechnology companies, including Merck in 2002, to jointly design custom high throughput screening libraries. These collaborations fund certain of our costs and provide freedom to operate, effectively enabling us to monetize a key asset developed primarily for our own internal use.

Building Domain Expertise. The pharmaceutical industry's growing understanding of the molecular causes of cancer is resulting in new, targeted therapeutics that work through novel mechanisms. Our approach to cancer

uses genetic tools to identify molecular mechanisms and identify targets that are *causally*, not casually, related to disease. We base our assumptions on real biological data showing that modulation of that target with a drug will affect the progression and survival of a tumor. We have identified and screened many such validated targets.

Our cancer research collaborations with Bristol-Myers Squibb for small molecule targets and Protein Design Labs (PDL) for antibody targets have facilitated building our domain expertise in cancer. Both BMS and PDL have been excellent partners and both relationships progressed well in 2002. While the collaborations are structured differently, we have used the same body of research in each. BMS has rights to half the small molecule targets and we retain the other half, through a "draft choice" mechanism. PDL has the right to make antibodies against these targets, and we have the right to co-develop antibodies that emerge from this relationship. In 2002,

we completed several "drafts" with BMS and received milestone payments from them. We also extended our mechanism of action collaboration with BMS for two years. In 2002, we achieved our goals to deliver targets to PDL, against which they are making antibodies that can potentially progress into clinical development. This collaboration will reach successful conclusion of the funded research portion of the program as of June 2003.



**For more
in-depth information
about Exelixis' technology,
pipeline and business
strategies, please visit
our website at
www.exelixis.com**

A New Model for Pharma/Biotech Alliances

Our 2002 discovery and development collaboration with GSK ranks among the largest ever established. The collaboration is focused in the areas of vascular biology, inflammation and cancer. We intend to deliver to GSK Phase 2a small molecule compounds. GSK has the option to pay us a substantial milestone and take these compounds through further clinical testing, registration and commercialization. We will select the targets and compounds and manage preclinical and early clinical development independently, with GSK overseeing this process at arm's length. We will retain worldwide rights to any compounds not selected by GSK. The financial aspects of this collaboration reflect its importance: over \$200 million in committed funds to Exelixis over six years, the potential for several hundred million dollars in milestone payments and meaningful double-digit royalties upon commercialization. GSK has exclusive worldwide commercialization rights, and Exelixis retains co-promotion rights in North America for successfully commercialized compounds.

This deal advances our strategy to fill our pipeline with promising compounds, to participate in the financial success of our joint programs and, at the same time, to continue to pursue our proprietary programs. The financial structure, deliverables and choice of GSK as our partner are exactly what we envisioned as the fuel to drive our gene-to-drug engine, the vehicle to build and diversify our drug pipeline, and a strategic route to self-sustainability. GSK chose Exelixis for our pragmatism and creativity and worked with us to structure the relationship for maximum flexibility and synergy. The pharmaceutical industry today faces significant challenges due to the increasing cost, time and risk of bringing new drugs to market. Success in our partnership could potentially improve those odds for both of us.

Responsible Financial Management

Sustaining a biotechnology company from inception to profitability is a challenging, expensive undertaking. As our projects mature and move into and through clinical trials, the cost of doing business increases. Our responsibility is to manage our cash carefully, make intelligent business decisions and balance risk and reward with opportunism in our business strategies. We are proud of our financial management track record.

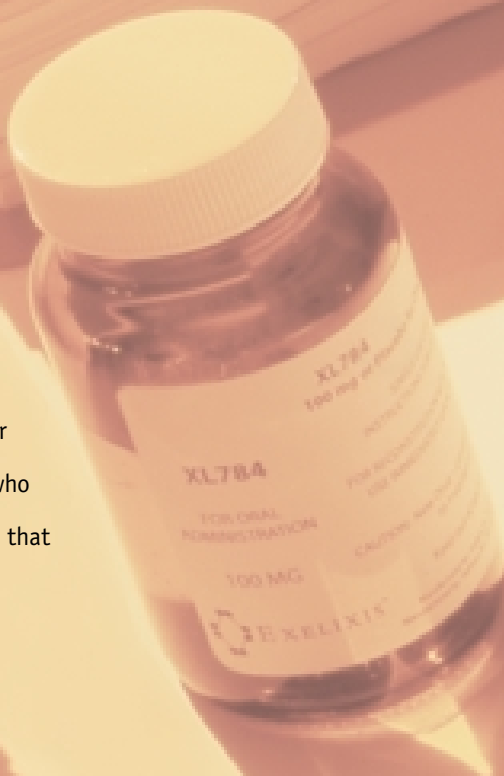
We began 2001 with \$112 million in cash and cash-equivalent balances and ended the year with \$227.7 million. We ended 2002 with \$222 million. We met our revenue and expense projections, burned less cash than originally projected and delivered a lower than expected net loss for the year. We met our milestones, managed our expenses, restructured in order to allow for growth, established a new corporate partnership with substantial committed funding and met our internal development goals for the year. In the last few years, despite increasing our cash burn and becoming more aggressive in discovery and development, we have maintained our cash balances at reasonable and secure levels. We believe we can continue to be aggressive in setting and meeting our goals and be financially responsible at the same time.

The One to Watch

The culture at Exelixis is based on love of the science, compassion for the patient, respect for our stakeholders and unrelenting commitment to execution. Clearly, we have a lot to do in 2003. Everyone at Exelixis is ready to meet the challenge. The management, board of directors and employees of Exelixis join me in expressing our gratitude toward our stockholders, partners and other stakeholders who helped us achieve our goals in 2002. We believe that the future for our company looks very bright.



George A. Scangos, PhD
President and Chief Executive Officer



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Chairman of the Board, Exelixis, Inc.
Managing Director, Investment Banking
Healthcare, SG Cowen

Charles Cohen, PhD

Chairman, Supervisory Board,
Cellzome GmbH

Geoffrey Duyk, MD, PhD

Chief Scientific Officer and President,
Research and Development, Exelixis, Inc.

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Managing Director,
Advent International Corporation

Jean-François Formela, MD

Senior Principal, Atlas Venture

Vincent Marchesi, MD, PhD

Director, Boyer Center for Molecular
Medicine and Professor of Pathology and
Cell Biology, Yale University

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Exelixis, Inc.

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Managing Director, Artemis
Pharmaceuticals GmbH and Exelixis
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Lance Willsey, MD

Founding Partner, DCF Capital

Management

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Geoffrey Duyk, MD, PhD

Chief Scientific Officer and President,
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Vice President, Corporate Communications

Jeffrey R. Latts, MD

Senior Vice President
and Chief Medical Officer

Michael M. Morrissey, PhD

Senior Vice President, Discovery Research

Behrooz Najafi

Vice President, Corporate Services

John M. Nuss, PhD

Vice President, Chemistry

Gregory D. Plowman, MD, PhD

Senior Vice President, Research

Glen Y. Sato

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Officer and General Counsel

Pamela A. Simonton, JD, LL.M.

Vice President, Corporate Technology
Development

Peter Stadler, PhD

Managing Director, Artemis
Pharmaceuticals GmbH and Exelixis
Deutschland GmbH, Germany

D. Ry Wagner, PhD

Vice President, Research,
Exelixis Plant Sciences

Annual Meeting

The annual meeting of stockholders will be held at 8:00 am on Monday, June 16, 2003 at the company's corporate headquarters at 170 Harbor Way, South San Francisco, California 94080.

SEC Form 10-K

A copy of the Exelixis annual report on Form 10-K filed with the Securities and Exchange Commission is available free of charge from the company's Investor Relations Department at Exelixis by calling 650-837-7012 or via e-mail: ir@exelixis.com

Stock Information

The common stock of the company is traded on the Nasdaq National Market System under the symbol EXEL. No dividends have been paid on the common stock since the company's inception.

Quarter Ending	Low	High
3.31.02	\$10.88	\$16.72
6.30.02	5.63	13.56
9.30.02	3.50	7.45
12.31.02	2.95	9.41

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Palo Alto, California

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Independent Auditors

Ernst & Young LLP
Palo Alto, California

Captions

On the cover: A multidisciplinary project team in Discovery Research discusses the structure activity relationships of preclinical drug candidates.

Pages 4-5: A multidisciplinary team from Research analyzes high throughput protein expression results.

Page 6: Plans are underway to initiate pivotal studies leading to registration for XL119, the rebeccamycin analogue, as a potential treatment for bile duct tumors.

Pages 7-8: In 2002, we completed preclinical testing of XL784, and filed our first IND on schedule at the end of the first quarter of 2003.

This annual report contains forward-looking statements regarding our business and operations. These statements are based on our current expectations, assumptions, estimates and projections about our business and our industry, and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied in, or contemplated by, the forward-looking statements. Words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may," "should," "estimate," "predict," "potential," "continue" or the negative of such terms or other similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of several factors more fully described under the caption "Risk Factors" as well as those discussed elsewhere in this document. These and many other factors could affect the future financial and operating results of Exelixis. Exelixis undertakes no obligation to update any forward-looking statement to reflect events after the date of this report.

