CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In January 1980, Genentech and Hoffmann-La Roche Inc. ("Hoffmann-La Roche") entered into an agreement regarding the development and commercialization of human leukocyte ("alpha") and fibroblast ("beta") interferons (the "Interferon License Agreement"). Hoffmann-La Roche is a New Jersey corporation and a subsidiary of Roche, and as such is affiliated with Genentech. Pursuant to this agreement, as amended from time to time, Genentech granted Hoffmann-La Roche a sole and exclusive, worldwide license to use and sell (and, under certain circumstances, manufacture) alpha and beta interferons using organisms and knowhow developed by Genentech and under patent rights belonging to Genentech, for a period of 20 years. Pursuant to this agreement, Genentech is entitled to royalties on sales of interferons by Hoffmann-La Roche for 10 years after commercial introduction, unless the period of exclusivity is extended for an additional 5-year, royalty-bearing period. These royalties totaled $7.1 million in 1997.

Effective April 1, 1998, Genentech transferred back to Roche the promotional rights to Roferon(R)-A. In consideration, Genentech will receive $5 million plus royalties for sales of alpha interferon under the Interferon License Agreement described above.

In May 1991, Genentech entered into an agreement with Hoffmann-La Roche in settlement of all disputes, including all issues in litigation between the parties, relating to the Li patent on human growth hormone and methods for its preparation. Under the settlement agreement, Genentech received a nonexclusive license under the patent and will make payments and/or grant credits, against future royalties under the Interferon License Agreement described above, to Hoffmann-La Roche totalling $4 million over a ten-year period. In addition, Hoffman-La Roche received a paid-up nonexclusive license under certain Genentech patents for specific product applications.

In January 1992, Genentech entered into an agreement with HLR relating to the development and supply of a recombinant tumor necrosis factor ("TNF") receptor-fusion protein being evaluated for use in septic shock, rheumatoid arthritis and multiple sclerosis. Pursuant to this agreement, Genentech is responsible for developing and scaling up a recombinant production process for TNF receptor-fusion protein and for supplying preclinical and clinical requirements of such material and, eventually, commercial requirements. HLR reimburses Genentech for certain costs of developing and scaling its manufacturing capability and will purchase manufactured TNF receptor-fusion protein from Genentech; for calendar year 1997, such costs totalled approximately $13.9 million.

Genentech and Roche have also entered into a Small Molecule Screening Agreement for the screening of Roche's chemical library using certain mutually agreed Genentech assays to find lead molecules for development into small molecule therapeutics. Roche has the responsibility for supplying the chemical library to be screened. Genentech has the responsibility for supplying the assays and for undertaking the initial screening. If the screening results in the identification of a molecule of interest to one of the parties, that party shall advise the other party of its interest. The second party can then elect to proceed with the interested party and jointly develop the molecule or it can choose to let the interested party develop the molecule on its own. If a molecule is jointly developed, the parties are to share equally the cost of joint development and to agree to a plan proportioning research and development responsibilities between them based on their capability. If a product is jointly developed, both Genentech and Roche have the right to make, use and sell that product and will negotiate an allocation of the major marketing territories between them as well as appropriate royalties payable by each to the other for sales of that product in that party's marketing territory. As a general principle, the markets for each product are to be allocated on an equal basis, but Genentech is to have at least 50% of the marketing rights in North America and Roche is to have at least 50% of the marketing rights in Europe, subject to certain exceptions. After allocation of marketing rights, each party is to pay the other a royalty on sales in that party's marketing territory with the royalty to be determined by negotiation. As a general principle, the percentage royalty payable on sales by either party to the other should have equivalent royalty rates. If a product is unilaterally developed, the party unilaterally developing that product has the sole right to make, use and sell that product throughout the world and will pay the other party a royalty of 5% of sales.

In 1994, Genentech entered into four R&D collaboration agreements with HLR and Hoffmann-La Roche, each an affiliate of Genentech. The four collaborations are in the areas of oral IIb/IIIa antagonists, oral IL-8 antagonists, oral LFA/ICAM antagonists, and ras farnesyltransferase inhibitors. The collaboration pursuant to the IL-8 agreement has been terminated.

The oral IIb/IIIa antagonist agreement was further amended in the second quarter of 1997. HLR will assume development of the oral IIb/IIIa antagonist globally on its own. Genentech will provide clinical and scientific input for the IIb/IIIa program and may subsequently opt-in and join development at any time up to the New Drug Application (NDA) filing for the first indication. If Genentech chooses to opt-in, it will reimburse HLR for 50% of the U.S. and European IIb/IIIa development costs incurred to that date. HLR and Genentech will co-promote IIb/IIIa in the U.S. with a 60/40, Genentech/HLR, profit-sharing if the NDA filing for the first indication is for acute therapy or a 50/50 profit-sharing if the NDA filing for the first indication is for chronic therapy. If Genentech does not opt-in, it will receive from HLR a 6% royalty on worldwide sales of the oral IIb/IIIa antagonist.

The LFA/ICAM agreement is in the process of being amended and expanded to include VLA-4/VCAM antagonists and anticoagulants. It is expected that, as amended, the agreement would provide that Genentech will have the sole right to sell LFA-1/ICAM antagonists and anticoagulants in the United States and retain all associated profits, and Roche will have the sole right to sell those products outside the U.S. and retain all associated profits, and that with respect to VLA-4/VCAM, Roche will have the sole right to sell those products throughout the world, will pay Genentech a royalty of 5% on such sales and will retain all associated profits. It is expected that Genentech and Roche will share equally the development costs associated with the development of LFA-1/ICAM antagonists in the U.S., except where those costs are allocable to or involve

countries outside the U.S., and that they will share equally development costs associated with the development of anticoagulants in the United States and Europe, except where those costs are allocable to or involve countries outside the U.S. and Europe. It is expected that Roche will have the sole responsibility for all the development costs associated with the development of VLA-4/VCAM antagonists.

Roche has decided to discontinue development of Genentech's anti-CD18 monoclonal antibody for the indication of hemorrhagic shock. Consequently, Genentech now has the right to undertake the continued development of that product and to commercialize it on a worldwide basis.

In addition to the foregoing agreements, Genentech has developed a mammalian cell line for HLR to produce a molecule that HLR has developed. HLR will provide Genentech future services of an equivalent value in exchange for Genentech's development efforts.

In July 1997, Genentech entered into a Group Purchasing Agreement with VHA, Inc. ("VHA") pertaining to the purchase of Activase(R) by its member hospitals. Mr. Smith, a member of the Board of Directors of Genentech, is President and Chief Executive Officer of VHA. Pursuant to the Agreement, Genentech pays VHA an administrative fee, based on a percentage of the purchases of Activase(R) by VHA member hospitals. The percentage administrative fee earned by VHA is dependent upon the volume of Activase(R) purchased by member hospitals compared to the volume purchased in the same period for the previous year. Amounts paid to VHA under the Agreement totaled $216,585 in 1997.

In October 1996, Genentech entered into a Collaborative Research Agreement with The General Hospital Corporation to conduct collaborative research with Dr. Mark Fishman of Massachusetts General Hospital ("MGH") pertaining to the discovery and identification of new genes. Dr. Fishman is the son-in-law of Dr. John T. Potts, Jr., a member of the Board of Directors of Genentech. Pursuant to the Agreement, Genentech will provide funding to support such collaborative research in Dr. Fishman's laboratories in the amount of $1.2 million per year over the twenty-six month term of the Agreement. Genentech received an option to a royalty-bearing license rights to inventions made in the course of the collaboration. Except under certain circumstances, if MGH achieves a certain research milestone, the Agreement will be extended for up to an additional three years for a dollar amount to be agreed upon at the time of the term extensions. Amounts paid to MGH under the Agreement totaled $1,200,000 in 1997.

Fidelity Management Trust Company ("FMTC"), a wholly-owned subsidiary of FMR Corp., which is the beneficial owner of 12.8% of the Company's Special Common Stock, is the trustee of the trust fund for the Genentech's Tax Reduction Investment Plan (401(k) Plan). Amounts paid to FMTC for its services as trustee totaled $83,397 in 1997.

22