

ANNUAL REPORTS

Targeted Genetics Corp. 2000

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Vision

Action

TARGETED GENETICS

2000 Annual Report

Success is vision
driving action

VISION

Great science is only one
differentiating factor

ACTION

Our technology,
partnerships and acquisitions
have helped us redefine
our outcomes

PRODUCT PIPELINE

| PRODUCT | INDICATIONS | DEVELOPMENT STAGE | COLLABORATOR |
|---|--|---|---|
| AAV VECTORS tgAAV-CF tgAAC11 tgAAV-FVIII tgAAC09 | Cystic fibrosis Rheumatoid arthritis Hemophilia A AIDS prophylaxis Lysosomal storage disorders Hyperlipidemia | Phase II Preclinical Preclinical Preclinical Preclinical Preclinical | Celltech Group plc AHP / Genetics Institute IAVI / CRI Genzyme Corporation |
| SYNTHETIC GENE DELIVERY tgDCC-E1A tgDCC-E1A tgLOC71 | Head and neck cancer Ovarian cancer Metastatic disease | Phase II Phase I Preclinical | |
| ADENOVIRAL VECTORS Ad- β -Ifn | Glioma | Preclinical | Biogen, Inc. |

OUTCOME

Applying our AAV vector
expertise to the global
HIV epidemic and
vaccine development

COLLABORATION RATIONALE: We believe that our AAV vector technology has applications across a wide variety of diseases. In establishing our innovative partnership with the International AIDS Vaccine Initiative and Children's Research Institute, Columbus, Ohio, we are leveraging our AAV infrastructure into the area of prophylactic vaccine development. This provides new product opportunities for Targeted Genetics and may bring new hope to millions of people around the world who are at risk of HIV infection.



VISION
EXPAND THE
OPPORTUNITIES FOR
AAV-BASED PRODUCTS



ACTION
COLLABORATE WITH
IAVI AND CRI
TO DEVELOP AN
AIDS VACCINE

AIDS vaccine collaboration

NEW OPPORTUNITIES, NEW HOPE

In February 2000 Targeted Genetics entered into an innovative public-private partnership with the International AIDS Vaccine Initiative (IAVI) and Children's Research Institute (CRI) on the campus of Children's Hospital in Columbus, Ohio. The three organizations are working to develop an AAV-based prophylactic AIDS vaccine. Because of the long-term gene expression properties of AAV vectors, delivery of HIV genes with AAV may confer long-term genetic immunization that could prevent or attenuate HIV infection.

Under the terms of the collaboration, IAVI will provide Targeted Genetics with up to \$6 million to undertake preclinical development of an AAV-based AIDS vaccine. Work to date in nonhuman primates, conducted at CRI, suggests that AAV vector vaccines hold significant promise. In these studies, strong, durable antibody and T-cell responses were observed in animals immunized with AAV vectors containing select genes from SIV, the monkey equivalent of HIV. These data provide the basis for moving forward with further preclinical development that will support Phase I testing in humans.

IAVI's mission is to ensure the development of an accessible AIDS vaccine that will have utility in the developing world, where more than 95% of new infections occur. Such a vaccine would be cost-effective to manufacture, easy to transport and store and would induce immunity to HIV after a single vaccination. Targeted Genetics' proprietary manufacturing process is suitable for producing large quantities of AAV-based products in a timely and cost-effective manner, and the Company's leadership in AAV manufacturing was a significant factor in IAVI's interest in establishing a collaboration. Targeted Genetics is proud to be a part of the global effort to address the HIV epidemic.

ADVANTAGES

GOOD SAFETY PROFILE FOR AAV VECTORS

LONG-TERM EXPRESSION OF DELIVERED GENES

PROMISING PRECLINICAL DATA

POTENTIAL TO RAISE B-CELL AND T-CELL RESPONSES

COST-EFFECTIVE MANUFACTURING PROCESS

VISION

BUILD THE LEADING
FRANCHISE IN
GENE DELIVERY
TECHNOLOGY

ACTION

STRENGTHEN
TECHNOLOGY BASE
THROUGH ACQUISITION
OF GENOVO



OUTCOME

Acquisition strengthens
AAV technology base,
adds significant
partnerships and expands
product opportunities

ACQUISITION BENEFITS: The acquisition of Genovo enhanced Targeted Genetics' intellectual property portfolio, particularly in the area of cell-line-based manufacturing of AAV vectors. The combined technology estate will enable the Company to strengthen further its franchise in AAV manufacturing and AAV-based product development. Moreover, the acquisition provided the seeds of two corporate partnerships, which Targeted Genetics was able to expand in scope and value, to provide near-, mid- and long-term revenue streams while significantly strengthening the Company's competitive position.

Acquisition of Genovo, Inc.

ENHANCED LEADERSHIP IN AAV

Targeted Genetics has important capabilities in large-scale manufacturing of AAV vectors, and the Company's proprietary manufacturing process and experience in addressing the challenges of AAV-based gene delivery are distinctive competencies that attract corporate partners of the highest caliber. To maintain this leadership, Targeted Genetics has taken an opportunistic approach to accessing related technologies and intellectual property, resulting in a robust patent portfolio related to cell-line-based and large-scale manufacturing of AAV vectors. Genovo's intellectual property was highly complementary to Targeted Genetics' existing technology in the area of cell-line-based AAV manufacturing, and has particular utility in the area of rapid, small-scale AAV production. The combined technology platform broadly covers AAV manufacturing from rapid, small-scale production, for use in target validation and preclinical development initiatives, to large-scale manufacturing for clinical trials and commercial launch. Targeted Genetics' issued and pending patents in the area of cell-line-based production of AAV-vectors serve as a formidable obstacle to competitors seeking to manufacture AAV-based products for large markets.

In addition to enhancing Targeted Genetics' competitive position in the AAV arena, the acquisition of Genovo opened the door to two important corporate partnerships. Both Biogen and Genzyme collaborated with Genovo before the acquisition. Recognition that the combination of Targeted Genetics' and Genovo's technology yielded what we believe is the most comprehensive suite of AAV manufacturing technologies led both partners to expand the scope and value of their collaborations.

Through this acquisition, Targeted Genetics' scientific assets, long-term competitive position and leadership within the gene delivery community have been taken to the next level.

ADVANTAGES

CONSOLIDATION OF SIGNIFICANT ASSETS
IN AAV MANUFACTURING

EXPANSION OF PARTNERSHIPS WITH
BIOGEN AND GENZYME

EXPANSION OF PRODUCT PIPELINE AND
PARTNERING OPPORTUNITIES

OUTCOME

Expanded product opportunities
and validation of Targeted
Genetics' leadership in gene
delivery technology

THE FUTURE IS NOW: "We believe that gene therapy holds enormous potential for treating a wide variety of acquired and inherited diseases, and as such, we want Biogen to have access to the best gene delivery technologies available. Targeted Genetics has a demonstrated ability to move product opportunities from scientific concept to clinical development, and we expect that this experience will yield novel product candidates with significant therapeutic and commercial value. Targeted Genetics is a partner in our development programs today, and we look forward to including gene therapy products in our pipeline in the future." — Michael Gilman, Ph.D., Vice President, Research, Biogen, Inc.

VISION

CREATE NEW PRODUCT
OPPORTUNITIES
THROUGH SIGNIFICANT
COLLABORATIONS

ACTION

ESTABLISH
\$125 MILLION
COLLABORATION
WITH BIOGEN

Multi-product collaboration with Biogen, Inc.

GENE DELIVERY TECHNOLOGY EXPANDS PRODUCT OPPORTUNITIES

The establishment of a multi-product development and commercialization collaboration with Biogen is a testament to the potential of gene delivery technology and a validation of Targeted Genetics' leadership in the field. In 1995 Biogen entered into a collaboration with Genovo, focused mainly on delivery of the β -interferon gene for the treatment of glioma (brain cancer). The enhanced gene delivery technology base that resulted from Targeted Genetics' acquisition of Genovo in September 2000 prompted Biogen to move beyond a single gene therapy product and to establish a partnership based on broad access to leading-edge gene delivery technologies. Biogen chose Targeted Genetics as its strategic partner in the promising field of gene delivery because of the Company's demonstrated ability to move multiple products from the laboratory to the clinic in an efficient manner and because it has established important capabilities in large-scale AAV manufacturing process.

Up-front payments and research funding from Biogen will support programs in the near-term, while milestone payments may generate substantial mid-term revenue streams. Targeted Genetics retains manufacturing rights to products developed under the collaboration, enabling the Company to retain any significant portion of the long-term value of those products. The total value of the deal, excluding the costs of clinical trials, manufacturing payments or royalties on sales, could reach \$125 million.

In turn, Biogen's leadership in the biotechnology sector and its experience in product commercialization and marketing provide Targeted Genetics with the opportunity to access important intellectual capital in these areas, which should enhance the Company's ability to bring products to market on its own in the future.

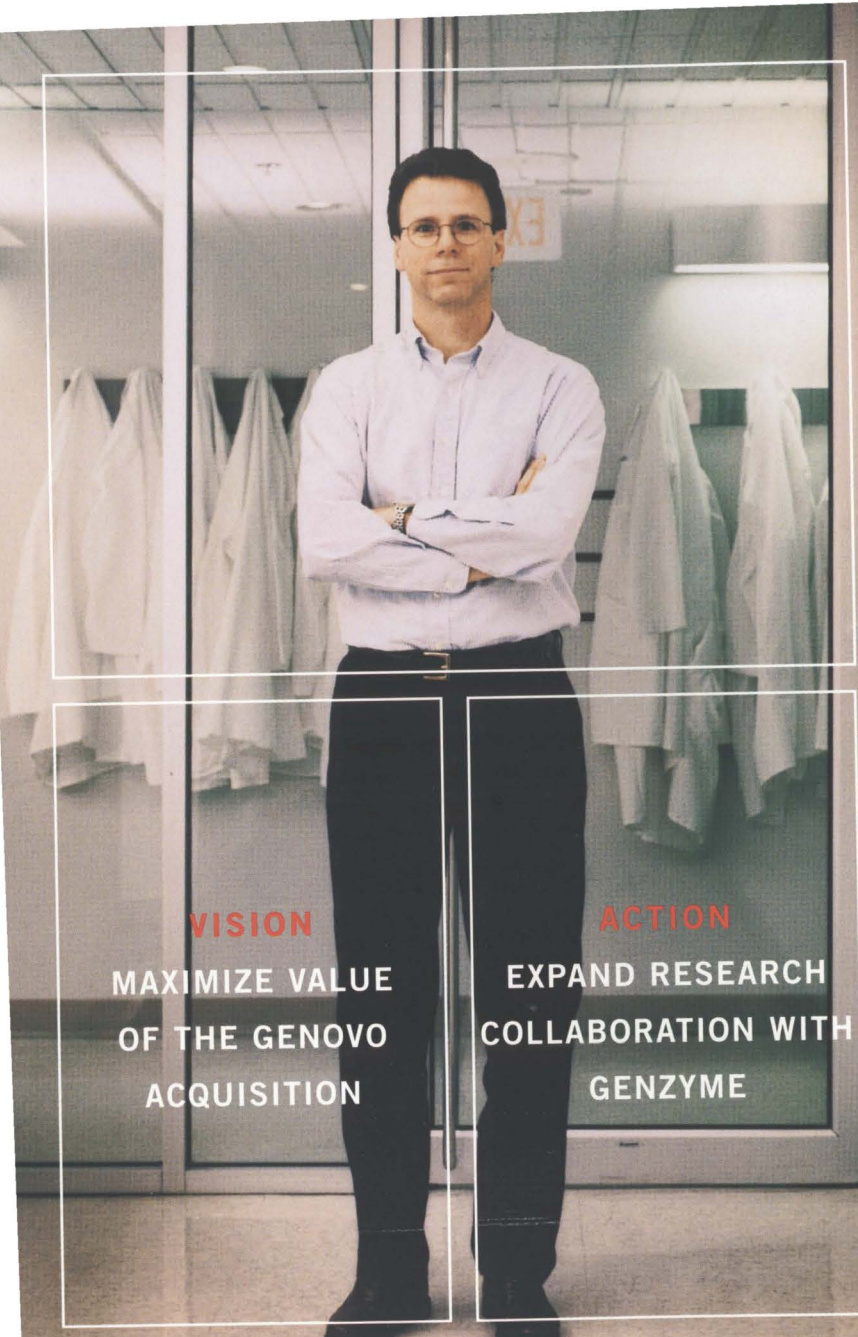
ADVANTAGES

VALIDATION OF LEADERSHIP
IN GENE DELIVERY TECHNOLOGY

POTENTIAL FOR NEAR-, MID- AND LONG-TERM
REVENUE STREAMS

NEW PRODUCT OPPORTUNITIES

ACCESS TO INTELLECTUAL CAPITAL
AND EXPERIENCE



VISION

MAXIMIZE VALUE
OF THE GENOVO
ACQUISITION

ACTION

EXPAND RESEARCH
COLLABORATION WITH
GENZYME

OUTCOME

Access to leading
franchise in lysosomal
storage disorders

NEXT GENERATION THERAPY: "Genzyme is committed to developing therapies for the treatment of multiple lysosomal storage disorders. We were the first company to develop an enzyme replacement therapy for Type 1 Gaucher disease, and improved upon our initial product by establishing a process for making recombinant protein. Part of our commitment to these patients is to continue our innovation in the development of new therapies. We believe that gene therapy is an extremely important and promising approach to the treatment of these diseases. In collaborating with Targeted Genetics we now have access to important resources that should help to advance significantly our efforts in this area." — Richard Gregory, Ph.D., Senior Vice President, Gene Therapies, Genzyme Corporation

Research collaboration with Genzyme Corporation

NEW APPROACHES TO PROTEIN THERAPY

Lysosomal storage disorders (LSDs) comprise a family of diseases caused by the absence of enzymes that are essential for the removal of certain metabolic by-products from cellular tissues. The buildup, or "storage," of these substances causes a loss of function in one or several crucial areas of the body. This may result in mental and physical disability and, in most cases, shortened lifespan. There are more than two dozen different LSDs, including Tay Sachs, Pompe, Gaucher, Fabry and Batten diseases.

Genzyme has established the leading franchise in therapies for LSDs with a product on the market for Type 1 Gaucher disease and a product for Fabry disease awaiting marketing clearance by the U.S. Food and Drug Administration. In 1999 Genzyme entered into a research collaboration with Genovo to evaluate the utility of gene therapy in the treatment of LSDs. Upon completing its acquisition of Genovo, Targeted Genetics and Genzyme amended the research and development agreement to include the viral gene delivery capabilities of Targeted Genetics. Under the terms of the revised agreement, Targeted Genetics will contribute to the collaboration its expertise and resources in preclinical product development. In return, Targeted Genetics will receive milestone payments upon achievement of specific development objectives and royalties on sales of any products resulting from the collaboration.

While enzyme replacement therapy has been effective in treating Gaucher disease and holds enormous promise in the treatment of Fabry disease and other LSDs, gene delivery may provide an attractive alternative therapy. The long-term expression properties of AAV vectors may result in products that are more cost-effective and can be administered less frequently. Research in this area is ongoing, powered by Targeted Genetics' expertise in AAV-based product development and Genzyme's extensive understanding of LSDs.

ADVANTAGES

STRONGER COLLABORATION WITH GREATER
LONG-TERM POTENTIAL

PROMISING ALTERNATIVE TO PROTEIN THERAPIES

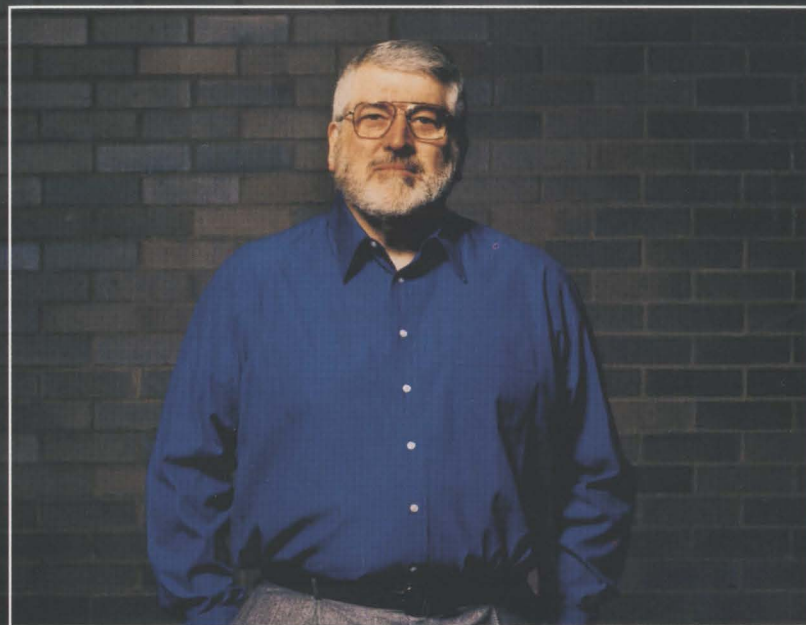
ADDITIONAL PRODUCT OPPORTUNITIES

COLLABORATION WITH LEADING DEVELOPER OF
THERAPIES FOR LYSOSOMAL STORAGE DISORDERS

OUTCOME

Leaders in hemophilia
therapies and gene delivery
technologies collaborate
to bring new treatments
to patients in need

HEMOPHILIA THERAPIES FOR THE THIRD MILLENNIUM: "American Home Products, through its Genetics Institute (GI) division, has been a leader in developing therapies to treat hemophilia. GI developed the first recombinant forms of factor VIII and factor IX proteins and has continued to be an innovator in the field. We believe that gene therapy holds enormous promise for the treatment of hemophilia, and we are committed to bringing this technology to patients who stand to benefit significantly from it. We evaluated a number of potential partners and selected Targeted Genetics based on their product development experience and AAV vector manufacturing expertise. By working with Targeted Genetics, we intend to make gene therapy for hemophilia a reality." — L. Patrick Gage, Ph.D., President, Wyeth-Ayerst Research, a division of American Home Products Corporation



VISION
PARTNER
HEMOPHILIA GENE
THERAPY PROGRAM

ACTION
SIGN \$80 MILLION
DEAL WITH AMERICAN
HOME PRODUCTS

Collaboration with American Home Products Corp.

LEADERS WORKING TOGETHER

Hemophilia, a group of diseases caused by the absence or insufficiency of proteins required for proper blood clotting, is an excellent target for treatment by gene delivery. The genes involved in hemophilia A and B have been identified and isolated, the proteins are known to provide therapeutic benefit and the level of protein expression does not need to be regulated tightly. Targeted Genetics is applying its expertise in AAV vector development to hemophilia A gene therapy.

Hemophilia gene therapy is a competitive area, and Targeted Genetics made a strategic decision to partner its hemophilia efforts in order to access additional expertise in the development of products for the hemophilia market. In establishing a strategic alliance with the Genetics Institute (GI) division of American Home Products, Targeted Genetics has partnered with the leading innovator in hemophilia therapies. GI has repeatedly demonstrated its ability to bring products to market to treat both hemophilia A and hemophilia B and has an intimate understanding of the concerns and needs of the hemophilia community.

While the collaboration will focus initially on gene therapy for hemophilia A, GI also has an option to work with Targeted Genetics in the area of hemophilia B gene therapy. GI has committed \$30 million to Targeted Genetics for hemophilia A product development alone. Funding for a potential hemophilia B program and milestone payments for both programs bring the potential value of the deal to \$80 million, excluding clinical trial and regulatory costs, manufacturing payments and royalties on sales of any products commercialized under the collaboration.


ADVANTAGES

ENTRANCE INTO THE PREMIER FRANCHISE
IN HEMOPHILIA THERAPIES

ENHANCED COMPETITIVE POSITION IN
HEMOPHILIA GENE THERAPY

SIGNIFICANT FUNDING

POTENTIAL TO ESTABLISH NEW PROGRAM
IN HEMOPHILIA B



DISCOVER

and DE

M

ED

ET

VISION

ONGOING PROGRESS
IN CLINICAL
DEVELOPMENT

ACTION

INITIATE PHASE II
STUDIES IN CYSTIC
FIBROSIS AND CANCER

OUTCOME

The only company with
both viral and synthetic vectors
in clinical development

ADVANCING THE CLINICAL PIPELINE: Targeted Genetics has applied standard biopharmaceutical processes to the development of its product pipeline. This includes building the requisite infrastructure to support clinical and regulatory needs throughout the product development cycle. As the first company to bring AAV vectors to human clinical trials, and as the only company with both viral and synthetic vectors in clinical development, Targeted Genetics has learned to navigate the complexities of the regulatory process. This base of knowledge and experience is another strategic competency that helps to differentiate Targeted Genetics from its competitors.

2000: A year of progress in the clinic

MAINTAINING MOMENTUM

2000 was a year of significant clinical progress for Targeted Genetics in its cystic fibrosis and cancer programs, now in Phase II clinical trials. In June the Company presented data from a Phase I study of aerosolized tgAAV-CF in patients with mild to moderate cystic fibrosis, demonstrating that this formulation was very well-tolerated and produced a broad distribution of the product throughout the airways, excellent gene transfer and persistence of the product for up to 90 days following a single administration. In November Targeted Genetics initiated a Phase II, double-blind, placebo-controlled, repeat dosing study of tgAAV-CF. This is the first study that will evaluate classic efficacy endpoints such as lung function. The Phase I and Phase II studies have been undertaken in collaboration with the Cystic Fibrosis Foundation's Therapeutics Development Network, which brings significant expertise and validation to the tgAAV-CF program. tgAAV-CF is partnered worldwide with Celltech Group, plc.

In May Targeted Genetics presented data from a Phase II study of tgDCC-E1A as a single-agent therapy for the treatment of head and neck cancer. Of the 21 patients evaluated in the study, one experienced a complete response as determined by tumor shrinkage, and nearly half the patients experienced partial tumor regression or disease stabilization. In all patients, the product was well-tolerated, with a good safety profile. These were very promising results in a difficult patient population and the data support further studies of tgDCC-E1A in combination with radiation or chemotherapy. Thus, in December the Company initiated a Phase II study that will evaluate tgDCC-E1A in combination with radiation therapy in patients with inoperable or recurrent head and neck cancer. Patient enrollment and dosing in Targeted Genetics' Phase I study of tgDCC-E1A in combination with chemotherapy for the treatment of ovarian cancer was ongoing in 2000 and enrollment in the study is expected to be completed this year.

ADVANTAGES

TWO PROGRAMS IN PHASE II STUDIES

tgDCC-E1A COMBINATION STUDIES WITH
SIGNIFICANT PROMISE FOR ENHANCED EFFICACY

GENERATION OF DATA TO SUPPORT
PIVOTAL STUDIES

2000 ACCOMPLISHMENTS

COMPLETED \$30.3 MILLION PRIVATE PLACEMENT

INITIATED AIDS VACCINE COLLABORATION

EXPANDED PARTNERSHIP WITH BIOGEN, INC.

EXPANDED COLLABORATION WITH GENZYME CORP.

ESTABLISHED COLLABORATION
WITH AMERICAN HOME PRODUCTS CORP.

ACQUIRED GENOVO, INC.

COMPLETED tgAAV-CF PHASE I CYSTIC FIBROSIS
STUDY AND INITIATED PHASE II TRIAL

PRESENTED PRECLINICAL DATA IN
RHEUMATOID ARTHRITIS PROGRAM

COMPLETED tgDCC-E1A PHASE II
SINGLE-AGENT HEAD AND NECK CANCER STUDY

INITIATED tgDCC-E1A PHASE II STUDY IN
COMBINATION WITH RADIATION THERAPY

Dear Shareholders

FROM H. STEWART PARKER



Vision. Action. Success. These three concepts are the fuel that powers the Targeted Genetics engine. Last year, I had the opportunity to share with you our vision for the future of gene delivery technology and our company. I spoke to you about "seeing farther," of building a long-term strategy for Targeted Genetics that would enable us to realize the potential of our technology platforms and allow us to build the premier franchise in the field of gene delivery technologies. This year, I am gratified to speak to you about action and about the steps we have taken to make our vision a reality. The actions we took in 2000 have transformed Targeted Genetics, and we enter 2001 stronger than we have ever been. The actions we took in 2000 were founded on our vision of becoming the leader in gene delivery technologies, and on our drive to bring success to Targeted Genetics, our partners, our shareholders and, most importantly, to the patients who stand to benefit most from the realization of our potential.

2000: A Year of Transformation Over the course of the past year, Targeted Genetics has greatly enhanced its leadership in four key areas of our business:

technology platform, clinical development, product opportunities and strategic alliances. Our acquisition of Genovo, Inc. significantly expanded the scope of our intellectual property in the area of AAV vectors, particularly in the area of cell-line-based approaches to manufacturing these vectors. Before the acquisition, Targeted Genetics had established distinctive competencies in large-scale manufacturing of AAV-based product candidates. The acquisition brought in exciting technology that enables rapid, small-scale production of AAV vectors. The ability to manufacture small quantities of AAV vectors very rapidly should help to speed our internal product development timelines, and enable us to evaluate more product opportunities for ourselves and our partners. Targeted Genetics is also evaluating the utility of rapid AAV production in the areas of target validation and functional genomics in order to leverage our expertise in AAV vector development and manufacturing into the development of research tools that may provide additional streams of revenue.

We made significant advances in our cystic fibrosis and cancer clinical programs. The cystic fibrosis program is evaluating an aerosolized formulation of tgAAV-CF, our most advanced AAV-based product. tgDCC-E1A, our lead product candidate based on synthetic gene delivery technology, is being evaluated in ovarian cancer and in head and neck cancer. Targeted Genetics is the only company with both viral and synthetic gene delivery systems in clinical development. Since our inception, we have recognized the importance of having access to multiple gene delivery technologies and selecting the right vector to treat a given disease. The advancement of both our viral and synthetic gene delivery platforms to Phase II clinical development helps expand our product opportunities and enhances our ability to attract partners who seek to access a comprehensive suite of gene delivery technologies. Our ability to move multiple gene delivery systems from the laboratory to clinical development underscores the extensive capabilities and experience inherent in our product development "infrastructure," which I believe is the most talented and experienced in the gene delivery sector.

Targeted Genetics' product pipeline also was transformed in 2000 and is now, we believe, the most exciting pipeline in the gene delivery sector. Product opportunities exist in the areas of acquired and inherited diseases, in therapeutic indications as well as for prophylactic vaccines, and in areas utilizing both our viral and synthetic gene delivery platforms. We have expanded the focus of our programs to include new approaches to vaccine development and to apply gene delivery technology to create potential next-generation protein therapies. Our pipeline programs target diseases with significant and growing market potential, including rheumatoid arthritis, hemophilia A, metastatic cancer, cardiovascular disorders and AIDS prophylaxis. Several of these programs have provided foundations upon which to establish important strategic collaborations, while others offer additional partnership opportunities that would further strengthen the Company.

Establishing new partnerships played a key role in the expansion of Targeted Genetics' product pipeline. The multi-product collaboration with Biogen, potentially worth \$125 million, covers the development of up to four new gene therapy product candidates while the Genzyme collaboration creates new product opportunities in the area of lysosomal storage disorders. Our partnership with the International AIDS Vaccine Initiative and the Children's Research Institute brings us a program in AIDS prophylaxis and opens new doors in the area of vaccine development. An exciting research program in the area of hyperlipidemia, a group of diseases that affects more than 4 million people in the United States alone, was added to our pipeline through our acquisition of Genovo.

While partnerships helped to broaden our product pipeline, our existing pipeline programs helped to attract significant corporate partners. Our partnership with American Home Products Corp./Genetics Institute in the area of hemophilia gene therapy, potentially worth \$80 million, resulted from the progress we already have made in the development of an AAV-based therapy for hemophilia A. The area of hemophilia gene therapy is highly competitive, and our ability to attract the leading innovator in protein-based hemophilia therapies is a testament to our leadership in

product development and AAV manufacturing. In fact, the four collaborations we initiated in 2000 and our existing collaborations with Celltech Group, plc and Elan Corporation validate our expertise in gene delivery technologies and underscore our ability to move promising ideas from concept to clinic. Our vision is to be the partner of choice for companies seeking to incorporate gene delivery technologies into their own product pipelines and our actions in 2000 indicate that we are achieving success in this area.

The collaborations we now have in place, combined with a \$30.3 million private placement completed in March 2000, should provide the financial resources to fund our programs through mid-2003. Never before have we been on such solid financial footing, and we believe that this is a direct result of the tremendous progress we have made over the past two and a half years. The potential value of our current partnerships is \$275 million, \$100 million of which is in the form of research funding, up-front payments, licensing fees and other committed funding. This funding is a source of near- and mid-term revenue that may be enhanced through the attainment of specified milestones in each of our collaborative development programs. Because our vision for the Company extends beyond just the next few years, we have taken actions designed to provide substantial long-term revenue as well. In our agreements with Celltech, Biogen and American Home Products, Targeted Genetics retains rights to manufacture products for clinical development and for commercialization of any products developed under the various collaborations. Because Targeted Genetics' proprietary manufacturing process can be scaled to meet production needs for large markets such as hemophilia A, cystic fibrosis and rheumatoid arthritis, we have been able to negotiate financially attractive supply arrangements designed to meet our partners' needs. These supply arrangements allow Targeted Genetics to sell bulk product to our partners, providing a source of long-term revenue. Our ability to structure such agreements emanates from our defining competencies in AAV manufacturing and validates our strategy of applying biopharmaceutical manufacturing processes to gene therapy.

Partners and Corporate Development As I mentioned, 2000 was a year of action for Targeted Genetics, and this was reflected in our accomplishments

2001 GOALS

COMPLETE ENROLLMENT IN PHASE I
OVARIAN CANCER STUDY

COMPLETE ENROLLMENT IN PHASE II
CYSTIC FIBROSIS STUDY

COMPLETE ENROLLMENT IN PHASE II
HEAD AND NECK CANCER STUDY

OBTAIN ADDITIONAL CORPORATE PARTNERS

COMPLETE CELLEXSYS FINANCING

PRESENT DATA FROM PRECLINICAL PROGRAMS

in the business and corporate development arenas. While each of our partnerships and our acquisition of Genovo has been highlighted in this year's annual report, it is important to recognize that each action was taken as a step toward fulfilling our long-term vision. Building the premier franchise in gene delivery technology requires multiple and diverse product opportunities, strong intellectual property to support those product opportunities and the financial and intellectual resources to maintain product development efforts over the long term.

Genovo is the second company we have acquired. The 1996 acquisition of RGene Therapeutics, Inc. provided the foundation of our platform in synthetic gene delivery systems, including the DCC formulation, which we have advanced to Phase II clinical trials. The acquisition of Genovo significantly enhanced our intellectual property in the area of cell-line-based approaches to AAV manufacturing and was undertaken to strengthen our long-term competitive position in this very promising gene delivery system. We intend to remain aggressive in our development and pursuit of leading-edge technologies that will expand our capabilities and further differentiate us from our competitors. Already in 2001 we have entered into licensing and sponsored research agreements with the University of Iowa to access promising technologies that may help to enhance the gene delivery efficiency and packaging size of AAV vectors. Our ongoing efforts to develop the most advanced gene delivery systems are enhanced by the interest that many academic and corporate institutions have in working with Targeted Genetics.

Ultimately, we expect to bring products to the market on our own. However, we believe that we can create near- and mid-term value in our programs and for our shareholders by establishing lucrative partnerships with leading biotechnology and pharmaceutical companies. As a consequence of our success in corporate partnering, we have strengthened our financial position today, diversified and enhanced our product opportunities for tomorrow and established access to the resources that will support our success into the future. Beyond what these partnerships provide in terms of important financial capital, we seek to collaborate with organizations that have extensive experience in specific therapeutic

indications or in the development of novel technologies. In combining our distinctive competencies with those of our partners, we are creating powerful synergies that are designed to advance products to commercialization while enabling us to develop additional expertise in late-stage product development and product marketing.

Distinctive competencies can be maintained only through focus on and commitment to a long-term vision. In 2000 we made a strategic decision to spin out our impressive portfolio of cell therapy assets so that appropriate focus could be placed on the exciting opportunities inherent in that technology. Our vision to build the premier franchise in gene delivery technology necessitates our continued focus on our gene delivery systems, product opportunities and partnerships. Creating a subsidiary, CellExSys, Inc., designed ultimately to operate independent of Targeted Genetics and dedicated to the commercialization of our promising cell therapy programs, will help to unlock the value of these assets without distracting us from our core focus on *in vivo* gene delivery. Moreover, CellExSys provides an environment that supports the development of distinctive competencies in the cell therapy area that will help the Company build the premier cell therapy franchise.

Maintaining Momentum and Moving Ahead Action in our scientific and clinical programs also helped to make 2000 our most successful year to date. We advanced our lead AAV and synthetic gene delivery programs to Phase II clinical studies. The Phase II study of tgAAV-CF for cystic fibrosis and our studies of tgDCC-E1A in combination with chemotherapy or radiation for the treatment of cancer will set the foundation for pivotal studies designed to support product registration and approval.

Exciting data were generated in our rheumatoid arthritis, hemophilia A and metastatic cancer preclinical programs and in our research joint venture with Elan Corporation plc., Emerald Gene Systems. These programs provide important follow-on product candidates and additional partnership opportunities, and I look forward to updating you on our progress in these programs throughout 2001.

FINANCIAL HIGHLIGHTS

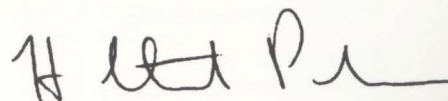
Years ended December 31

| | 2000 | 1999 | 1998 |
|---|---------------|--------------|---------------|
| Results of Operations | | | |
| Revenue | \$ 11,402,700 | \$ 6,847,993 | \$ 7,510,252 |
| Expenses | 54,734,291 | 21,084,502 | 16,372,987 |
| Loss from operations | (43,331,591) | (14,236,509) | (8,862,735) |
| Loss before cumulative effect of change in accounting principle | (43,974,004) | (26,655,135) | (8,687,049) |
| Cumulative effect of change in accounting principle | (3,681,687) | — | — |
| Net loss | (47,655,691) | (26,655,135) | (8,687,049) |
| Net loss applicable to common stock | (48,540,956) | (27,030,648) | (8,687,049) |
| Basic and Diluted Net Loss Per Share | | | |
| Net loss applicable to common stock | (1.29) | (0.84) | (0.33) |
| Shares used in computing basic and diluted net loss per share | 37,752,164 | 32,173,756 | 26,637,823 |
| Financial Condition | | | |
| Cash, cash equivalents, and securities available for sale | \$ 38,630,216 | \$ 7,153,269 | \$ 11,956,796 |
| Total assets | 87,974,042 | 13,692,478 | 16,204,083 |
| Long-term obligations, including current portion | 3,284,319 | 3,248,382 | 2,072,044 |
| Shareholders' equity | 63,431,597 | 6,965,514 | 11,981,759 |

The actions we undertook across all aspects of our business in 2000 were the result of hard work and dedication from all of our employees, and I would like to take this opportunity to acknowledge those efforts. I believe our team has the requisite knowledge, experience and passion to fulfill our vision of building the premier franchise in gene therapy. We do not underestimate the challenges still ahead, particularly the ever-changing regulatory environment for gene therapy, and the continuing need for capital. Over the course of 2001 our employees will focus on product development — steering a course through the regulatory arena, enrolling patients in our clinical programs, advancing our preclinical programs — and on establishing new collaborative opportunities and creating maximum value in our existing partnerships.

I know that you, our shareholders, share our vision and support our actions. I am tremendously proud of all that we have accomplished in the past year and, with all the opportunities ahead of us, I believe we will merit your support again in 2001 and beyond. We will continue to build the premier franchise in gene delivery technology so that we all may share in the success of our people, our products and our partnerships.

Sincerely,



H. Stewart Parker
President and
Chief Executive Officer

Board of Directors

Jeremy Curnock Cook
Chairman of the Board
Former Director,
Rothschild Asset Management Ltd

Jack L. Bowman
Former Company Group Chairman
Johnson & Johnson

Joseph M. Davie
Former Senior Vice President, Research
Biogen, Inc.

James D. Grant
Former Chairman and
Chief Executive Officer
T Cell Sciences, Inc.

Louis P. Lacasse
President
GeneChem Management, Inc.

Nelson L. Levy, Ph.D., M.D.
Chairman and Chief Executive Officer
CoreTechs Corporation

H. Stewart Parker
President, Chief Executive Officer
Targeted Genetics Corporation

Mark Richmond, Ph.D., D.Sc.
Former Director of Research
Glaxo plc

Management

H. Stewart Parker
President, Chief Executive Officer

Barrie J. Carter, Ph.D.
Executive Vice President
Chief Scientific Officer

Pervin Anklesaria, Ph.D.
Vice President, Research

E. Morrey Atkinson, Ph.D.
Vice President, Development

Vaughn B. Himes, Ph.D.
Vice President, Manufacturing

Thomas C. Reynolds, M.D., Ph.D.
Vice President, Clinical Affairs

David M. Schubert
President, CellExSys, Inc.

Janet Rose Christensen
Senior Director, Regulatory Affairs
and Quality Assurance

Victoria Batler Cleator
Senior Director, Operations

Richard W. Peluso, Ph.D.
Senior Director, Technology
Development

David J. Poston
Senior Director, Finance

B.G. Susan Primrose
Senior Director, Business Development

Geoff E. Roach
Senior Director, Human Resources

Haim Burstein, Ph.D.
Director, Product Discovery

Kim Wieties Clary, Ph.D.
Director, Intellectual Property

Dara H. Lockert
Director, Project Management

Carmel M. Lynch, Ph.D.
Director, Preclinical Biology

Ralph W. Paul, Ph.D.
Director, Technology Discovery

Stephanie H. Seiler, Ph.D.
Director, Communications

Charles L. Smith, Jr.
Director, Quality Control

Karen E. Weissner
Director, Information Systems

Corporate Headquarters

1100 Olive Way, Suite 100
Seattle, Washington 98101
Telephone 206.623.7612
www.targetedgenetics.com

Transfer Agent and Registrar

Mellon Investor Services
85 Challenger Road
Ridgefield Park, New Jersey 07660
Telephone 1.800.522.6645

Shareholder Inquiries

Inquiries regarding the Company and
its activities may be directed to the
Communications Department at the
corporate headquarters.

Communications concerning stock and
transfer requirements, lost certificates
and changes of address should be
directed to the Transfer Agent.

General Counsel

Orrick, Herrington & Sutcliffe LLP
Seattle, Washington

Independent Auditors

Ernst & Young LLP
Seattle, Washington

News Releases

News Releases are available on the
Internet at www.targetedgenetics.com.

Stock Listing

Targeted Genetics' common stock is
traded on the Nasdaq National Market
under the symbol TGEN.

Price Range of Common Stock

As of March 1, 2001, there are
approximately 18,200 holders of
Targeted Genetics' common stock.
Targeted Genetics has never paid
dividends and the Company does not
anticipate paying dividends in the
foreseeable future.

| 2000 | High | Low |
|----------------|----------------------------------|--------------------------------|
| First Quarter | 28 | 3 ⁵ / ₈ |
| Second Quarter | 15 | 5 ⁵ / ₁₆ |
| Third Quarter | 17 | 9 |
| Fourth Quarter | 12 ¹³ / ₁₆ | 6 ³ / ₈ |

| 1999 | High | Low |
|----------------|---------------------------------|--------------------------------|
| First Quarter | 3 ¹ / ₆ | 1 ⁵ / ₁₆ |
| Second Quarter | 1 ¹³ / ₁₆ | 1 ⁷ / ₁₆ |
| Third Quarter | 2 ³ / ₄ | 1 ¹ / ₂ |
| Fourth Quarter | 4 ⁷ / ₈ | 1 ¹ / ₄ |

Annual Meeting

The annual meeting of shareholders
will be held at 8:00 a.m. on Tuesday,
May 8, 2001, at the Washington
Athletic Club, 1325 Sixth Avenue,
Seattle, Washington.

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www.chemistry-design.com

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