To our shareholders:

At Cell Therapeutics, Inc. (CTI), our mission is to make cancer more treatable by developing less toxic and more effective versions of drugs that are the cornerstones of current cancer treatment regimens. In 2005, we refocused our efforts on the development of our most promising product candidates. We are concentrating our assets and resources to advance toward market those drug candidates that we believe will provide the greatest near-term return on our investments while also preserving our long-term growth potential.

Throughout 2005, we remained intent on the prospect of bringing much needed, better treatments for cancer patients as we adapted to the dynamic environment of oncology drug development, ending the year with a refocused strategy and the essential resources to bring our promising products to review and potential approval.

A key objective in 2005 was reporting data from the phase III clinical trial program of XYOTAX™ (paclitaxel poliglumex) in patients with non–small cell lung cancer (NSCLC) and using those data to devise regulatory strategies to support its approval in the United States and Europe. Results of the STELLAR trials demonstrated that XYOTAX as a single agent at 175 mg/m^2 provides efficacy similar to approved chemotherapeutic agents, with similar or reduced side effects; is easier to administer; and reduces the cost associated with standard therapies. Although the three STELLAR trials did not achieve their overall primary endpoints of improved survival, a significant survival benefit was observed in the STELLAR 3 and STELLAR 4 trials in women treated with XYOTAX, compared to standard chemotherapy.

While the top-line results were unexpected and disappointing, further analyses identified a potential estrogen enhancement of XYOTAX. These data have important implications for the treatment of women with NSCLC and the development of other products based on our polyglutamate technology. In each of these areas, we have allowed the science and the data to drive our course of action.

Based on the compelling data showing a substantial survival advantage in women with PS2 NSCLC treated with XYOTAX, compared with the control chemotherapies, we believe it is our responsibility to make the drug available to this population of patients as expeditiously as possible. In December 2005, we initiated a phase III trial (PIONEER) of XYOTAX as first-line therapy for PS2 women with NSCLC in order to confirm the observed gender-based survival advantage seen in the two STELLAR first-line phase III trials. In February 2006, the U.S. Food and Drug Administration (FDA) confirmed that XYOTAX qualifies for fast track status for the treatment of PS2 women with first-line NSCLC.

Although the results of the STELLAR trials led to an alteration in our initial timeline for submitting the XYOTAX New Drug Application (NDA), we believe that focusing on the gender-specific potential of this novel, biologically enhanced taxane will provide significant benefits to patients while maintaining the drug's commercial potential. Our present target for submission of the NDA is toward the end of 2006 and is timed to have the interim results of the PIONEER trial coincide with our expectation for FDA review. With a favorable review, we anticipate the earliest possible launch of the product in the United States in late 2007. In Europe, we are targeting a submission for XYOTAX in PS2 men and women with NSCLC at the end of 2006, with potential product approval thereafter.

Not only did the XYOTAX gender data drive our clinical and regulatory strategies, they also catalyzed several critical changes in our business and operational infrastructure in 2005. To ensure that we have the financial resources necessary to support our operations as we work toward XYOTAX and pixantrone approval and launch, we reduced our headcount and minimized our facility-related and discretionary operating expenses. We are now positioned to focus our financial and human resources on achieving our near-term objectives: obtaining marketing approval for XYOTAX and completing the pivotal phase III trial of pixantrone in patients with non-Hodgkin's lymphoma (NHL).

With a more flexible and sustainable infrastructure and with significant commercial opportunities ahead, we successfully raised $82 million through the sale of new convertible debt. In connection with the sale, $38.4 million in old debt was retired through debt conversions. As a result of these transactions, we strengthened our balance sheet and brought in additional financial resources to fund the advancement of XYOTAX and pixantrone toward the market.

In late 2004, prior to completing the STELLAR trials, we made a strategic decision to divest the TRISENOX® brand in order to concentrate our resources on XYOTAX and pixantrone. In July 2005, we successfully completed the sale of the brand to Cephalon, Inc., for a total of $71.9 million, net of broker fees, and up to $100 million in potential future milestone payments, a significant premium to TRISENOX sales.

In 2006, we expect to file for approval of XYOTAX in the United States and Europe, and will continue enrollment in the PIONEER phase III NSCLC trial and the phase III ovarian cancer maintenance trial. We also anticipate conducting an interim analysis of the ongoing phase III pixantrone NHL trial, while continuing to explore the potential of this novel anthracycline in additional indications and treatment regimens.

Longer term, we believe that our polyglutamate polymer technology has significant potential in improving the safety and efficacy of a variety of commonly used chemotherapeutics. Knowledge gained through the STELLAR trials about the impact of estrogen on the metabolism of polyglutumate-conjugated compounds will help to guide the development of CT-2106, which links a camptothecin to the polyglutamate, and other novel therapies based on this technology, which biologically enhances cytotoxic chemotherapy.

We are committed to creating value for patients and for our shareholders. In the months ahead, that commitment will drive all of us at CTI to attain our goals of securing a global partner for XYOTAX and bringing this important therapy to cancer patients in need of new treatment options. Along the way, we will continue to advance pixantrone and CT-2106, manage our financial resources pragmatically, and explore additional opportunities to grow through acquisition.

Our vision is to make cancer more treatable, and I thank you for your support as we work to make that vision a reality.

James A. Bianco, M.D.
President, Chief Executive Officer, and Shareholder

"The results of the STELLAR trials open the door to a new paradigm of gender-specific cancer therapies that address the fundamental biological differences between men and women. From a clinical perspective, this will allow treatment regimens to be optimized to the individual patient."

James A. Bianco, M.D., President, Chief Executive Officer, CTI

Corporate Directory

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Seattle, Washington 98119
206.282.7100
www.cticseattle.com

Independent Auditors
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1620 26th Street, Suite 400 S.
Santa Monica, California 90404

Outside Counsel
Michael J. Kennedy
O'Melveny & Myers, LLP
Embarcadero Center W.
275 Battery Street
San Francisco, California 94111

Registrar and Transfer Agent
Communications concerning transfer requirements, certificate exchanges, lost certificates, changes of address, and name changes should be directed to the Transfer Agent:

Computershare Investor Services
2 N. La Salle Street
Chicago, Illinois 60602
312.588.4187

Investor Relations/ Public Relations
Security analysts, investment professionals, interested investors, and the media should direct their inquiries to:

800.664.CTIC
www.cticseattle.com
invest@ctiseattle.com
media@ctiseattle.com

Shareholder Inquiries
For questions regarding accounts or to request corporate information, shareholders may write or call:

Shareholder Relations
501 Elliott Avenue W., Suite 400
Seattle, Washington 98119
800.664.CTIC

Stock Information
The Company's initial public offering was March 21, 1997. The Company's common stock trades on the NASDAQ and MTAX stock exchanges under the symbol CTIC.

No dividends have been paid on the common stock to date, and the Company does not anticipate paying dividends in the foreseeable future.

On March 10, 2006, there were approximately 275 holders of record of the Company's common stock.

The following table lists the high and low reported sales prices for the Company's common stock as reported on NASDAQ:

2005

Quarter	High	Low
1st	$ 10.85	$ 3.49
2nd	4.05	2.47
3rd	3.49	1.97
4th	2.83	2.10

Annual Meeting
Detailed information regarding the Annual Meeting will be available on CTI's Web site and in the Proxy Statement.

Directors*
John H. Bauer(2)
Director
Former Executive Vice President, Nintendo of America, Inc.

James A. Bianco, M.D.
Director
President and Chief Executive Officer, Cell Therapeutics, Inc.

Vartan Gregorian, Ph.D.(1, 2, 3)
Director
President, Carnegie Corporation

Mary O. Mundinger, D.P.H.(1, 3)
Director
Dean of School of Nursing, Columbia University

Phillip M. Nudelman, Ph.D.(1, 2, 3)
Chair of the Board of Directors
President and CEO, Hope Heart Institute

Jack W. Singer, M.D.
Director
Executive Vice President and Chief Medical Officer, Cell Therapeutics, Inc.

Senior Management Team*
James A. Bianco, M.D.
President, Chief Executive Officer, and Director

Alberto Bernareggi, Ph.D.
Managing Director, Cell Therapeutics Europe S.r.l.

Louis A. Bianco
Executive Vice President, Finance and Administration

Jade Brown
Executive Vice President, Chief Business Officer

Dan Eramian
Executive Vice President, Corporate Communications

Jack W. Singer, M.D.
Executive Vice President, Chief Medical Officer, and Director

Scott Stromatt, M.D.
Executive Vice President, Clinical Development and Regulatory Affairs

Except for the historical information contained herein, the matters set forth in this Annual Report include information concerning our drug development pipeline, including anticipated regulatory timelines and the status of clinical trials, which are forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially, including the likelihood of continued efficacy in treatment of cancers with our products, the commercialization of our products, and our ability to successfully develop and support new indications; the impact of technological advances and competition; the timing and ability to enroll and complete clinical trials; the role that other factors and other competitive products may play in accelerating the discovery and development of new therapeutic products; and other risks detailed elsewhere in this report and from time to time in CTI's SEC reports, including its Annual Report on Form 10-K for the year ended December 31, 2005. These forward-looking statements speak only as of the date thereof. CTI disclaims any intent or obligation to update these forward-looking statements.

*As of March 10, 2006

(1) Member of the Compensation Committee.
(2) Member of the Audit Committee.
(3) Member of the Nominating and Governance Committee.

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A Commitment to More Effective Cancer Treatments and Cancer Drugs

As CTI's cancer drugs progress through clinical trials to commercialization, our commitment to patients and the real issues of their cancer treatments grows stronger. The challenge to overcome the therapeutic limitations of cancer treatment provides us with focus and a sense of urgency.

Making cancer more treatable®

www.cticseattle.com