



DEVELOPMENT PIPELINE

**PULMONOLOGY**

**Interferon Gamma-1b**  
*Idiopathic pulmonary fibrosis*

**Pirfenidone**  
*Idiopathic pulmonary fibrosis*

**Pirfenidone**  
*Hermansky-Pudlak Syndrome*

**Next Generation Interferon Gamma**

**HEPATOLOGY**

**Interferon Alfacon-1 + Ribavirin**  
*Hepatitis C nonresponders*

**Interferon Alfacon-1 + Interferon Gamma -1b**  
*Hepatitis C nonresponders*

**PEG-Alfacon-1**  
*Chronic hepatitis C virus infections*

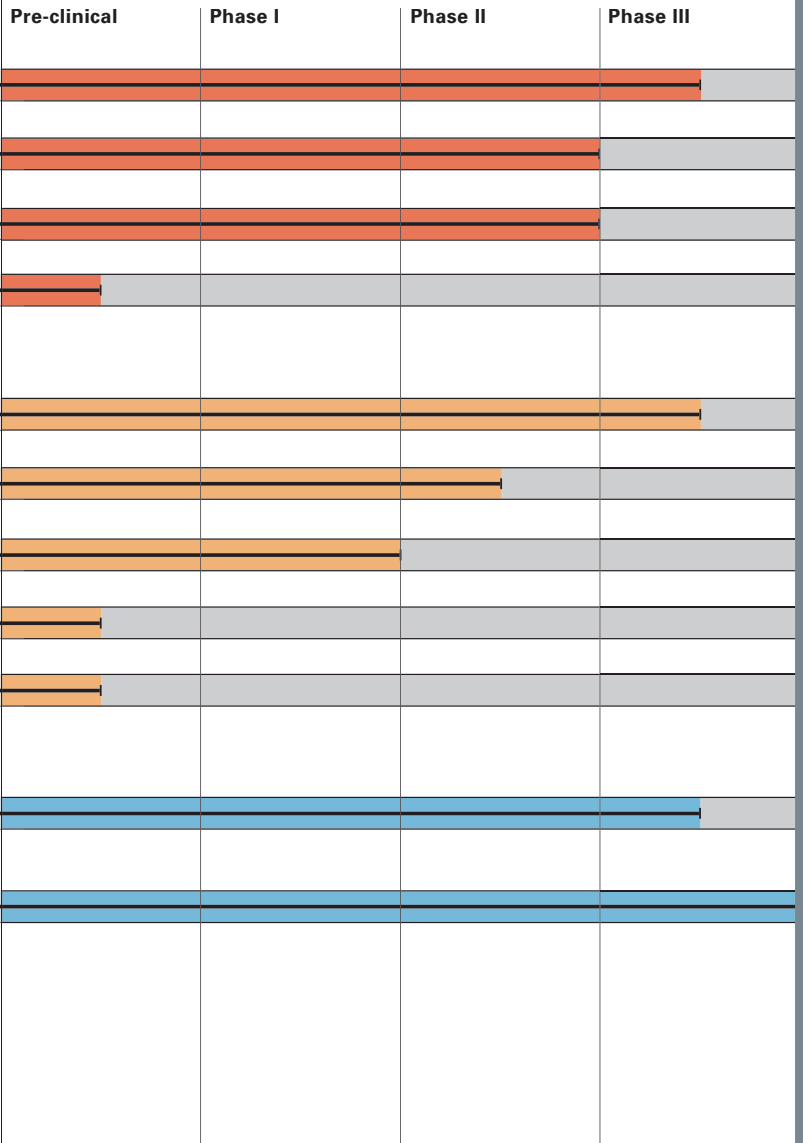
**Protease Inhibitor**

**Next-Generation Interferon Gamma**

**NON-CORE ASSETS**

**Interferon Gamma -1b**  
*Ovarian cancer*

**Oritavancin**  
*Complicated skin and skin-structure infections*



2004 was an important rebuilding year for InterMune, and I am very pleased with the progress we made. During the year, we:

- Successfully narrowed our therapeutic focus to two areas: hepatology and pulmonology
- Significantly advanced our late-stage clinical development programs
- Published and presented important data demonstrating the potential of the compounds in our pipeline to help patients with serious unmet medical needs
- Turned Infergen® (interferon alfacon-1) into a revenue growth brand
- Strengthened our financial position
- Completed the transformation of our executive team

**An Aggressive Approach to Hepatitis C Nonresponders** It is estimated that there are currently four million people infected with the hepatitis C virus (HCV) in the United States, making it much more common than the human immunodeficiency virus (HIV). Current first-line therapy for HCV is treatment with a pegylated interferon alpha 2 plus ribavirin, which provides a cure for approximately 50% of patients. Those patients who do not respond to this first-line therapy are called nonresponders. There are approximately 200,000 nonresponders in the United States, and this number is growing by an estimated 50,000 patients each year.

We took bold steps last year to create value in our hepatology pipeline and to expand the options for patients suffering from chronic HCV infections. Three times a week dosing of Infergen is currently indicated for the treatment of adults with chronic HCV. Infergen is also the only Food and Drug Administration (FDA) approved interferon alpha with data in its label regarding the treatment of patients who failed to adequately respond to prior interferon alpha therapy. In 2004, we launched a significant effort to position Infergen for use by nonresponders and transformed this brand into an important revenue contributor for InterMune. Infergen revenue in 2004 was \$22 million, a 140% increase over 2003.

During the first half of 2004, we initiated two very important clinical trials to evaluate the daily dosing of Infergen for the treatment of nonresponders: the Phase III DIRECT Trial of daily Infergen plus ribavirin and the Phase IIb trial of daily Infergen plus Actimmune® (interferon gamma-1b), with and without ribavirin. Several investigator-initiated studies suggest that daily Infergen, in combination with ribavirin, could potentially provide a cure for nonresponders. Based on this data, we initiated the 510-patient Phase III DIRECT Trial in June 2004. We anticipate enrollment of this trial to be completed in the third quarter of 2005 and 72-week data to be reported in the first half of 2007.

There is promising in vitro and independent clinical data that support the synergistic effect of two of our products, Infergen and Actimmune, in combination. This data has been presented at medical conferences and is the scientific rationale behind our Phase IIb trial of the combination of daily Infergen and Actimmune, with and without ribavirin, for the treatment of nonresponders. We initiated this 280-patient trial in May 2004, and we expect enrollment to be completed in the third quarter of 2005 and 72-week data to be reported in 2007.

During 2004, we made great progress on our new research program to discover and develop novel HCV protease inhibitors. We believe this class of compounds, which may inhibit replication of the HCV virus, could prove to be an important component of first-line treatment of HCV patients. In connection with this program, we signed a licensing agreement with Chiron Corporation and extended our discovery collaboration with Array BioPharma Inc. in the second half of 2004. At the American Association for the Study of Liver Diseases medical conference in November 2004, we presented preclinical data on the discovery and characterization of a number of potent and selective small molecule inhibitors of the HCV protease arising out of this research effort.

**Committed to Innovative Therapies for Idiopathic Pulmonary Fibrosis (IPF)** In the area of pulmonology, InterMune is committed to serving the needs of IPF patients by advancing diagnosis and disease awareness and by developing and commercializing innovative medicines to treat this condition. IPF, which afflicts approximately 83,000 patients in the United States, is characterized by progressive scarring, or fibrosis, of the lungs and typically results in death within two to five years of diagnosis. There is currently no FDA approved therapy for the treatment of IPF. We are developing both Actimmune and pirfenidone, an oral small molecule compound, for the treatment of this deadly disease.





**Front Row:** Williamson Z. Bradford, M.D., Ph.D., Vice President of Clinical Science; Steven B. Porter, M.D., Ph.D., Senior Vice President of Clinical Affairs; Thomas R. Kassberg, Senior Vice President of Business Development and Corporate Strategy; Roger L. Hawley, Executive Vice President of Commercial and Technical Operations

**Back Row:** Cynthia Y. Robinson, Ph.D., Senior Vice President of Therapeutic Area Teams; Howard A. Simon, Esq., SPHR, Senior Vice President of Human Resources and Associate General Counsel; Robin J. Steele, Esq., Senior Vice President, General Counsel and Corporate Secretary; Daniel G. Welch, President and Chief Executive Officer; Lawrence M. Blatt, Ph.D., Senior Vice President of Preclinical and Applied Research; Norman L. Halleen, Senior Vice President of Finance and Chief Financial Officer; Marianne T. Armstrong, Ph.D., Senior Vice President of Regulatory, Medical Affairs and Drug Safety

An article published in the January 2005 issue of CHEST, the journal of the American College of Chest Physicians, provides additional analyses of data from our first Phase III trial of Actimmune for IPF. These analyses conclude that survival is the preferred outcome measure for future studies of Actimmune in patients with IPF and support the design of our ongoing Phase III INSPIRE Trial, a 600-patient, placebo controlled study with survival as its primary endpoint. We anticipate enrollment of the INSPIRE Trial to be completed by the end of 2005 and two-year treatment data to be reported in early 2008.

In 2004, the FDA and the European Medicines Agency (EMA) granted orphan drug designation for pirfenidone for the treatment of IPF in the United States and Europe, respectively. Orphan drug designation provides a period of market exclusivity for pirfenidone in these markets. During 2004, we made significant progress in our pirfenidone development program, including completing an analysis of prior pirfenidone trial data, negotiating a data-sharing agreement with Shionogi & Co., LTD, and conducting an end-of phase II meeting with the FDA. As a result of this productive meeting with the FDA, we now plan to move forward with a Phase III development program for pirfenidone in IPF.

**Strengthening Financials and Leveraging Assets** In 2004, we created a new revenue growth brand in Infergen, and we continued to apply fiscal discipline throughout the organization, focusing development on our two core therapeutic areas. We reduced our 2004 net loss by \$38 million, a 39% reduction over 2003, and we strengthened our balance sheet by replacing a \$150 million high-interest convertible note due in 2006 with a \$170 million lower interest convertible note due in 2011. In doing so, we reduced our annual interest expense by over \$8 million and deferred our payment obligations by 5 years.

We are investing heavily in InterMune's future. At the end of 2004, we had three Phase III and one Phase IIb clinical trials underway. Still, there are other exciting product candidates in our pulmonology and hepatology portfolios that merit investment. Therefore, we are seeking partnerships to increase the speed and mitigate the risk and expense of some of these programs.

While cancer is outside of our two areas of therapeutic focus, we decided to continue a Phase III trial evaluating Actimmune in ovarian cancer because it required relatively little additional investment. An interim analysis of progression-free survival is planned for the second half of 2005, and the results of this analysis will guide further investment decisions.

Importantly, we significantly strengthened our leadership team in 2004. During the year, we added seven new senior executives to our Executive Committee and recruited 19 Vice President and Director level professionals. I am confident that InterMune now has the depth and breadth of experienced leadership to deliver on our exciting opportunities.

**2005 – A Year for Execution** Armed with promising clinical data for our compounds, solid revenue growth of our Infergen brand, and a new and very experienced leadership team, we believe InterMune is poised for success in 2005. Looking ahead, we expect a year of strong growth in Infergen sales and meaningful progress in our late-stage clinical development programs. We will remain focused on developing two very exciting pipelines, the first in HCV and the second in IPF, to meet the unmet needs of patients who suffer from these deadly diseases.

We appreciate your continued support and confidence, and look forward to updating you throughout the year.

Sincerely,

Daniel G. Welch  
President and Chief Executive Officer

**EXECUTIVE MANAGEMENT**

Daniel G. Welch  
President and Chief Executive Officer

Roger L. Hawley  
Executive Vice President of  
Commercial and Technical  
Operations

Marianne T. Armstrong, Ph.D.  
Senior Vice President of Regulatory,  
Medical Affairs and Drug Safety

Norman L. Halleen  
Senior Vice President of Finance  
and Chief Financial Officer

Lawrence M. Blatt, Ph.D.  
Senior Vice President of Preclinical  
and Applied Research

Thomas R. Kassberg  
Senior Vice President of Business  
Development and Corporate Strategy

Steven B. Porter, M.D., Ph.D.  
Senior Vice President  
of Clinical Affairs

Howard A. Simon, Esq., SPHR  
Senior Vice President of  
Human Resources and  
Associate General Counsel

Robin J. Steele, Esq.  
Senior Vice President, General Counsel  
and Corporate Secretary

Cynthia Y. Robinson, Ph.D.  
Senior Vice President of  
Therapeutic Area Teams

Williamson Z. Bradford, M.D., Ph.D.  
Vice President of Clinical Science

**BOARD OF DIRECTORS**

William R. Ringo  
Chairman of the Board  
President and Chief Executive Officer  
Abgenix, Inc.

Daniel G. Welch  
President and Chief Executive Officer  
InterMune, Inc.

William A. Halter  
Former Acting Commissioner  
and Deputy Commissioner  
Social Security Administration of the  
United States of America

**BOARD OF DIRECTORS (CONT'D)**

James I. Healy, M.D., Ph.D.  
Managing Director and Vice President  
Sofinnova Ventures

Thomas R. Hodgson  
Former President  
and Chief Operating Officer  
Abbott Laboratories

Jonathan S. Leff  
Partner  
Warburg Pincus LLC

Michael L. Smith  
Retired Executive Vice President  
and Chief Financial Officer  
Wellpoint, Inc.

**ANNUAL MEETING**

The annual stockholders meeting will  
be held on May 26, 2005 at 9:00 a.m.  
at InterMune, Inc., 3280 Bayshore  
Boulevard, Brisbane, CA

**LEGAL COUNSEL**

Cooley Godward LLP  
Palo Alto, CA

**CORPORATE SECRETARY**

Robin J. Steele, Esq.  
Senior Vice President, General Counsel  
and Corporate Secretary

**INDEPENDENT AUDITORS**

Ernst & Young LLP  
Palo Alto, CA

**TRANSFER AGENT**

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San Francisco, CA 94104  
(800) 356-2017

**STOCK LISTING**

Symbol: ITMN  
Stock Exchange: NASDAQ

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**Stockholder Information** Since our initial public  
offering of common stock, \$0.001 par value, on March  
24, 2000, our common stock has been traded on the  
NASDAQ National Market under the symbol ITMN. As  
of February 28, 2005, there were 121 stockholders of  
record. No cash dividends have been paid to date by  
us, and we do not anticipate the payment of dividends  
in the foreseeable future.

**Forward-Looking Statements/Risk Factors**

Except for the historical information contained herein,  
this letter contains certain forward-looking statements  
that involve risks and uncertainties, including without  
limitation, the statements indicating that InterMune:  
(i) has several development programs with potential  
to address unmet medical needs in hepatology and  
pulmonology; (ii) believes that once-daily doses of  
Infergen in combination with ribavirin may provide a  
cure for HCV nonresponders; (iii) believes that Infergen  
in combination with Actimmune may have a synergistic  
effect; (iv) believes that HCV protease inhibitors may  
inhibit replication of the HCV virus and could provide  
an important component of first-line treatment of  
HCV patients; (v) expects to move forward with a  
Phase III development program for pifrenidone in  
IPF; (vi) expects a year of strong growth in Infergen  
sales and meaningful progress in its late-stage clinical  
development programs; and (vii) expects to complete  
enrollment of any particular clinical trial and to report  
data relating to any such trial by a specified date.  
Factors that could cause actual results or outcomes  
to differ materially from those expressed in any  
forward-looking statement include, but are not limited  
to, those discussed in our Form 10-K filed with the SEC  
on March 16, 2005 and enclosed herewith (our "Form  
10-K"), including the factors discussed in detail under  
the heading "Risk Factors" in Item 1 of our Form 10-K.  
Further, any forward-looking statement speaks only as  
of the date on which it is made, and we undertake no  
obligation to update any forward-looking statement to  
reflect events or circumstances after the date of this  
letter to reflect the occurrence of unanticipated events.



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