

intermune
annual report
2005



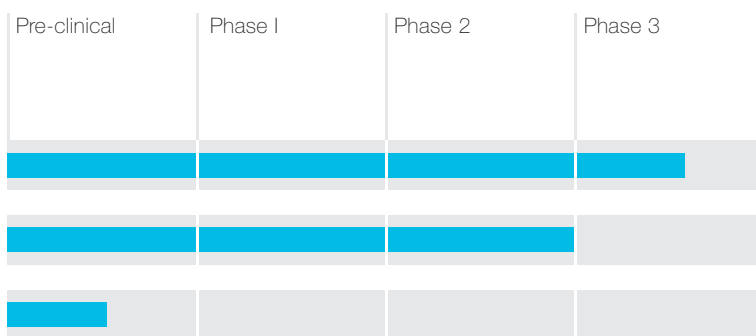
development pipeline

pulmonology

Interferon Gamma-1b
Idiopathic pulmonary fibrosis

Pirfenidone
Idiopathic pulmonary fibrosis

**Next Generation
Interferon Gamma**



hepatology

Protease Inhibitor



2005 accomplishments

- Significantly improved our financial flexibility and strategic focus by divesting Infergen® (interferon alfacon-1) for an up-front payment of \$120 million plus fixed and milestone payments that may reach an additional \$22 million and by implementing plans expected to reduce 2006 SG&A expenses by approximately \$60 million
- With the increased financial flexibility, we decided not to partner our promising hepatitis C virus (HCV) protease inhibitor at least through Phase 1b; we completed important preclinical work and selected a lead candidate, ITMN 191 (formerly known as ITMN B), with the intent of submitting a European Clinical Trial Authorisation (CTA) in the third quarter of 2006
- Finalized the design of the Phase III pirfenidone development program, CAPACITY, with input from United States and European regulatory health authorities, for which patient enrollment is expected to begin in the first half of 2006
- Achieved important patient enrollment targets for two Phase III clinical trials, INSPIRE (Actimmune® (interferon gamma-1b) for the treatment of patients with idiopathic pulmonary fibrosis (IPF)) and DIRECT (Infergen® plus ribavirin for the treatment of nonresponding patients with HCV)
- Obtained new composition-of-matter patents for interferon gamma-1b (Actimmune®), extending our exclusivity by eight years, through 2022
- Divested two non-core assets, Amphotec® and oritavancin, that remained from a prior corporate focus on infectious diseases

to our shareholders

2005 was a year of major strategic change and significant accomplishment for InterMune.

In terms of major strategic change, in November 2005, we significantly tightened our strategic focus by announcing three important changes to our company. First, we divested Infergen® for \$120 million in up-front cash and approximately \$22 million in fixed and potential milestone payments. Second, we refined our Research and Development (R&D) strategy to focus our resources on the three programs with the greatest potential to deliver value to shareholders. Third, we committed to a plan to significantly reduce our annual Selling, General and Administrative (SG&A) expense.

These three initiatives have been fully implemented and, in doing so, we have substantially improved the focus and financial position of our company and enhanced our ability to create meaningful value for our shareholders. We believe that this stronger financial position will enable us to fund our development programs, while avoiding the need for a financing in the near term and providing more flexibility regarding partnering any of these programs. By dedicating our resources to our high-value programs, we believe we are in position to advance these programs more rapidly toward their respective milestones.

Pulmonology:

Leaders in the Development of New Therapies for IPF

We believe that the approximately 83,000 people in the U.S. with idiopathic pulmonary fibrosis (IPF) represent a seriously underserved patient population and a major unmet medical need, as there is presently no therapy approved by the United States Food and Drug Administration (FDA) to treat patients with this condition. We believe we are well positioned to be a leader in delivering such a therapy, as we have the world's two most clinically advanced Phase III development programs for IPF. We are committed to the rapid development and, if data support it, the commercialization of Actimmune® and pirfenidone for patients with this terrible disease.

Our first program in IPF, the INSPIRE trial, is a Phase III, randomized, double-blind, placebo-controlled, multi-national study designed to inves-

tigate the effect of Actimmune® on survival in patients with IPF. INSPIRE is based on encouraging observations in a previous trial of Actimmune® in IPF, GIPF-001, in which patients with mild to moderate IPF treated with Actimmune® appeared to have an increased survival rate when compared to patients receiving placebo. We plan to complete enrollment in INSPIRE in the first half of 2006 and we expect to disclose top-line data from this study in early 2008.

Last October, we finalized the design of our Phase III program for pirfenidone, our second compound for the treatment of patients with IPF, after receiving input from both the FDA and European Medicines Evaluation Agency (EMA). This program, named CAPACITY, is expected to involve approximately 550 patients in two separate multi-national Phase III trials. Change in lung function, as measured by change in forced vital capacity, will be the primary endpoint, based on encouraging results from several Phase II studies. In the one controlled Phase II study conducted by Shionogi & Company, LTD and published in the American Journal of Respiratory and Critical Care Medicine¹, the lead authors reported that treatment with pirfenidone reduced the rate of decline in lung capacity and decreased the frequency of acute exacerbations. We expect to initiate the CAPACITY program in the first half of 2006 and we plan to run the two trials concurrently. Data from CAPACITY are expected in early 2009.

Hepatology:

Our HCV Protease Inhibitor Program

In hepatology, we are now focusing our resources on what we believe is the next-generation of HCV therapies – potent oral medicines, or small molecules – that possibly could offer a significant improvement to existing treatment for millions of HCV patients.

In 2005, we made significant progress on our preclinical HCV protease inhibitor program. During the year, we presented preclinical data demonstrating the favorable potency, pharmacokinetics and tolerability profile of our two lead compounds. In the third quarter, we chose a lead compound, ITMN 191 (formerly known as ITMN B), and we continued to make progress toward achieving our goal to submit the European equivalent of the U.S. Investigational New Drug application, known as a Clinical Trial Authorisation (CTA), in the third quarter of 2006. In addition, we continued a dedicated research program to develop follow-on compounds to ITMN 191 and second-generation protease inhibitors.



Back Row: Norman L. Halleen, Senior Vice President of Finance and Chief Financial Officer; Robin J. Steele, Esq., Senior Vice President, General Counsel and Corporate Secretary; Lawrence M. Blatt, Ph.D., Chief Scientific Officer; Daniel G. Welch, President and Chief Executive Officer; Thomas R. Kassberg, Senior Vice President of Corporate Development and Commercial Operations; Howard A. Simon, Esq., Senior Vice President of Human Resources and Corporate Services and Associate General Counsel

Front Row: Marianne T. Armstrong, Ph.D., Chief Medical Affairs and Regulatory Officer; Steven B. Porter, M.D., Ph.D., Chief Medical Officer; Williamson Z. Bradford, M.D., Ph.D., Vice President of Clinical Science; Cynthia Y. Robinson, Ph.D., Senior Vice President of Development Operations

Important Scientific Presentations and Publications

We had a significant presence at four major medical conferences during 2005 highlighting our growing R&D capabilities. During the year, InterMune scientists, collaborators, and independent investigators presented more than 25 abstracts, posters and oral presentations of preclinical and clinical research involving InterMune drug compounds in both our pulmonology and hepatology portfolios.

During 2005, several important peer-reviewed articles relating to our development programs were published in leading scientific journals. These included three articles that supported the rationale and design of our Phase III INSPIRE trial, one that supported the endpoint of our planned Phase III pirfenidone program, CAPACITY, and one that advanced the understanding of the clinical course of patients with mild to moderate IPF.

Other Corporate and Clinical Development Accomplishments

In 2005, we also achieved our corporate objective of divesting two non-core assets that remained from our prior interest in infectious diseases. In May, we sold Amphotec® to Three Rivers Pharmaceuticals and in late December we sold oritavancin to Targanta Therapeutics.

Supportive of our continued clinical development investment in Actimmune® (interferon gamma-1b), two composition-of-matter patents were issued by the U.S. Patent and Trademark Office that together cover the manufacture, use and sale of interferon gamma-1b. These new patents expire in 2022, extending the patent protection for interferon gamma-1b by eight years.

Increased Financial Strength and Flexibility

We ended the year with a significantly stronger financial profile. As of December 31, 2005, we had \$216 million in cash, cash equivalents and available-for-sale securities. Our stronger financial position is due primarily to the cash infusion resulting from the sale of Infergen® and to decisions we have already implemented that we estimate will reduce our 2006 SG&A expense, compared to 2005, by approximately \$60 million.

Looking to 2006

Having strengthened and focused the company, we move into 2006 fully committed to the rapid advancement of what we believe is the principal value driver for InterMune shareholders: our exceptional development pipeline of medicines to treat underserved patients suffering from serious hepatic or pulmonary diseases. During the year, we expect to complete enrollment of our Phase III INSPIRE trial in IPF, initiate enrollment of the Phase III CAPACITY program for IPF, and submit a European CTA for our HCV protease inhibitor.

We thank you for your continued support of InterMune, and we look forward to reporting our progress on our pipeline during 2006.

Sincerely,



Daniel G. Welch
President and Chief Executive Officer

Idiopathic Pulmonary Fibrosis (IPF)

IPF is a disabling and rapidly fatal disease that affects approximately 83,000 people in the United States, with approximately 30,000 new cases each year. Those diagnosed with IPF are usually between the ages of 40 and 70, and the disease tends to affect men more than women. IPF causes inflammation and scarring (fibrosis) in the lungs, hindering a person's ability to process oxygen and causing shortness of breath (dyspnea) and cough. IPF is a progressive disease, meaning that over time, lung scarring and symptoms increase in severity. IPF is a deadly disease. Current median survival time from diagnosis is two to five years in patients with IPF; a survival rate lower than most cancers. There are no drugs approved by the FDA or the EMEA for the treatment of IPF.



Hepatitis C Virus (HCV)

According to the Centers for Disease Control and Prevention, an estimated 3.9 million people in the United States have been infected with HCV, of whom an estimated 2.7 million are chronically infected. HCV causes an estimated 10,000 to 12,000 deaths annually in the United States and is the leading indication for liver transplant. The prevalence of chronic HCV is increasing. First-line treatment for patients chronically infected with HCV is pegylated interferon alfa-2 plus ribavirin. Approximately half of all patients treated do not respond to first-line therapy, however, and a significant portion of HCV patients have difficulty with tolerability of this regimen. Therefore, we believe there is a significant need for new HCV therapies.

corporate directory

executive management

Daniel G. Welch
President and Chief Executive Officer

Marianne T. Armstrong, Ph.D.
Chief Medical Affairs and Regulatory Officer

Lawrence M. Blatt, Ph.D.
Chief Scientific Officer

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

Thomas R. Kassberg
Senior Vice President of Corporate
Development and Commercial Operations

Steven B. Porter, M.D., Ph.D.
Chief Medical Officer

Cynthia Y. Robinson, Ph.D.
Senior Vice President of
Development Operations

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

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

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

board of directors

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

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

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

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

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

board of directors (cont'd)

David S. Kabakoff, Ph.D.
President
Strategy Advisors, LLC

Jonathan S. Leff
Partner
Warburg Pincus LLC

Michael L. Smith
Former Executive Vice President and
Chief Financial Officer
Anthem, Inc.

annual meeting

The annual stockholders meeting will
be held on May 24, 2006 at 10:00 a.m.
at InterMune, Inc., 3280 Bayshore
Boulevard, Brisbane, CA 94005

corporate secretary

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

independent registered public accounting firm

Ernst & Young LLP
San Jose, CA

transfer agent

Mellon Investor Services LLC
235 Montgomery Street, 23rd Floor
San Francisco, CA 94104
(415) 951-4180

stock listing

Symbol: ITMN
Stock Exchange: NASDAQ

corporate headquarters

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Brisbane, CA 94005
Phone: (415) 466-2200
Fax: (415) 466-2300

website

www.intermune.com

investor services

A copy of the Company's 2005 Form
10-K, which is filed with the Securities and
Exchange Commission, is available for
download at www.intermune.com or upon
request to:

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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 System under the
symbol ITMN. As of January 31, 2006, there were 109
stockholders of record. No cash dividends have been paid
to date by us, and we do not anticipate the payment of any
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 the corporate actions taken by it in 2005 put it in a
position to more rapidly advance these development pro-
grams; (iii) believes that patients diagnosed with idiopathic
pulmonary fibrosis represent a seriously underserved
patient population and a major unmet medical need, and
that it is well positioned to be a leader in delivering a therapy
for such unmet medical need; (iv) believes that the chosen
endpoint for its pifrenidone CAPACITY trial is supported by
data from earlier clinical studies of pifrenidone; (v) believes
that hepatitis C protease inhibitors may inhibit replication of
the hepatitis C virus and could provide an important compo-
nent of first-line treatment for patients with the hepatitis
C virus; (vi) expects meaningful progress in its late-stage
clinical development programs; (vii) expects to complete
enrollment of any particular clinical trial and to report data
relating to any such trial by a specified date; and (viii)
expects to submit a European Clinical Trial Authorisation for
its hepatitis C virus protease inhibitor in 2006. 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 Securities and Exchange Commission
on March 13, 2006 and enclosed herewith, including the
factors discussed in detail under the heading "Risk Factors"
in Item 1A 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-look-
ing statement to reflect events or circumstances after the date
of this letter to reflect the occurrence of unanticipated events.

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