

intermune
annual report
2007

INTERMUNE®



Innovative Medicines for Pulmonology and Hepatology



about intermune

InterMune, Inc. is a biotechnology company focused on developing and commercializing innovative therapies in pulmonology and hepatology. Pulmonology is the field of medicine concerned with the diagnosis and treatment of lung conditions, while hepatology is concerned with disorders of the liver.

In pulmonology, InterMune has a Phase 3 program called CAPACITY, evaluating pirfenidone as a possible therapy for the treatment of patients with idiopathic pulmonary fibrosis (IPF) and a research program focused on small molecules for pulmonary disease.

In hepatology, InterMune is developing its hepatitis C virus (HCV) protease inhibitor compound ITMN-191 in Phase 1b, and has a research program focused on a second-generation HCV protease inhibitor as well as other targets in hepatology.

development pipeline

pulmonology

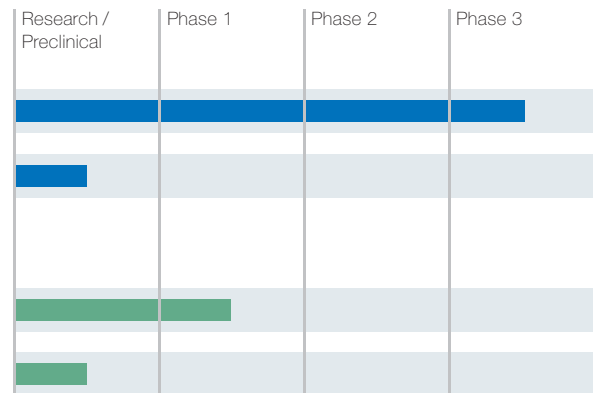
Pirfenidone
Idiopathic pulmonary fibrosis

New Pulmonology Targets

hepatology

Protease Inhibitor (ITMN-191)
Hepatitis C virus

Second-generation HCV Protease Inhibitors and other Hepatology Targets



2007 highlights

- Completed enrollment in CAPACITY, a pivotal Phase 3 clinical program to evaluate pirfenidone as a treatment for patients with idiopathic pulmonary fibrosis (IPF). The primary endpoint in CAPACITY is change in forced vital capacity (FVC), a measurement of lung function. Patient enrollment was completed seven months ahead of the original plan with a total of 779 patients enrolled at more than 120 centers in North America and Europe. Patient retention remains excellent to date with top-line results anticipated in January of 2009.
- Conducted the first clinical trials of our ITMN-191 protease inhibitor program for patients chronically infected with the hepatitis C virus (HCV). In January 2008, we announced completion of the first two dose cohorts in the important Phase 1b multiple-ascending-dose (MAD) study of ITMN-191, our first experience with the compound in infected patients. We reported that the compound had demonstrated a viral kinetic, safety and tolerability profile sufficient to advance the program into a 14-day triple combination study with Pegasys® and Copegus®, the current standard of care.
- In late September 2007, we completed a follow-on public offering of 4,025,000 shares of common stock – our first public offering of common stock in more than five years. Net proceeds to InterMune were approximately \$73 million.
- Associated with the March 2007 termination of the Phase 3 study, INSPIRE, we initiated cost-saving initiatives designed to substantially reduce operating costs in 2007 and 2008.

to our shareholders



The year 2007 was one of challenges and accomplishments. Despite the challenges, we accomplished the vast majority of our objectives for the year as we

- Completed enrollment well ahead of schedule in the Phase 3 CAPACITY program for pirfenidone in IPF;
- Eliminated future royalties and milestone payments and acquired additional intellectual property for pirfenidone in an acquisition of the 2002 license agreement concerning this important compound; and
- Gained important understanding of the viral kinetics, safety and tolerability of our protease inhibitor ITMN-191 in the first clinical trials of this promising direct antiviral compound.

I also am pleased to report that InterMune ended 2007 with a solid financial profile that included, at year end, approximately \$235 million in cash, cash equivalents and available-for-sale securities.

Our net loss in 2007 was approximately \$90 million, or \$2.52 per share, compared with a net loss of \$107 million, or \$3.22 per share in 2006. Total revenue was \$67 million, down from \$91 million in 2006, reflecting lower off-label revenues of Actimmune® in IPF, which we do not promote. We strongly advanced our programs while efficiently managing resources – R&D expense of \$106 million was only 2% higher than in 2006; increased costs associated with advancing our development programs were largely offset by reduced costs related to discontinuation of the INSPIRE trial in March 2007.

Pulmonology:

Positioned to be the Leader in Idiopathic Pulmonary Fibrosis - pirfenidone

Our development program for pirfenidone in IPF addresses a significant unmet medical need – a market opportunity that some equity research analysts have estimated to become very substantial in terms of annual revenues. Approximately 200,000 patients live with IPF in the United States and Europe, a relatively large patient population compared with other diseases, the therapies for which represent annual revenues of several hundreds of millions of dollars or more.

Although no therapies currently are approved for the treatment of IPF, an established healthcare and patient infrastructure exists that can support the rapid adoption of a new IPF medicine. Effective and reliable diagnostic

tools exist in high resolution computed tomography and video-assisted thoracoscopy. The American Thoracic Society and European Respiratory Society have issued International Consensus Guidelines for the diagnosis and management of IPF, and a network of IPF centers with established patient referral networks exists. In addition, a robust patient advocacy network effectively communicates within the IPF community.

InterMune is developing pirfenidone for marketing in the United States and Europe. Shionogi & Co., Ltd. has rights to the compound in Japan, Taiwan and South Korea. Shionogi has reported positive efficacy results in a Phase 3 trial in Japan evaluating pirfenidone in IPF. Using vital capacity as that trial's primary endpoint – a slightly different measurement of lung function than the endpoint used in CAPACITY – Shionogi reported that pirfenidone significantly slowed the rate of decline in lung function and improved Progression-Free Survival (PFS) in this study. No detailed safety data have been reported on this trial. Shionogi is scheduled to present its Phase 3 pirfenidone data at the American Thoracic Society conference in late May 2008. Shionogi filed for registration of pirfenidone in Japan in March 2007.

Our Phase 3 CAPACITY program completed enrollment in May 2007, seven months ahead of the original plan. We expect top-line efficacy and safety results to be available in January 2009. We already have begun the work of preparing regulatory submissions and formulating our commercial plans for pirfenidone. We initiated preparation of a New Drug Application (NDA) and Marketing Authorization Application (MAA) in early 2008. These applications for marketing approval would be submitted to the appropriate U.S. and European regulatory authorities, respectively, if the data from CAPACITY are supportive. Based on this timeline, we expect an approval to commercialize pirfenidone in the United States in late 2009 or early 2010, which could be followed by an approval in Europe in 2010.

We plan to address the U.S. market in IPF by creating an InterMune commercial team of between 75 and 100 field-based personnel. Our commercial strategy outside the United States is under internal review.

In November 2007, we significantly improved the potential economics of pirfenidone by eliminating all future royalties and milestones associated with the 2002 license agreement, and we acquired additional pirfenidone intellectual property. It is possible that the additional IP, combined with recent additional patent applications, will provide patent protection well beyond that provided by orphan drug status, which pirfenidone has been granted in both the United States and E.U.

InterMune is well positioned to become the leader in IPF.

Hepatology:

Protease Inhibitor Enters the Clinic; Demonstrates Encouraging Activity and Safety

I also am pleased to point to our progress with our protease inhibitor program for the treatment of patients chronically infected with the hepatitis C virus (HCV), ITMN-191 (Roche designation R7227).

In May 2007, we completed a Phase 1a safety study in healthy subjects, followed by a Phase 1b multiple-ascending-dose (MAD) study in patients chronically infected with HCV. The MAD study is designed to evaluate safety and provide our first viral kinetic results, which indicate the compound's ability to reduce the amount of hepatitis C virus in patients.

As this report goes to press, we expect to announce top-line results from four treatment-naïve cohorts in this study in the second quarter of 2008, either at or before the EASL and/or Digestive Disease Week meetings.

Early in 2008 we announced completion of the first two treatment-naïve dose cohorts in the MAD study. Those cohorts included total daily doses of up to 300mg, and the safety and tolerability results were excellent. We also reported that the trial had achieved its principal goals for viral kinetics, safety and tolerability sufficient to advance ITMN-191 into a triple combination study with Pegasys® (pegylated interferon) and Copegus® (ribavirin). A 14-day triple combination study of ITMN-191 with Pegasys® and Copegus® is expected to begin in the second quarter of 2008.

Our objective in Phase 1 has been to move quickly from studies in monotherapy to triple combination therapy. Our observations of competitive protease and polymerase inhibitors have taught us that Phase 1b monotherapy data is of limited utility in determining what may be the "best" antiviral dose in triple combination therapy. Growing evidence suggests that significant additive and even synergistic effects can be achieved when a direct antiviral compound is added to the two agents currently used in the standard-of-care treatment. When added to the current double compound regimen, relatively low doses of ITMN-191, which show a given effectiveness in monotherapy, may likely achieve even greater viral load reductions, but with a safety and tolerability profile that will increase HCV cure rates.

We are developing ITMN-191 in collaboration with Roche, the world leader in HCV therapeutics. Our position as part of the Roche portfolio is a unique advantage, as Roche plans to conduct clinical studies involving combinations of one or more direct antivirals. Our Phase 1b program not only will inform our 14-day triple combination study, but also will help us plan future combination studies with other antivirals in the Roche portfolio.

Looking to 2008 and Beyond

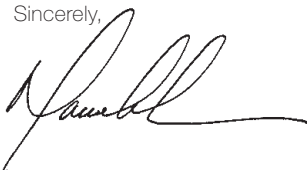
The balance of 2008 and the first months of 2009 will be a pivotal period for InterMune.

During this period, we expect to report the Phase 1b data on ITMN-191, execute a 14-day triple combination study of ITMN-191 and report results from the Phase 3 CAPACITY program for pirfenidone.

Less than a year from now, we hope to be working toward completion of an NDA and MAA for pirfenidone and preparing to commercialize the first medicine ever approved for patients suffering from IPF. Within a year, our ITMN-191 program should be well on its way to Phase 2 development and we expect that our research programs will be that much closer to the clinic.

It's an exciting time for InterMune, our investors, our employees and the patients who one day may benefit from our therapies in development. We appreciate your support and invite you to follow our progress.

Sincerely,



Daniel G. Welch
President and Chief Executive Officer
March 14, 2008



Idiopathic Pulmonary Fibrosis (IPF)

IPF is a progressive, disabling and ultimately fatal disease that affects approximately 100,000 people in the United States, with about 30,000 new cases diagnosed each year. InterMune estimates a similar IPF population in Europe. Patients diagnosed with IPF typically are between the ages of 40 and 70 and are predominantly male. IPF causes inflammation and scarring (fibrosis) in the lungs, hindering the ability of the patient to process oxygen and causing shortness of breath (dyspnea) and cough. Over time, lung scarring and symptoms increase in severity. The current median survival time following diagnosis is two to five years in patients with IPF, a survival rate that is lower than for most cancers. There are no medicines approved for the treatment of IPF.



Chronic Hepatitis C Virus (HCV) Infection

According to the Centers for Disease Control and Prevention (CDC), an estimated 3.9 million Americans (1.8%) have been infected with HCV, of whom 2.7 million are chronically infected. An estimated 170 million people worldwide are afflicted with the disease. Currently available therapies are insufficient, resulting in a cure rate of only about 40-50% and creating a need for novel therapeutic approaches. The HCV NS3/4 protease is an attractive drug target because of its potential involvement in viral replication and suppressive effects on host response to viral infection. Inhibitors of the HCV protease, such as ITMN-191, represent a promising new class of drugs for HCV and are likely candidates for use in combination with existing treatments or other direct antiviral compounds.

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

Williamson Z. Bradford, M.D., Ph.D.
Senior Vice President, Clinical Science
and Biometrics

John C. Hodgman
Senior Vice President and
Chief Financial Officer

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

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

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

board of directors

William R. Ringo*
Chairman of the Board
Senior Vice President of Strategy
and Business Development
Pfizer, Inc.

Louis Drapeau
Vice President and Chief Financial Officer
InSite Vision Incorporated

Lars Ekman, M.D., Ph.D.
Executive Vice President and
President of Global Research
and Development and Director
Elan Corporation

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

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.

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

*Service as a board member to be completed effective
with the annual stockholders meeting of 2008

annual meeting

The annual stockholders meeting will
be held on May 13, 2008, at 10 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
Palo Alto, CA

transfer agent

BNY Mellon Shareowner Services
P.O. Box 358015
Pittsburgh, PA 15252
www.bnymellon.com/shareowner/isd
877-854-4572

stock listing

Symbol: ITMN
Stock Exchange: NASDAQ

corporate headquarters

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website

www.intermune.com

investor services

A copy of the company's 2007 Form
10-K, which is filed with the Securities and
Exchange Commission, is available for
download at www.intermune.com or upon
request to:

Investor Relations
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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 Global Select Market under
the symbol ITMN. As of February 29, 2008,
there were 81 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

This annual report contains forward-looking statements
within the meaning of section 21E of the Securities
Exchange Act of 1934, as amended, that reflect the
company's judgment and involve risks and uncertainties
as of the date of this report, including without limitation the
statements related to anticipated future financial results and
product development. All forward-looking statements and
other information included in this annual report are based
on information available to InterMune as of the date hereof,
and InterMune assumes no obligation to update any such
forward-looking statements or information. The company's
actual results could differ materially from those described
in the forward-looking statements.

Factors that could cause or contribute to such differences
include, but are not limited to, those discussed in detail
under the heading "Risk Factors" in the most recent annual
report issued by InterMune on Form 10-K filed with the SEC
on March 14, 2008 (the "Form 10-K") and other periodic
reports filed with the SEC, and include the following: (i) the
information herein is of a preliminary nature and therefore
subject to further adjustment; (ii) risks related to the devel-
opment of our product and product candidates; (iii) risks
related to timely patient enrollment and retention in clinical
trials, including the use of third parties to conduct such
clinical trials; (iv) risks related to achieving positive clinical
trial results; (v) risks related to the uncertain, lengthy and
expensive clinical development and regulatory process,
including having no unexpected safety, toxicology, clinical or
other issues; (vi) reimbursement risks associated with third-
party payors; (vii) risks related to whether InterMune is able
to obtain, maintain and enforce patents and other intellectual
property rights; (viii) risks related to significant regulatory,
supply and competitive barriers to entry; (ix) risks related to
our collaboration agreement with Roche; (x) the results of
the InterMune CAPACITY trials of piferenidone may differ
materially from those of the Shionogi & Co., Ltd. Phase 3
trial of piferenidone; and (xi) the results as reported by
Shionogi concerning their Phase 3 trial may differ materially
from those published or presented in a peer-reviewed fo-
rum. The risks and other factors discussed above should be
considered only in connection with the fully discussed risks
and other factors discussed in detail in the Form 10-K and
InterMune's other periodic reports filed with the SEC.

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