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DOCUMENT
2016

 innate pharma

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A *Société Anonyme* organized with an Executive board and a Supervisory board
with a share capital of 2,700,537.70 euros
consisting of 54,010,754 shares with a par value of 0.05 euros each

Registered Office: 117 Avenue de Luminy, 13009 Marseille
Marseille Business and Company Registry, No. 424 365 336

REFERENCE DOCUMENT

ANNUAL FINANCIAL REPORT



This Reference document was submitted to the Autorité des Marchés Financiers (the "AMF") on March 31st, 2017, in application of Article 212-13 of the AMF general regulations. It may be used to support a financial operation if it is complemented by a "Note d'opération" approved by the AMF. This document was drawn up by the issuer; the signatories bear responsibility for its content.

Copies of this document are available free of charge from Innate Pharma SA, 117 Avenue de Luminy, 13009 Marseille, or from the websites of Innate Pharma (<http://www.innate-pharma.com>) and the AMF (<http://www.amf-france.org>.)

NOTE

In this Reference document, the terms “We”, “the Company” and “Innate Pharma” refer to Innate Pharma SA with or without its subsidiaries.

This Reference document contains data pertaining to the Company’s activity as well as to the market and industry in which it operates. Some of this information comes from external sources that are recognized in the field, but this information has not been independently verified by the Company.

A glossary defining some technical terms to which reference is made and cross-reference tables are given at the end of this Reference document.

The goals, statements and forecasts summarized in this Reference document are primarily based on data, assumptions and estimates which the Company believes to be reasonable. Investors should be aware that these forecasts depend on future circumstances or events which may or may not occur. These statements are not historical facts and should not be interpreted as guarantees that the facts and data given will occur or that the goals will be reached. The information, assumptions, estimates and items taken into account to determine these goals, statements and forecasts, may turn out to be erroneous or not occur, and could change based on uncertainties in the economic, financial, competitive and regulatory environment. In addition, some information, assumptions and estimates are wholly or partly based on or result from assessments or decisions made by the Company’s management, directors or shareholders, and may change or be amended in the future. Also, the occurrence of certain risks described in 1.9 “Risk Factors” in this Reference document may have an impact on the Company’s activities and the achievement of the goals, statements, and forecasts set forth above. The Company and shareholders therefore assume no liability and provide no guarantees as to the achievement of the goals, statements, and forecasts described in this Section or elsewhere in the Reference document.



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SELECTED FINANCIAL AND OPERATING INFORMATION

The table below presents the Company' selected financial information prepared according to IFRS Standards as adopted by the European Union for each fiscal year since the fiscal year ended December 31, 2014. The 2016 consolidated accounts are shown in section 3.3 of this Reference document. Comments on the data set forth in the table below are made in 3.1, 3.2 and 3.3 of this Reference document.

In thousand euros, except for information per share	2016	2015	2014
Revenue from collaboration and licensing agreements	56,159	17,906	907
Government financing for research expenditures	9,561	7,235	6,715
Revenue and other income	65,721	25,141	7,623
Research and development expenses	(48,628)	(29,906)	(22,671)
General and administrative expenses	(9,522)	(6,008)	(4,918)
Net operating expenses	(58,150)	(35,914)	(27,589)
Operating income (loss)	7,571	(10,772)	(19,966)
Financial income / (expense), net	5,370	4,066	508
Share of profit (loss) of associates and joint ventures	–	–	(189)
Net income (loss)	12,941	(6,706)	(19,647)
Income tax	(301)	–	–
Net income	12,640	(6,706)	(19,647)
Number of shares outstanding			
Average number of shares outstanding (in thousands)	53,869	53,400	50,152
Net income (loss) per share (in euros)			
Net income (loss) per share (basic)	0.23	(0.13)	(0.39)
Balance sheet			
Cash, cash equivalents and current financial assets ⁽¹⁾	197,688	235,910	69,238
Total assets	281,577	305,956	90,690
Total capital and reserves attributable to equity holders of the Company	86,169	72,067	74,626
Total financial liabilities	5,327	3,754	4,206
Net cash (Cash, cash equivalents and current financial assets – current financial liabilities) ⁽¹⁾	196,425	235,288	68,785
Statement of cash flow			
Changes in working capital	(50,788)	211,491	(1,300)
Net cash generated from / (used in) operating activities	(36,851)	207,912	(18,134)
Net cash generated from / (used in) investing activities	60,510	(122,297)	(3,823)
Net cash generated from financing activities	(602)	3,032	47,950
Effect of the exchange rate changes	(23)	(63)	(68)
Net increase / (decrease) in cash and cash equivalents	23,036	88,584	25,926
Cash and cash equivalents at the beginning of the year	152,870	64,286	38,360
Cash and cash equivalents at the end of the year*	175,906	152,870	64,286

(1) The cash, cash equivalent and current financial assets and the net cash (as defined as the cash, cash equivalent and current financial assets minus the current financial liabilities) are not IFRS defined accounting measurement.

* Does not include current financial assets amounting 4,952 thousand euros; 83,040 thousand euros and 21,782 thousand euros as of December 31, 2014, 2015 and 2016 respectively.



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I.I. FOUNDING PRINCIPLES OF THE COMPANY

I.I.I. Introduction

Innate Pharma SA is a clinical-stage biotechnology company specialized in immuno-oncology. The Company develops first-in-class¹ therapeutic antibodies that harness the innate immune system to improve cancer treatment and clinical outcomes for patients.

Immuno-oncology is a new therapeutic field that is changing cancer treatment by mobilizing the power of the body's immune system to recognize and kill cancer cells. This approach aims at restoring immune surveillance and can lead to durable responses in some patients who have failed all available conventional therapies. One of the greatest advances in immuno-oncology involves the use of checkpoint inhibitors. Checkpoint inhibitors are antibodies that block immune checkpoint receptors, which are molecules on the surface of immune cells, such as T cells and Natural Killer "NK" cells, in order to modulate their effector functions like recognition and killing of cancer cells. The aim of a treatment with checkpoint inhibitors is to restore the immune surveillance of the immune system.

Since 2010, checkpoint inhibitors targeting T cells, and notably the PD-1/PD-L1 pathway, have shown their ability to activate this type of lymphocytes, reduce tumors size and improve patients survival. The first checkpoint inhibitor, ipilimumab (trade name: Yervoy®, anti-CTLA-4), was approved by the Food and Drug Administration ("FDA") in 2011, followed by nivolumab (trade name: Opdivo®) and pembrolizumab (trade name: Keytruda®), two checkpoint inhibitors targeting PD-1, in 2014. These approvals confirmed the promising potential of checkpoint inhibitors for cancer treatment.

Company's founders, and some of its employees, had significant roles in scientific breakthroughs in the biology of immune cells and notably NK cells, another type of immune cells. The Company has built on this expertise to pioneer the discovery and development of checkpoint inhibitors to activate the innate immune system.

Today, the Company has a portfolio of three first-in-class, clinical-stage antibodies, including two checkpoint inhibitors, as well as additional preclinical product candidates and innovative technologies.

The Company's expertise has enabled it to enter into major alliances with leaders in the biopharmaceutical industry including AstraZeneca, Bristol-Myers Squibb and Sanofi. Innate Pharma and its partners evaluate the Company's drug candidates in various clinical trials in monotherapy

and in combination, including with checkpoint inhibitors targeting the PD-1 pathway.

In the fourth quarter of 2016, preliminary data from ongoing clinical trials with two Company's drug candidates were presented in several scientific conferences and showed encouraging clinical activity signs.

Based in Marseille, France, Innate Pharma has 154 employees as at December 31, 2016. The Company is listed on Euronext Paris since 2006.

¹ A first-in-class drug or candidate appeals to a new mechanism of action or targets a new receptor.

I.1.2. Key dates

1999

Founded by Hervé Brailly – Chairman of the Executive board until December 30, 2016, François Romagné – former Member of the Executive board and the Executive Committee, Chief Scientific Officer, Éric Vivier (Centre d'Immunologie Marseille Luminy – CIML, Marseille, France), Jean-Jacques Fournié (CNRS, Toulouse, France), Marc Bonneville (CNRS, Inserm, Nantes, France) and Alessandro Moretta (University of Genoa, Italy).

2003

First collaborative research and licensing agreement with the Danish pharmaceutical company Novo Nordisk A/S for the development of an anti-KIR antibody program potentiating the activation of NK cells (IPH21 program, today called lirilumab).

2006

Initial public offering on Euronext Paris.

2007

New drug candidate targeting NKG2A, IPH2201 (today called monalizumab) selected by Novo Nordisk A/S.

2008

Partnership with Novo Nordisk A/S focused on inflammation. New antibody drug candidate, IPH2301 (NN8855) selected by Novo Nordisk A/S. Asset transfer between Novo Nordisk A/S and Innate Pharma. Innate Pharma recovered the development and marketing rights for IPH2101 and Novo Nordisk A/S recovered the Company's remaining rights for NN8555.

2011

Start of Phase I clinical trials with IPH2102 (lirilumab) and license of the program to Bristol-Myers Squibb.

Start of Phase I clinical trials with monalizumab in inflammation by Novo Nordisk A/S.

2014

Acquisition of rights to monalizumab from Novo Nordisk A/S. First Phase II clinical trial for monalizumab launched.

2015

Co-development and commercialization agreement with AstraZeneca for monalizumab. Start of three clinical trials with monalizumab in cancer indications.

Start of Phase I clinical trial with IPH4102.

2016

First report of clinical data for all three clinical-stage drug candidates: lirilumab, monalizumab and IPH4102.

Start of IND-enabling studies of a fourth “first-in-class” drug candidate, IPH4301.

Broadening of the preclinical portfolio with two new candidates targeting the tumor microenvironment (IPH52 and IPH53).

Start of a new bispecific antibodies technology and non exclusive research collaboration and licensing agreement with Sanofi to apply this technology.

Appointment of Mondher Mahjoubi as Chairman of the Executive board, succeeding Hervé Brailly appointed Chairman of the Supervisory board.

2017

Negative results from a randomized, double-blind, placebo-controlled Phase II trial testing the efficacy of lirilumab as a single agent maintenance treatment in elderly patients with acute myeloid leukemia in first complete remission (the EffiKIR trial).

Expansion of the Phase I/II trial evaluating lirilumab in combination with nivolumab in patients with advanced solid tumors, including additional cohorts, and a randomized cohort in squamous cell carcinoma of the head and neck (SCCHN), and initial testing of the triplet combination of lirilumab, nivolumab and ipilimumab in solid tumors.

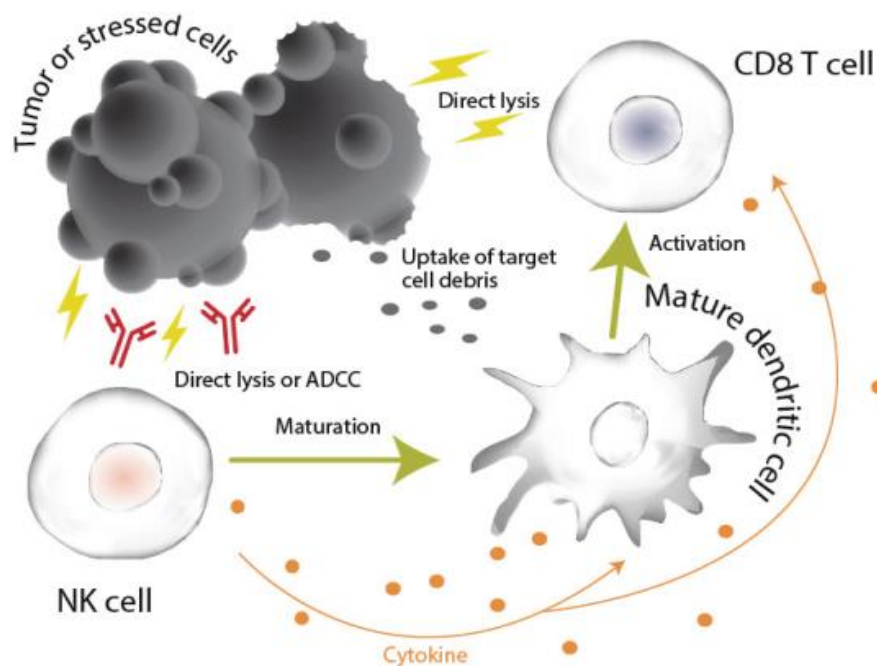
I.2. ACTIVITIES

I.2.1. Targeting NK cells

NK cells are lymphocytes belonging to the innate immune system and represent a significant fraction of the total number of cytotoxic cells in the body. NK cells are able to directly and selectively kill cells undergoing stress caused by a cancerous transformation or pathogen infection. They can also kill cells via antibody dependant cell cytotoxicity ("ADCC"), when antigens on the cell surface have been bound by cytotoxicity-inducing antibodies. NK cells are

also potent producers of chemical signals called cytokines, which can recruit other immune cells such as dendritic cells to participate in an immune response initiated by NK cells. Dendritic cells can enable the antigen-specific immune cells of the adaptive immune system, such as T cells and B cells, to participate in the immune response, which in turn may enable the creation of immune memory against the tumor.

The following illustration provides an overview of the anti-cancer functions of NK cells.



Activating the body's innate immune system may play a key role in the response against cancer, particularly in the case of cancers that are not detected by the immune system, including upon treatment with T cell checkpoint inhibitors. Targeting NK cells could offer a potential benefit beyond and in addition to T cell targeted immunotherapy as NK cells are active in numerous hematological and solid tumors and participate in the initiation of the T cell response.

NK cells express a variety of molecules, also called receptors, on their cellular surface including KIR, NKG2A and NKG2D. These receptors can bind and recognize matching ligands, which can be cell-surface molecules expressed on other cells, and then transmit either inhibitory or activating signals into the cell:

- the activating receptors on NK cells detect cellular stress that may be caused by viral infection or malignant transformation;
- in contrast, when an inhibitory receptor recognizes its ligand, its signal inhibits the signaling transmitted by the activating receptors and diminishes the activation of the cell. Blocking NK cell inhibitory receptors can prevent their interaction with their matching ligands on a cancer cell and enable the NK cell to produce an immune response upon engagement of their activating receptors.

The immune system

The immune system is composed of two parts, the innate immune system and adaptive immune system, that work together to defend the body against infection and provide surveillance against cancers.

The innate immune system is present in all live beings and is able to attack any external or "abnormal" agent. It represents the first barrier of the immune system because it reacts nearly immediately against a pathological threat and transmits information, which mobilizes the other compartment of the system. Innate immune cells include: NK cells, granulocytes and phagocytic cells (macrophages, neutrophils and dendritic cells).

The adaptive immune system is activated by, and adapts to, pathogens, and typically launches a targeted and durable response. The adaptive immune system requires "priming"

before it achieves optimal efficacy and is often initially triggered by the innate immune system. Once activated it responds with large numbers of cells acting against diseased cells and can provide a long-lasting immune memory. An adaptive immune response is highly specific to a particular pathogen or antigens (foreign bodies) and is developed or learned from prior exposure. Key components of the adaptive immune system include the following: antibodies which bind to antigens and mark them for destruction by other immune cells, B-cells which produce these antibodies upon exposure to antigens, and T cells which attack and eliminate the diseased cells.

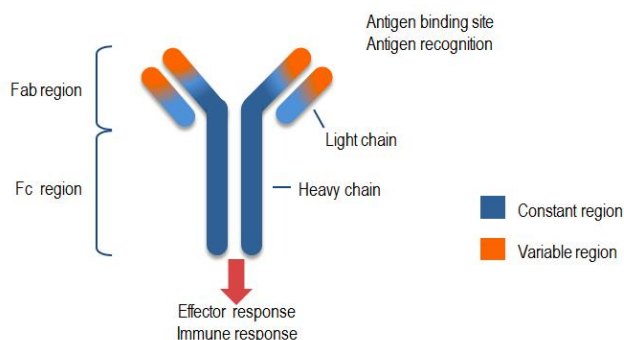
The cells of the innate and adaptive immune systems jointly participate and contribute to effective immune responses, including anti-cancer immune responses.

Antibodies: a precision tool for cancer treatment

An antibody is a Y-shaped molecule that has two identical variable regions at the tip of the arms (the Fab region) of the antibody, which bind to antigens, and a constant region (the Fc region) as its opposite end. An antibody's structure is amenable to engineering either the variable regions to improve its strength of target recognition or affinity, or the constant regions to modify its engagement and collaboration with other components of the immune system, or both. The antibody's ability to bind specifically to a target or antigen is also referred to as its specificity. Using this mechanism, antibodies can tag foreign substances for attack by other immune system cells or neutralize the targets directly. In treating diseases such as cancer, researchers find antigens specific to cancer cells and create antibodies that bind those antigens to use the body's immune system to destroy these cancer cells. Alternatively, researchers can generate antibodies, such as checkpoint inhibitors, that bind to receptors on immune cells in order to modulate the anti-tumor activities of the immune system.

Therapeutic antibodies are typically derived from natural antibodies and are obtained from immune cells of mammals that have been immunized with a desired antigen and are all clones of the unique parent cell. These antibodies are often referred to as monoclonal antibodies. Antibodies are typically produced in mice and although they are relatively easy to generate, they can have drawbacks as targeted therapeutics. The major drawback is that a mouse antibody is recognized by the human immune system as a foreign target and therefore, the immune system attacks the antibody, rendering it useless against its intended target.

Many advances have been made in the engineering of antibodies to improve their efficacy and safety profile. One such advance is the process of "humanization" whereby modifications are made to minimize the risk of a human immune response against an antibody of non-human cell origin. Antibodies such as such as monalizumab are "humanized" by replacing the mouse sequences with human sequences. Antibodies such as lirilumab are "fully human" antibodies that have variant and constant regions that are created from entirely human genes.



1.2.2. Programs being developed in the Company

At present, the Company's pipeline includes three clinical programs:

- lirilumab, tested in Phase I and II clinical trials and licensed to Bristol-Myers Squibb;
- monalizumab, tested in Phase I and I/II clinical trials in partnership with AstraZeneca;
- IPH4102, tested in Phase I in cutaneous T cell lymphomas and developed in-house.

Innate Pharma also has other proprietary preclinical programs. The most advanced programs are IPH4301, IPH52, IPH53 and IPH33. The Company also works on antibody engineering innovative technologies, such as new bispecific antibody formats engaging NK cells.

PROGRAM	TARGET	INDICATION	STAGE
Lirilumab Licensed to Bristol-Myers Squibb	KIR2DL-1,-2,-3	Squamous cell carcinoma of the head and neck (SCCHN) Solid and hematological tumors - Multiple combinations	Randomized Phase I/II Phase I & II trials
Monalizumab Co-development with AstraZeneca	NKG2A	Solid and hematological tumors - Single agent and multiple combinations	Phase I/II trials
IPH4102	KIR3DL2	Cutaneous T-cell lymphomas (CTCL)	Phase I including cohort expansion
IPH4301	MICA/B	Cancer	IND-enabling studies
IPH52	CD39	Cancer	Research
IPH53	CD73	Cancer	Research
IPH33	TLR3	Inflammation	Research

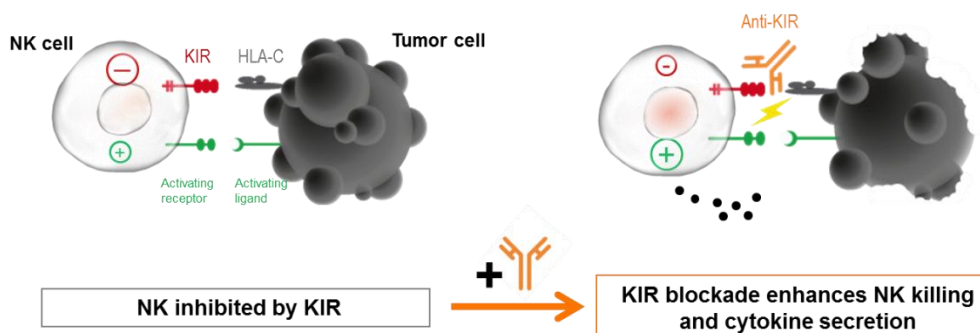
1.2.2.1. Lirilumab: anti-KIR monoclonal antibody developed in cancer and licensed to Bristol-Myers Squibb

1.2.2.1.1. Presentation

Lirilumab (IPH2102/BMS-986015) is a fully human checkpoint inhibitor that blocks the interaction between KIR2DL1,-2,-3 receptors on NK cells and their HLA-C ligands on tumor cells. Upon binding to HLA-C, KIR receptors can trigger inhibitory signaling that reduces NK

cell-mediated killing. By expressing HLA-C, cancer cells protect themselves from being killed by NK cells. By blocking KIR receptors, lirilumab enables NK cell activation and killing of tumor cells.

Lirilumab mechanism of action



Lirilumab is licensed to the US company Bristol-Myers Squibb. As part of this agreement, Bristol-Myers Squibb holds exclusive worldwide rights for the development, manufacture and marketing of lirilumab (see section 1.6.1.1).

1.2.2.1.2. Clinical development

The development program for lirilumab involves clinical trials to confirm distinct rationales based on the different mechanisms of action of NK cells in selected solid and hematologic tumors in combination with other therapeutic agents, including checkpoint inhibitors. The trials have a total enrollment target of approximately 1,300 patients.

The purpose of these trials is to determine if the combinations are well tolerated and to provide preliminary information on clinical activity.

- **Phase I trial with lirilumab**

In a Phase I trial in various hematologic and solid tumors, lirilumab was found to have a safe and well-tolerated profile without dose-limiting toxicity. The most frequent treatment-emergent adverse events were fatigue/asthenia,

pruritus, infusion-related reaction and headaches. The majority of these reactions were mild to moderate in intensity.

- **Rationale for clinical trials of Lirilumab**

The rationale for clinical trials of lirilumab in combination with nivolumab (anti-PD-1, Bristol-Myers Squibb) is that (i) lirilumab-mediated enhancement of direct tumor killing by NK cells may synergize with the T cell killing induced by nivolumab, (ii) lirilumab enhances secretion of cytokines by NK cells that in turn promote T cell responses and (iii) NK cells can stimulate dendritic cells that in turn stimulate T cell response and therefore may facilitate T cell activation in the presence of nivolumab. In multiple mouse models, the efficacy of PD-1 blocking antibodies, such as nivolumab, was dependent on the presence of NK cells. In preclinical models revealed improved tumor control upon treatment with a surrogate anti-KIR, plus an anti-PD-1 antibody compared to either antibody alone.

The rationale for clinical trials of lirilumab in combination with ADCC-inducing antibodies such as Empliciti (elotuzumab) or Rituxan (rituximab) is based on research indicating that KIR receptors negatively regulate ADCC, which is one of the mechanisms of action of these agents. Preclinical *in vitro* and *in vivo* experiments showed that lirilumab can enhance tumor-killing mediated by elotuzumab or rituximab.

The rationale for clinical trials of lirilumab in combination with Vidaza (5-azacytidine) is based on findings that these agents up-regulate the transcription of NKG2D ligands, MICA/B and ULBP, which trigger the activation of NK cells. Furthermore, treatment of patients with 5-azacytidine can lead to up-regulation of KIR receptors, potentially leading to inhibition of NK cell activity.

- **Combination with nivolumab in advanced solid tumors**

Lirilumab is in a Phase I/II open-label study in combination with nivolumab to assess the safety and tolerability and to provide preliminary information on the clinical activity of the combination in patients with advanced solid tumors. The study started in 2012 and is conducted in two parts — dose escalation and cohort expansion — and enrolled 159 patients as of data presentation in November 2016. The primary objective is safety. Secondary objectives include a preliminary assessment of efficacy.

2016 achievements:

On October 9, 2016, at the ESMO² 2016 conference, clinical investigators from the Memorial Sloan-Kettering Cancer Center, New York, US, presented safety data from two Phase I studies conducted by Bristol-Myers Squibb, testing lirilumab in combination with nivolumab or ipilimumab, respectively, in patients with advanced refractory solid tumors. The safety profile of lirilumab and nivolumab was similar to that observed with nivolumab monotherapy, with

the exception of low-grade and clinically manageable infusion-related reactions. In the limited population (22 patients) studied for the combination of lirilumab and ipilimumab, there did not appear to be additional safety concerns compared to ipilimumab monotherapy.

On November 12, 2016, during a late-breaking oral presentation at the SITC³ annual meeting, clinical investigators from the Earle A. Chiles Research Institute, Oregon, US, presented an interim efficacy analysis pertaining to a cohort of patients with squamous cell carcinoma of the head and neck (SCCHN) from the Phase I/II trial testing lirilumab with nivolumab in solid tumors. The data marked the first report of the potential efficacy of an anti-KIR antibody in combination with a PD-1 pathway blocker. The objective response rate (ORR) among 29 evaluable patients was 24% (7/29), with complete responses in 10% of patients (3/29), including confirmed and unconfirmed responses. 17% (5/29) of these evaluable patients had deep responses, with reductions in tumor

² European Society for Medical Oncology

³ Society for Immunotherapy of Cancer

burden greater than 80%. Early signals of enhanced clinical benefit were observed in PD-L1 positive tumors, with an

ORR of 41% (7/17) in patients with $\geq 1\%$ PD-L1 expression.

The published clinical data are as follows:

	lirilumab + nivolumab (n = 41)
Objective response rate (ORR).....	7/29 (24.1%) ⁽¹⁾
Complete response	3/29 (10.3%) ⁽¹⁾
Partial response	4/29 (13.8%) ⁽¹⁾
Disease control rate (DCR)	15/29 (51.7%)
ORR by PD-L1 expression ⁽²⁾	
PD-L1 < 1%.....	0/9 (0%)
PD-L1 $\leq 1\%$	7/17 (41.2%)
PD-L1 $\leq 5\%$	6/11 (54.5%)
PD-L1 $\leq 50\%$	4/7 (57.1%)
Overall survival	
at 6 months	90% ⁽³⁾
at 12 months	60% ⁽⁴⁾

(1) Including unconfirmed responses.

(2) PD-L1 expression was not determined in three patients, none of which were responders included in the 29 observable patients.

(3) 15 out of 41 patients were at risk, or were able to be assessed for survival, at six months.

(4) 10 out of 41 patients were at risk, or were able to be assessed for survival, at twelve months.

Post period achievement:

In March 2017, the Company announced that its partner Bristol-Myers Squibb has amended the clinical trial protocol of this ongoing trial. Under the amended protocol, the study includes additional cohorts of nivolumab plus lirilumab in solid tumors, including a randomized cohort

exploring nivolumab with or without lirilumab in platinum refractory recurrent or metastatic SCCHN, and initial testing of the triplet combination of nivolumab, ipilimumab and lirilumab in solid tumors.

• **Combination with 5-azacytidine in acute myeloid leukemia**

Lirilumab is in a Phase II open-label study to assess the combination of lirilumab and 5-azacytidine to find the maximum tolerated dose of the combination that may be given to patients with refractory/relapsed acute myeloid leukemia ("AML") or high-risk myelodysplastic syndromes ("MDS"). Researchers are also evaluating the efficacy and safety of the combination. The trial began in April 2015 and is expected to enroll 64 patients. The trial is being conducted by the MD Anderson Cancer Center at the University of Texas in the United States.

The combination showed a good safety profile, full doses of lirilumab and 5-azacytidine were well tolerated and no dose-limiting toxicities were observed. The preliminary efficacy data for 25 evaluable patients showed a response rate of 20%, including two patients that achieved a complete response or complete response with insufficient count recovery and three patients that achieved hematologic improvement.

2016 achievements:

In December 2016, at the ASH⁴ annual conference, clinical investigators from the MD Anderson Cancer Center, Texas, US, presented preliminary safety data from the Phase Ib/II testing lirilumab in combination with 5-azacytidine in a heavily pretreated patient population with relapsed AML.

⁴ American Society of Hematology

- **Other trials in combination with lirilumab**

Four other trials are ongoing, evaluating lirilumab in combination with nivolumab in lymphoma and multiple myeloma (Phase I, dose escalation), lirilumab in combination with elotuzumab in multiple myeloma (Phase I, dose escalation and cohort expansion), lirilumab

in combination with rituximab in chronic lymphocytic leukemia (Phase II), lirilumab in combinations with nivolumab and 5-azacytidine in myelodysplastic syndromes (Phase II).

- **Phase II trial EffiKIR (IPH2102-201)**

EffiKIR was a double-blind placebo-controlled randomized Phase II trial of lirilumab as a maintenance treatment in elderly patients with AML in first complete remission.

Post period achievement:

In February 2017, the Company announced top-line results from the EffiKIR trial. The study did not meet its primary efficacy endpoint of leukemia-free survival ("LFS").

There was no statistically significant difference between either lirilumab arms and the placebo arm on the LFS nor on other efficacy endpoints. The adverse events encountered with lirilumab were consistent with its previously reported safety profile. Data analyses are ongoing and the full trial data will be submitted to a future medical conference and for publication.

- **Milestone payment from Bristol-Myers Squibb**

In January 2017, the Company announced that, per the licensing agreement for lirilumab, Bristol-Myers Squibb has paid Innate Pharma a USD15 million milestone payment for the continued exploration of lirilumab in combination with

nivolumab. This milestone payment followed the presentation at the SITC annual meeting in November 2016 of encouraging preliminary activity results from the cohort of patients with SCCN of a Phase I/II trial.

1.2.2.2. Monalizumab: anti-NKG2A antibody developed in partnership with AstraZeneca

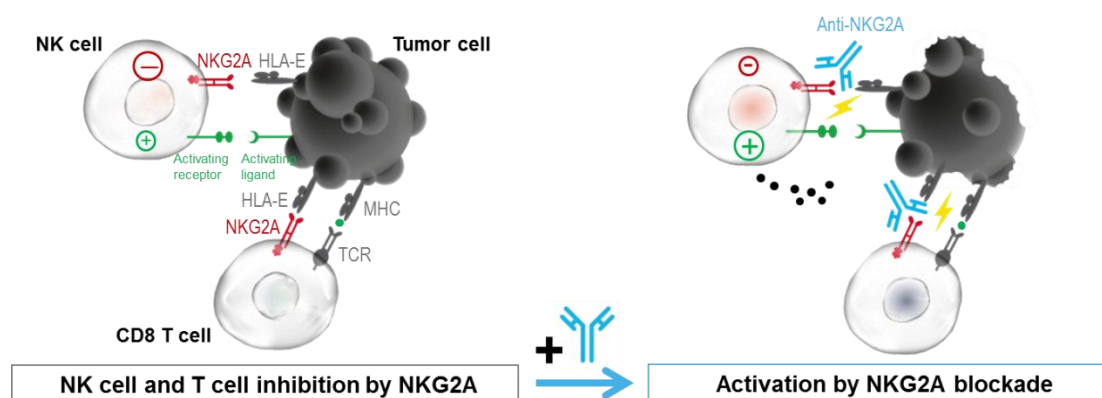
1.2.2.2.1. Presentation

Monalizumab is a first-in-class immune checkpoint inhibitor targeting NKG2A receptors expressed on tumor infiltrating cytotoxic CD8 T lymphocytes and NK cells.

NKG2A is an inhibitory receptor binding HLA-E. By expressing HLA-E, cancer cells can protect themselves from killing by NKG2A+ immune cells. In some cancers, HLA-E expression is associated with poor prognosis.

Monalizumab, a humanized IgG4, blocks the binding of NKG2A to HLA-E allowing activation of NK and cytotoxic T cell responses. By blocking the inhibitory NKG2A receptors, monalizumab may re-establish a broad anti-tumor response mediated by NK and T cells. Monalizumab may also enhance the cytotoxic potential of other therapeutic antibodies. In a single- and multiple-dose Phase I dose-escalation safety trial, monalizumab appeared to have a safe and well-tolerated profile at all doses tested.

Monalizumab mechanism of action



Monalizumab is developed in partnership with AstraZeneca through a global co-development and commercialization agreement (see section 1.6.2.1).

1.2.2.2. Clinical development

Monalizumab is currently being tested in an exploratory program of Phase I/II clinical trials in various cancer indications in monotherapy and in combination with commercialized drugs including a Phase I trial evaluating monalizumab in combination with durvalumab (an investigational anti-PD-L1 antibody) in solid tumors, led by AstraZeneca.

• Rationale for Clinical Trials of Monalizumab

The rationale for the clinical trials of monalizumab is based on the indications where HLA-E is expressed on tumors in the vast majority of patients with such indication. The prioritized indications are:

- head and neck cancer, where HLA-E is expressed in over 70% of tested patients with malignant lesions. NKG2A is frequently expressed by both NK and CD8+ cells infiltrating oral cavity squamous cell carcinoma. According to a study published in the International Journal of Cancer in 2013, among 150 patients with tonsillar SCC, overexpression of HLA-E was found in 99/119 (83%) those with HPV-tumors (Human Papilloma Virus) and 30/31 (97%) with HPV+ tumors;
- ovarian cancer, where HLA-E is a poor prognostic factor and is expressed in approximately 89% of patients according to a study published in Proceedings of the National Academy of Sciences of the United States of America. Additionally, the presence of tumor-infiltrating lymphocytes correlates with improved outcomes, but this effect is neutralized in patients whose cancers express HLA-E;
- CLL, where HLA-E is expressed in virtually all patients.

The activity of monalizumab is being explored as a monotherapy and in several combinations based on different synergistic rationales, including:

• Monalizumab as a single agent in gynecologic malignancies

Monalizumab is in a Phase I/II open-label, dose-ranging trial to evaluate monalizumab as a single agent in patients with gynecological cancers. The primary objective is to confirm the recommended Phase II dose of monalizumab as a single agent in patients with gynecological cancers. The secondary objectives include assessing the safety, pharmacokinetics, pharmacodynamics and immunogenicity of monalizumab.

The first patient in the trial was treated in September 2015. In the first part of the trial, patients received 1, 4, or 10 mg/kg every two weeks. In the second part of the trial,

- activating NK cells and T cells through the combination of monalizumab and durvalumab. Checkpoints targeted by durvalumab and monalizumab (PD-L1 and NKG2A) are both up-regulated in many cancers, suggesting they both contribute to tumor immune escape. Simultaneous blockade of both inhibitory pathways may facilitate a more effective anti-tumor immune response;
- ADCC enhancement through the combination of monalizumab and cetuximab, an anti-EGFR antibody. Cetuximab acts through blocking oncogenic signaling and by ADCC. This ADCC is inhibited by HLA-E expression and this inhibition may be circumvented with anti-NKG2A treatment;
- combining a checkpoint inhibitor with a drug that promotes an immuno-favorable environment. Ibrutinib has been demonstrated to promote immune responses enhancing NK and CD8 T-cell activity. As subsets of NK and CD8 cells express NKG2A, the NK and CD8 promoting effects of ibrutinib may be further enhanced by monalizumab. Thus, treatment with monalizumab in combination with ibrutinib may improve the quality of the response above and beyond what is achieved with ibrutinib alone. Ibrutinib alone results in a high rate of responses, but these are partial responses and very few complete responses are achieved.

patients receive 10 mg/kg, which is the recommended dose based on the results of the first part of the trial.

This trial is being sponsored by the Canadian Cancer Trials Group ("CCTG").

2016 achievements:

During the first half of 2016, this trial has been extended to two additional cohorts of patients with epithelial endometrial cancer and squamous cell carcinoma of the cervix in addition to the initial cohort of patients with high-grade ovarian cancer.

At the EORTC-NCI-AACR Molecular Targets and Cancer Therapeutics Symposium in November 2016, clinical investigators from the CCTG presented the first data from the dose-ranging part in 18 patients with advanced ovarian cancer. The data showed that monalizumab was well

tolerated with no dose-limiting toxicities observed. Adverse events were mostly low grade and rarely resulted in treatment delays. Preliminary efficacy data showed short-term disease stabilization in 41% of patients, including one patient with a mixed response.

- **Monalizumab in combination with ibrutinib in patients with relapsed or refractory chronic lymphocytic leukemia ("CLL")**

Monalizumab is in a Phase I/II trial of monalizumab in combination with ibrutinib to evaluate the anti-leukemic activity of the combination in patients with relapsed or refractory CLL. The primary endpoint for efficacy of this trial is complete response rate. The secondary objective is to assess the safety of the combination. The trial is being conducted by clinical investigators at the Ohio State University Medical Center in the United States.

The trial will enroll up to 45 patients. The trial is being conducted in two phases. During Phase Ib patients will receive a dose of 1, 2, 4 or 10 mg/kg of monalizumab every two weeks for two cycles as a single agent and then every four weeks for 26 cycles combined with ibrutinib administered once per day. During Phase IIa, patients will receive the dose of monalizumab recommended at the completion of phase Ib every two weeks during 28 cycles combined with ibrutinib administered once per day.

- **Monalizumab in combination with cetuximab in patients with relapsed or metastatic squamous cell cancer of the head and neck ("SCCHN")**

Monalizumab is in a Phase Ib/II trial of the combination of monalizumab and cetuximab in patients with relapsed or metastatic SCCHN. The primary endpoint for efficacy is overall response rate.

assessed at the dose selected in the dose-escalating part, in combination with cetuximab, in 40 patients who received up to 2 prior systemic regimens. Treatment will be continued until progression or unacceptable toxicity.

The trial is being performed in Europe and in the United States with a maximum of 70 patients. In the first part of the study, up to 30 patients will receive a combination of cetuximab and monalizumab; 5 dose levels of monalizumab up to 10mg/kg will be explored. Based on previous experience with monalizumab, these dosages are expected to induce full saturation of the NKG2A receptor. In the second part of the study, monalizumab will be

Post period event:

Safety data from the dose-escalation part of this trial will be presented at upcoming AACR annual meeting 2017. The data show that monalizumab plus cetuximab were well tolerated with no additional safety concerns compared to monalizumab or cetuximab alone.

- **Monalizumab in combination with durvalumab in advanced solid tumors**

Monalizumab is in a Phase I, multicenter, single-arm dose-escalation and cohort expansion study of durvalumab in combination with monalizumab in adult subjects with advanced solid tumor malignancies. It will include up to 208 patients, and will be performed in the United States and in Europe.

2016 achievements:

The clinical trial started in February 2016. At the AACR annual meeting 2016 in April 2016, the Company presented preclinical data demonstrated enhanced anti-tumor efficacy and survival by combining PD-1/PD-L1 pathway blockade and NKG2A checkpoint inhibitor. These data provided *in vivo* preclinical validation of the rationale for the ongoing clinical trial investigating monalizumab in combination with durvalumab.

The primary endpoint of the study is safety, with antitumor efficacy being a key secondary endpoint. Other secondary endpoints include response duration, progression free survival, overall survival, pharmacokinetics, pharmacodynamics, and immunogenicity of durvalumab and monalizumab given in combination.

- **Monalizumab as a single agent for hematological malignancies**

Monalizumab is in a Phase I trial evaluating monalizumab as a single agent in patients with hematological malignancies in a post-transplantation setting. The

objective is to identify the maximum tolerated dose (if any) and to confirm the recommended Phase II dose.

The trial will enroll up to 18 patients and will include patients that have received an allogenic hematopoietic stem cell transplantation. Patients will receive a single dose of monalizumab 75 to 100 days after the stem cell transplantation.

- **Other trials with monalizumab**

Additional trials are expected to open within the next few months.

A Phase I/II trial testing monalizumab in head and neck cancers in a preoperative setting has been closed due to slow enrollment. The decision to stop this trial was not

2016 achievements:

This trial began in December 2016, is sponsored by Institut Paoli-Calmettes and is being conducted in France.

based on any safety considerations. Another trial testing monalizumab as a single agent in patients with head and neck cancer is planned, and a trial testing monalizumab in combination with cetuximab is ongoing in the same indication.

1.2.2.3. IPH4102 program: anti-KIR3DL2 antibody

IPH4102 is a first-in-class anti-KIR3DL2 humanized antibody, designed for treatment of CTCL, an orphan disease. KIR3DL2 is an inhibitory receptor of the KIR family, expressed by approximately 65% of patients across all CTCL subtypes and expressed by up to 95% of certain aggressive CTCL subtypes, in particular, Sézary Syndrome and transformed mycosis fungoides. It has a restricted expression on normal tissues. IPH4102 specifically binds KIR3DL2 and is designed to kill CTCL cancer cells.

CTCL is a heterogeneous group of non-hodgkin's lymphomas which arise primarily in the skin and are characterized by the presence of malignant clonal mature T cells. CTCL accounts for approximately 4% of all non-

hodgkin's lymphoma cases and has a median age at diagnosis of around 55 years.

Mycosis fungoides, and Sézary Syndrome, its leukemic variant, are the most common CTCL subtypes. The median overall survival, which depends in part on subtype, is approximately 1-2 years for advanced Sézary Syndrome and transformed mycosis fungoides. CTCL is an orphan disease and patients with advanced CTCL have a poor prognosis with few therapeutic options and no standard of care. There are approximately between 5,000 and 6,000 CTCL patients in Europe and the United States.

IPH4102 was granted orphan drug status in the European Union for the treatment of CTCL.

1.2.2.3.1. Clinical development

- **Phase I trial testing IPH4102 in CTCL**

The Company is sponsoring the first-in-human clinical trial of IPH4102, which is a Phase I open-label, multicenter trial in patients with relapsed/refractory CTCL. The trial is being performed in France, the Netherlands, the United Kingdom and the United States. The primary objective is to evaluate the safety and tolerability of repeated escalating doses of IPH4102 to characterize dose limiting toxicities and to identify a maximum tolerated dose or the recommended Phase II dose. The secondary objectives include an assessment of the drug's antitumor activity and identification of biomarkers. Clinical endpoints include overall objective response rate, response duration and progression-free survival.

The trial will enroll approximately 60 patients with KIR3DL2-positive CTCL and who have failed at least two prior lines of systemic treatment in a dose-escalation and cohort expansion study. The cohort expansion study is expected to be performed in two CTCL subtypes displaying the highest expression of KIR3DL2, transformed mycosis fungoides and Sézary Syndrome.

2016 achievements:

In June 2016, Professor Martine Bagot, Head of the Dermatology Department at the Saint-Louis Hospital in Paris, discussed the protocol of the ongoing first-in-human study of IPH4102 at the 2016 ASCO⁵ annual meeting in Chicago, USA.

Clinical investigators presented encouraging preliminary data on the first seven dose levels (0.0001 to 1.5 mg/kg, 16 patients) at the 3WCCL⁶ conference in October 2016 and at the ASH conference in December 2016. The preliminary safety data showed that IPH4102 was well tolerated and no dose-limiting toxicity was observed. The majority of adverse events was typical for CTCL or reflected low-grade infusion reactions. The eighth dose level out of ten was completed without dose-limiting toxicity. At the date of the presentation in December 2016, two additional dose levels remained to be evaluated.

⁵ American Society of Clinical Oncology

⁶ Third World Congress of Cutaneous Lymphomas

The preliminary efficacy data showed signs of clinical activity with a global objective response rate of 38%. Complete responses were seen in skin and blood in some patients. All responses were ongoing at the time of the analysis, which occurred after a median duration of treatment of 126+ days (range of 41+ to 298+). The results of exploratory biological endpoints such as

pharmacodynamics in skin and blood are in line with clinical activity results.

The completion of the dose-escalation part of the trial is expected by the second quarter of 2017.

1.2.2.4. IPH4301 program: anti-MICA/B antibody

IPH4301 is a humanized anti-MICA/B therapeutic antibody in oncology. MICA/B bind to the NKG2D activating receptor and are specifically expressed on several highly prevalent solid tumors including breast, colorectal and lung. Hence, an antibody depleting MICA/B expressing cells could have a therapeutic interest in those cancers. Furthermore, chronic exposure to MICA/B down-regulates NKG2D and MICA/B are also expressed on tumor associated immunosuppressive macrophages.

MICA/B are highly polymorphic ligand of the NK and some cytotoxic T cells activating receptor NKG2D and Innate Pharma has generated a panel of high affinity antibodies

recognizing all forms of MICA/B. IPH4301 acts with a dual mechanism, involving both direct ADCC-mediated killing of tumor cells and by reducing immunosuppression by macrophages and restoring NKG2D to re-sensitize NK and T cells.

2016 achievements:

In April 2016, the Company presented a new set of preclinical data further validating the potential of this first-in-class anti-MICA/B antibody IPH4301 at AACR annual meeting.

The program has started IND-enabling studies in 2016.

1.2.2.5. IPH52 program: anti-CD39 antibody

This program aims at developing an anti-CD39 antibody for immuno-oncology.

CD39 is expressed on both regulatory T cells and tumor cells. It plays a major role in promoting immunosuppression through the pathway degrading adenosine triphosphate (ATP) into adenosine. Within the tumor microenvironment, ATP promotes immune cell-mediated killing of tumors. In contrast, adenosine accumulation causes immune suppression and dysregulation of immune cell infiltrates resulting in tumor spreading.

Blockade of CD39 may therefore stimulate anti-tumor immunity across a wide range of tumors.

This program is currently in preclinical development at Innate Pharma.

2016 achievements:

On January 10, 2016, Innate Pharma and Orega Biotech announced that they entered into an exclusive licensing agreement by which Orega Biotech granted Innate Pharma full worldwide rights to its program of first-in-class anti-CD39 checkpoint inhibitors. New preclinical data supporting the development of this program have been presented at the AACR meeting in April 2016.

Innate Pharma has generated a first-in-class anti-CD39 antibody which is currently in lead optimization.

1.2.2.6. IPH53 program: anti-CD73 antibody

This program aims at developing an anti-CD73 antibody for immuno-oncology.

CD73 plays a major role in promoting immunosuppression through the pathway degrading adenosine triphosphate (ATP) into adenosine. CD73 is active on the last step of the degradation pathway, where it is the enzyme that actually degrades AMP into adenosine. CD73-blockade may promote anti-tumor immunity by reducing adenosine accumulation.

This program is currently in preclinical development at Innate Pharma.

This program is developed within the TumAdoR project (www.tumador.eu), coordinated by Dr C. Caux (Centre Léon Bérard and Centre de Recherche en Cancérologie, Lyon, France), and funded under the European Community's seventh framework Program (European Community's Seventh Framework Program (FP7/2007-2013) under grant agreement n°602200).



2016 achievements:

Preclinical data supporting the development of this program have been presented at the AACR meeting in April 2016.

Innate Pharma has generated a panel of novel anti-CD73 antibodies.

1.2.2.7. IPH33 program: anti-TLR3 antibody

IPH33 is a monoclonal antibody program targeting the Toll-like Receptor-3 receptor (TLR3).

As an anti-viral receptor, TLR3 is a major inducer of Type I IFN and pro-inflammatory cytokines, such as IL-6, TNF, IL-17, IL-21, IP-10 and RANTES. TLR3 is overexpressed on inflammatory epithelial tissues and can also be involved in the differentiation of pro-inflammatory cells, such as the differentiation of monocytes into osteoclasts. TLR3 thus acts as a participant in inflammatory feedback loops by inducing the production of pro-inflammatory signals which stimulate its own expression.

IPH33 is an antibody program that aims at blocking TLR3 in order to decrease a deleterious pro-inflammatory response. This mechanism of action is upstream with respect to current approaches (anti-TNF, anti-IL-6, JAK inhibitors) and could be interesting in a broad spectrum of chronic inflammatory indications, such as COPD, IBD, RA...

TLR targeting is an active area of development in the pharmaceutical industry (GSK, Pfizer, Merck, AstraZeneca, and Johnson & Johnson). However, TLR3, as an intracellular receptor, has not been the subject of extensive targeting via antibody-based approaches (only one program is currently in Phase II trials to the Company's knowledge).

Innate Pharma has generated antibodies which can be internalized in the cell, specifically through TLR3, and which are able to block the TLR3 activity. An antibody candidate was selected and humanized in 2012.

Insofar as this approach might be interesting against a broad spectrum of chronic inflammation pathologies, it requires significant resources. Innate Pharma's strategy is to look for an early partnering of this asset.

1.2.2.8. Discovery: New Targets

The Company is conducting, directly or through research collaboration agreements, exploratory research programs which, if successful, could enrich the portfolio with new

target receptors and new drug candidates in the field of cancer immunotherapy or inflammatory diseases.

1.2.2.9. Antibody engineering technologies

1.2.2.9.1. Bispecific antibody technology engaging NK cells

Innate Pharma has developed an innovative bispecific antibody technology for engaging NK cells to kill tumor cells through Nkp46. Nkp46 is an activating receptor expressed on all NK cells. It is the most specific marker of human NK cells and plays a major role in their tumor cell recognition. Nkp46-bispecific NK cell engagers bind with one arm to an antigen at the surface of tumor cells, and with another arm to the Nkp46 receptor on NK cells. This leads to activation and specific tumor-killing by NK cells.

This project has been financially supported by the European Union by means of the European Regional Development Fund.

2016 achievements:

On January 11, 2016, Innate Pharma and Sanofi announced that they have entered into a research collaboration and

licensing agreement to apply Innate Pharma's new proprietary technology to the development of innovative bispecific antibody formats engaging natural killer (NK) cells to kill tumor cells through the activating receptor Nkp46. Sanofi and Innate Pharma will work together on the generation and evaluation of up to two bispecific NK cell engagers, using technology from Innate Pharma and Sanofi's proprietary bispecific antibody format as well as tumor targets.

Under the terms of the license agreement, Sanofi is responsible for the development, manufacturing and commercialization of products resulting from the research collaboration. Innate Pharma is eligible to up to €400m in development and commercial milestone payments as well as royalties on net sales.

1.2.2.9.2. Proprietary Antibody-Drug Conjugates technology

Innate Pharma has developed a new site-specific conjugation technology for homogenous antibody-drug conjugates (ADCs). This proprietary technology addresses one of the limits in the development of ADCs: to obtain in

the shortest time homogeneous ADCs on the basis of a minimal change in the generating process. The Innate Pharma's technology, validated in preclinical models, could

be used internally to expand its portfolio of developmental candidates or form strategic partnerships.

1.2.2.9.3. Discovery: New Technologies

The Company is also working towards strengthening its technological abilities in the field of molecular engineering for monoclonal antibodies.

1.2.3. Presentation of the Company's business and its industrial concept

The Company's activity consists of discovering, characterizing and developing drug candidates. The research and development process, from the discovery of a drug candidate to the registration of a new drug, comprises elements common to all companies in the biopharmaceutical field. Nevertheless, due to its specialization in the field of monoclonal antibodies, the Company is capable of designing candidate drugs specific to a target of interest.

The aim of the initial research phase is to identify a target (i.e. a receptor or a molecule involved in a pathological process) and to validate its therapeutic relevance. The following step consists of "building" an antibody against this target with the desired specificity and affinity regarding recognition and the properties desired according to the function (blocking or destroying the target, internalization inside the cell, etc.).

Then, the candidate drug must be produced – firstly in our laboratory to be tested in *in vitro* and *in vivo* models and then at our sub-contractors for trials on patients. Trials with patients represent the "clinical" part of the development. The development phase targets an issue

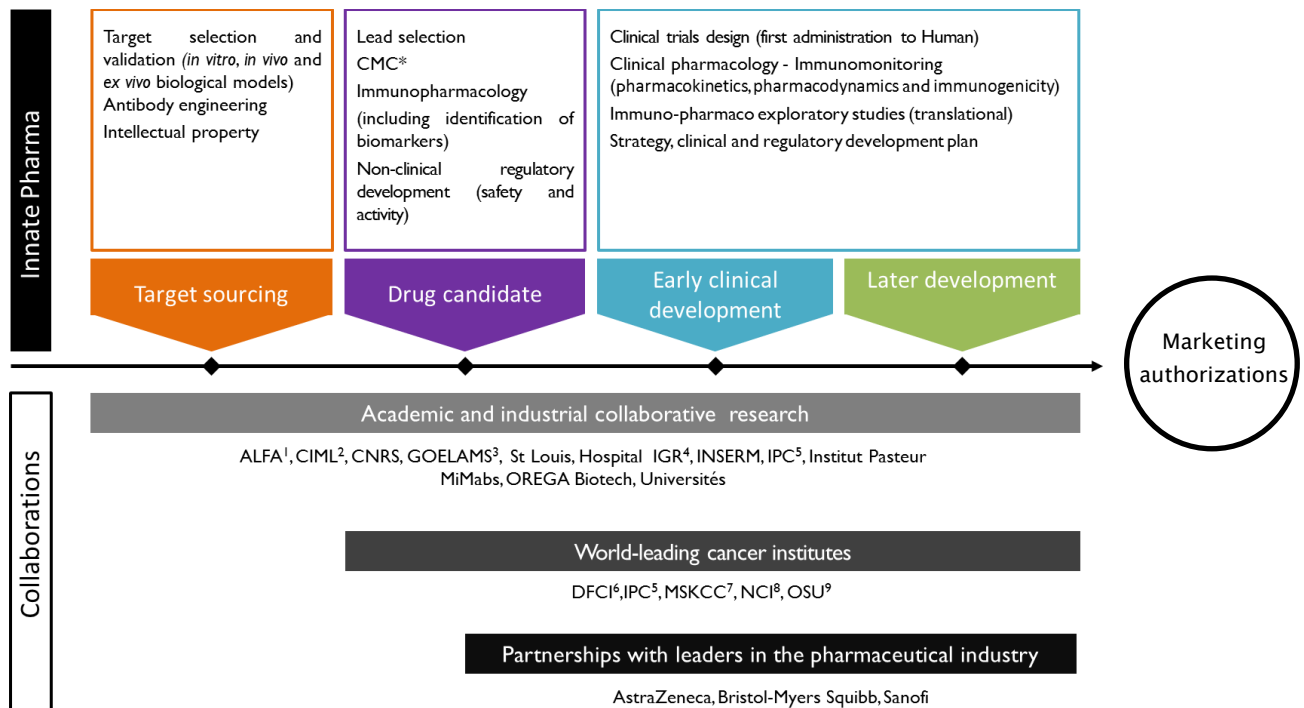
common to all drug candidates: ensure patients safety, determine the drug candidate's clinical efficacy and to ensure its pharmaceutical quality. These three aspects – efficacy, safety and quality – are evaluated by regulatory agencies when an authorization to carry out clinical trials on humans is requested and then again at the marketing authorization stage. The entire development process follows practices codified by various texts and recommendations, see section 1.4 Regulatory Environment and "[From the discovery of a drug candidate to its registration](#)" on Innate Pharma's website).

For the entire duration of this project, one of the major objectives of the Company will be the validation of the Company's operating freedom and intellectual property protection, which are key elements for the future development of projects and for the Company's capacity to exploit its findings.

The Company's research and development (R&D) activities have been certified by AFNOR CERTIFICATION as being compliant with the ISO 9001 reference system since July 2005.



Value creation at Innate Pharma



*Chemistry, Manufacturing & Control

1/ Acute Leukemia French Association (France), 2/ Centre d'Immunologie Marseille-Luminy (France), 3/ Groupe Ouest-Est des Leucémies Aigües et Maladies du Sang (France), 4/ Institut Gustave Roussy (Villejuif, France), 5/ Institut Paoli-Calmettes (Marseille, France), 6/ Dana-Farber Cancer Institute (Boston, USA), 7/ Memorial Sloan-Kettering Cancer Center (New-York, USA), 8/ National Cancer Institutes (USA), 9/ Ohio State University (Columbus, USA).

1.3. MARKET AND STRATEGY

1.3.1. Strategy

The Company's medium-term priorities are as follows:

- mature and expand its portfolio of proprietary products while maintaining its scientific focus on targeting immune regulation checkpoints and clinical activities in broad therapeutic fields with major medical needs (cancer) relying on its proprietary antibody technology platform;
- progressively incorporate downstream steps in the value chain while keeping certain development rights and possibly marketing rights when they are compatible with the Company's financial, organizational and human capabilities;
- search for partnerships to access development capabilities in order to maximize the potential of its products and to fund the Company's proprietary assets.

1.3.2. Trend

In the short term, the Company's revenue should come mainly from payments received under existing or newly signed collaboration and licensing agreements or capital increases. The Company also expects to continue to receive grants, mainly from France and Europe, as well as research

tax credits to support its operations. The Company's expenses should comprise research and development expenses, overhead and milestone payments to third parties that it is required to make under the terms of collaborative research, option or licensing agreements.

In the medium to long term, the Company's revenue should come from royalties on sales generated by its partners under the terms of collaboration and licensing agreements for its products, as well as product sales. The Company's expenses should comprise research and development expenses, overhead and milestone and royalty payments to third parties which it is required to make under the terms of collaborative research, option or licensing agreements.

The Company's short-term financing needs will depend on:

- the progress and success of its licensed programs which could trigger milestone payments from its partners;

- progress made in the development of the Company's proprietary products, which could significantly affect the Company's research and development expenditures;
- acquisition of intellectual property rights, assets or companies;
- its ability to enter into collaboration and licensing agreements for its other products with other companies in its sector.

1.3.3. Sector and competition

The biotechnology and pharmaceutical industry sector, and notably the cancer field, is characterized by a very fast evolution of technologies, a product protection with intellectual property and fierce competition. Many companies, pharmaceutical and biotechnological laboratories, academic organizations and other research centers are actively involved in the discovery, research, development and marketing of immunotherapy products and other innovative techniques and products for cancer and inflammatory disease treatment.

Many companies developing anti-cancer therapies have greater financial, industrial, commercial, technological, organizational and human resources than Innate Pharma. The major pharmaceutical laboratories notably have greater experience in clinical trials, regulatory procedures, marketing and commercialization.

Competition between the developers of anti-cancer therapies is also strong in terms of the acquisition of new products and technologies, thereby driving prices up. The Company is in competition with many companies for acquiring the rights to use certain products that are promising for the development of its immunotherapy products. This competition with other pharmaceutical laboratories and academic organizations also applies to the recruitment of qualified scientific, medical, technical and administrative personnel. However, the Company's specific orientation and expertise ensures scientific and academic recognition and enables personnel to work in a competitive context.

The current activity of Innate Pharma focuses on discovering and developing drug candidates in the field of cancer immunotherapy. Its two most advanced candidates are checkpoint inhibitors.

Cancer has historically been treated with surgery, radiation therapy, chemotherapy, targeted therapies, and hormone therapy. More recently, advances in understanding of the

immune system's role in cancer have led to immunotherapy becoming an important therapeutic modality. The first developed cancer immunotherapy didn't activate specifically the immune system and had limited efficacy and/or significant toxicity. In contrast, new immunotherapy treatments can specifically activate immune cells, leading to improved targeting and killing of cancer cells and a better safety and tolerability profile.

Within the immune-oncology field, treatments include several categories, including cytokines, antibodies (notably checkpoint inhibitors) and cellular therapies.

Checkpoint inhibitors have drawn the attention and many developments in the industry, since the publication in 2010 of clinical results for the first checkpoint inhibitor, ipilimumab (trade name: Yervoy®), from Bristol-Myers Squibb, then approved in 2011 in metastatic melanoma, a cancer for which no new treatment was approved during the past 20 years. In its pivotal study, ipilimumab showed a significant benefit in terms of long-term survival in approximately one quarter of patients. In 2014, two other checkpoint inhibitors, targeting another receptor (PD-1) and other cell types, have been approved in melanoma, with significant results in terms of long-term survival, and fewer side effects. They are pembrolizumab (trade name: Keytruda®) developed by Merck and nivolumab (trade name: Opdivo®) developed by Bristol-Myers Squibb that has been approved in several indications since (kidney, lung, types of lymphomas, bladder, head and neck). In 2015, the FDA approved the combination of nivolumab and ipilimumab in patients with metastatic melanoma and recently in 2016, atezolizumab (trade name: Tecentriq®), an anti-PD-L1 developed by Roche, has been approved. Checkpoint inhibitors represent a revolution in the treatment of cancer, with a treatment potential estimated by some analysts of over half of patients with cancer.

While T cell checkpoint inhibitors are becoming the standard of care for certain cancers, many patients fail to respond adequately and as a result, there is still a high unmet need for new treatments. The success of PD-1 antibodies has stimulated the development of novel checkpoint inhibitors that may demonstrate anti-tumor activity in PD-1 resistant patients, either as single agents or in combination with existing products. There is a need for new combinations of checkpoint inhibitors that can both improve long-term patient outcomes in a broad spectrum of solid and hematological cancer indications and offer a favorable safety profile. The development of combinations of checkpoint inhibitors has become a major focus of clinical efforts in the immuno-oncology field.

I.3.4. Market

I.3.4.1. Cancer

Cancer constitutes a group of related diseases characterized by the uncontrolled proliferation of abnormal cells. Cancer is caused or developed by internal factors (immune conditions, hormones, acquired mutations, etc.) and by external factors (tobacco, irradiation, chemicals, viruses, etc.). Cancer cells accumulate locally, forming tumors, and are able to spread throughout the entire organism (known as “metastases”). Proliferating tumors can destroy healthy tissues and organs, leading to death. Cancer treatment is characterized by a major medical need for new therapies, as in most cases conventional treatments do not ensure recovery and their benefits are often limited by the side-effects related to their use.

Cancer epidemiology

The unmet medical needs in oncology are very significant. According to the World Health Organization (WHO), in 2012

The following table summarizes the estimated number of new cases for certain types of cancer and the associated death rate in the United States in 2017:

With two drug candidates in clinical development, in partnership with the world leaders in immuno-oncology, Innate Pharma is among the most advanced companies in this field.

Due to the growing understanding of cancer’s biological mechanisms and the emergence of new companies dedicated to its treatment with innovative therapies, the Company believes that the competition in this sector will become increasingly fierce (see section 1.9.1.1, “Risks related to the Company’s competitive environment”).

there were over 14 million new cases, 8.2 million cancer deaths, and 32.6 million people living with cancer.

According to the American Cancer Society, half of the men and one third of the women in the U.S. will develop a cancer during their lifetime. As cancer is a slowly progressing disease, and with the new therapeutic progress, the total number of individuals living with a cancer (the “prevalence”) significantly exceeds the number of patients diagnosed with cancer in a given year (the “incidence”).

The medical needs related to cancer increase with the ageing of populations. According to the American Cancer Society (2017), 87% of people with cancer in the United States were older than 50 at the time of diagnosis.

Estimated number of new cancer cases in the United States in 2017

Site	New cases of cancer	Deaths due to cancer
Lung and bronchial	222,500	155,870
Colon ¹⁰	95,520	50,260
Breast	255,180	41,070
Ovary	22,440	14,080
Pancreas	53,670	43,090
Prostate (men)	161,360	26,730
Melanoma	87,110	9,730
Leukemia	62,130	24,500
<i>Chronic lymphocytic leukemia</i>	<i>20,110</i>	<i>4,660</i>
<i>Acute myeloid leukemia</i>	<i>21,380</i>	<i>10,590</i>
Lymphoma	80,500	21,210
Multiple myeloma	30,280	12,590
Others	618,090	201,790
Total	1,688,780	600,920

¹⁰Deaths due to colon cancer combined deaths due to rectal cancer.

Source: American Cancer Society, 2017

1.3.4.2. Market data

Worldwide drugs market

The worldwide pharmaceutical market was estimated at 1,069 billion US dollars in 2015, a 8.9% increase with respect to 2014 at constant US dollar exchange rates

(Source: IMS Health, 2016). The following table shows the geographical distribution of this market:

Geographical area	Market in 2014 in value (billions of US dollars)	% of the total market	% of growth over 2013	% expected growth in 2014–2019
North America	406.2	40.1%	3.6%	2.7–5.7%
Europe	243.0	23.9%	2.4%	1.3–4.3%
Asia, Africa and Australia	201.5	19.9%	10.0%	6.9–9.9%
Japan	88.0	8.7%	3.0%	–0.8–2.2%
South America	75.5	7.4%	7.8%	4.8–7.8%

Source: IMS Health, 2015

According to IMS Health, the worldwide pharmaceutical market should continue to expand over the next few years with an annual growth around 4.8%.

Worldwide market for anti-cancer drugs:

The worldwide drug market has historically been dominated by cardiovascular and central nervous system treatments. Nevertheless, since the patent expiration of several “blockbuster” drugs in these areas and the

marketing of new drugs to fight cancer, the latter indication currently represents the biggest pharmaceutical market with 88.6 billion dollars in 2015 (against 85.0 billion dollars in 2014 (Datamonitor Healthcare 2015).

Zone géographique	Market in 2015 in value (billions of US dollars)	% of the total market	Estimated market in 2024 (billions of US dollars)	CAGR
North America	46.3	52.2%	76.6	5.75%
Europe (France, Germany, Spain, Italy, UK)	19.3	21.8%	27.4	3.97%
Japan	7.7	8.7%	10.2	3.25%
ROW	15.3	17.3%	19.1	2.48%

Source: Datamonitor Healthcare, 2015.

This growth is fueled by an increase in volume, resulting from an increase in the number of people with cancer as well as the introduction of new products taken in monotherapy or in combination with products from the older generation. This market is dominated by innovations, especially innovations generated through biotechnologies. Because of the high medical need, the many therapeutic innovations, which have been introduced, have resulted in a significant increase in the cost of treatment. Two

immuno-oncology drugs (Opdivo® and Keytruda®) introduced in 2014 benefit from very favorable prices, which exceed 90,000 US dollars per treatment course and an estimated annual cost of 150,000 US dollars. The immuno-oncology market potential is valued over 35 billion dollars in the next 10 years (Source: Citi report). In 2016, the 5 approved products, of which 4 anti-PD1/PD-L1, generated over 6 billion dollars in turnover.

I.4. REGULATORY ENVIRONMENT

Risks related to the Company's regulatory environment are described in paragraph 1.9.3.1 "Risks related to the Company's regulatory environment".

I.4.1. Introduction

Research and development work, preclinical tests, clinical studies, facilities, and the manufacture and sale of the Company's drug candidates are and will continue to be subject to the complex legislative and regulatory provisions laid down by the various public authorities in France, Europe, the United States and other countries.

The European Medicines Agency ("EMA"), the Food and Drug Administration ("FDA") in the United States, l'Agence Nationale de Sécurité du Médicaments et des Produits de Santé ("ANSM") in France and the equivalent regulatory authorities in other countries impose considerable constraints on the development, clinical trials, manufacturing and sale of products such as those developed by the Company. In case of non-compliance with these regulations, the regulatory authorities may impose fines, seize or remove products from the market or even partially or totally suspend their production. They may also revoke previously granted marketing authorizations, reject authorization applications filed by the Company and

undertake legal proceedings. These regulatory constraints are important in considering whether an active ingredient can ultimately become a drug, as well as for recognizing the time and investments necessary for such development.

Although there are differences from one country to another, the development of therapeutic products for human use is essentially subject to identical procedures and must comply with the same types of regulations in all developed countries. To obtain marketing authorization for a product, proof must generally be provided of its efficacy and safety, along with detailed information on its composition and manufacturing process. This entails conducting sizeable pharmaceutical and preclinical developments, clinical trials and laboratory tests. The development of a new drug from fundamental research to marketing comprises five steps: (i) research, (ii) preclinical trials, (iii) clinical trials in humans, (iv) marketing authorization and (v) marketing.

I.4.2. Preclinical studies

Preclinical studies include laboratory evaluation of the purity and stability of the pharmaceutical active substance and the formulated product, as well as in vitro and animal studies to assess the safety (toxicological studies), the activity and the behavior of the product candidate for initial testing in humans. The conduct of preclinical studies is subject to applicable regulations and requirements,

including good laboratory practices ("GLP") regulations. The results of the preclinical tests are submitted to the applicable regulatory agencies in connection with the initial application for clinical trials in humans. Some preclinical tests, such as carcinogenicity and long-term toxicity studies at repeated doses, can be requested for a marketing authorization application.

I.4.3. Conduction and regulation of clinical trials

In humans, clinical trials are usually carried out in three phases (Phase I, II and III) that are generally sequential, but can also overlap, notably in various indications or therapeutic combinations. Before progressing onto the next stage, each phase must meet different requirements and

objectives that demonstrate the benefit and wellbeing of patients.

- Phase I: the drug candidate is administered to determine its initial safety profile, to identify side-

effects and to evaluate tolerance at the doses administered, as well as its distribution in the body and its impact on the metabolism. Sponsors sometimes designate their Phase I trials as Phase Ia or Phase Ib. Phase Ib trials are typically aimed at confirming dosing, pharmacokinetics and safety in larger number of patients than in Phase Ia.

- Phase II: the drug candidate is studied in a limited patient population to determine preliminary efficacy and optimum dose level as well as to identify possible adverse effects and safety risks.
- Phase III studies are large-scale comparative trials intended to produce data demonstrating the relative efficacy and tolerance in an expanded patient population.

Post-approval trials, sometimes referred to as Phase IV studies, may be conducted after initial marketing approval. These trials are used to gain additional experience from the treatment of patients in the intended therapeutic indication. In certain instances, the applicable regulator may mandate the performance of Phase IV clinical trials as a condition of approval.

Clinical trials may be conducted in the United States, in Europe or in other parts of the world provided such trials have been approved by health authorities and ethics committees in each country where the trial is conducted. Regulatory authorization is needed to carry out clinical trials. The regulatory authorities may block, suspend or

require significant modifications to the clinical study protocols submitted by companies seeking to test products.

In most countries, clinical trials must comply with the Good Clinical Practice standards as defined by the International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use ("ICH").

Clinical trials must be carried out in compliance with complex regulations throughout the various phases of the process, based on the principle of informed consent by the patient to whom the products will be administered. The patient must be kept informed of the objective, methodology and duration of the research, and also of the expected benefits and predictable constraints and risks associated with the administration of the products undergoing the clinical trials. This information is summarized in a written document given to the patient before any administration of products.

Patients must be kept regularly informed of the clinical trials' progress and of the overall research results. The personal data gathered for clinical trials must be declared in simplified form to the Commission Nationale Informatique et Liberté ("CNIL"). Patients have the right to access and correct these data in application of law No. 78-17 of 6 January 1978, amended by law No. 2004-801 of 6 August 2004, concerning information systems, files and freedom.

1.4.3.1. Clinical trial authorization in European Union

European directive 2001/20/EC of 4 April 2001 concerning the application of Good Clinical Practices in conducting clinical trials of drugs for human use, was transposed into national legislation in each European Union member.

In the French legislation, the law No. 2004-806 of 9 August 2004 concerning public health policy and decree No. 2006-477 of 26 April 2006 amending the Article of the French Public Health Code regarding biomedical research, completed by several Ministerial orders dated 24 May 2006.

A clinical trial must be authorized by the ANSM and receive a positive opinion from an ethic committee before its starts. In broad terms, the agency evaluates the safety and the quality of the product used in research, with the objective of ensuring the safety of persons involved in the research. The Committee gives its opinion on the conditions of validity of the research, notably regarding the protection of participants and their personal information and the method for acquiring their informed consent, as well as the overall relevance of the project, the satisfactory evaluation of benefits and risks and the appropriateness of the resources implemented to meet the objectives.

The content of the request for authorization of a clinical trial and the review process are similar in other European countries. The time for examining the application for authorization may not exceed 60 days from the date on which the complete file was received

The current European regulation relating to clinical trials has been revised and replaced by the clinical trial regulation EU No. 536/2014 of 16 April 2014, repealing the 2001/20/EC Directive.

The new regulation, which should come into effect by October 2018, will allow better consistency throughout EU Member States.

The main changes introduced by the regulation are as follows:

- A single authorization procedure for clinical trials which will consist in a common part assessed jointly by all participating EU member states and a national part covering the ethical and operational aspects of the trial assessed by each EU Member state independently. A single and unique decision,

covering all aspects of the request, will be issued by each EU Member state.

- An increased transparency of authorized clinical trials in the European Union: the European Union database will serve as the source of public information, without prejudice of personal data protection, commercially confidential information protection, and protection of confidential communication between Member State and trial supervision between Member States. Public information will include, for medicinal products under development, information about the clinical trial authorization, general information about the trial, and a summary of the results 12 months after the end of the trial (or six months in case of pediatric clinical trials).

The regulation will apply in the Member States without the requirement for separate implementing legislation by each

Member State. The French clinical research regulation was however recently revised, following the publication of the Decree 2016-1537 dated on November 16, 2016, allowing the Law 2012-300 of March 05, 2012 on researches Involving Human Subjects ("loi Jardé") as modified by the Ordinance 2016-800 of June 16, 2016 to enter into force. Changes include notably the provisions for the national competence of Ethic Committees (instead of regional) by the appointment of these committees by drawing lots for each new application. With this change, the coordination of the review of ethical and operational aspects of the clinical trial request as planned by the future EU regulation is taken into account. Besides, the review of methodological aspects of the clinical trial request will be managed by the Competent Authority, when the EU regulation becomes applicable (Q3 2018).

1.4.3.2. Clinical trial authorization in United States

In the United States, an Investigational New Drug application ("IND") must be submitted to the FDA and accepted before clinical trials can start on humans. This application contains early research data as well as the pharmaceutical dossier, preclinical and clinical data (if any) and includes the clinical protocol. If there is no objection from the FDA, the IND application becomes valid 30 days after it is received. At any time during or subsequent to this 30-day period, the FDA may request the suspension of

clinical trials, whether planned or in progress. This temporary suspension continues until the FDA receives the details it has requested. Furthermore, any ethics committee (IRB, Institutional Review Board) with authority over a clinical site may delay or suspend clinical trials, either temporarily or definitively, if it believes that patient safety is not ensured or in case of non-compliance with regulatory provisions.

1.4.3.3. Disclosure of clinical trial information

In the United States, sponsors of clinical trials of FDA-regulated drugs are required to register and disclose certain clinical trial information, which is publicly available at www.clinicaltrials.gov. Information related to the product, patient population, phase of investigation, study sites and investigators, and other aspects of the clinical trial are then made public as part of the registration. Sponsors are also obligated to disclose the results of their clinical trials after completion. Disclosure of the results of

these trials can be delayed until the new product or new indication being studied has been approved.

In the European Union, clinical trial information as well as the results at the end of the trial are made publicly available for phase II to phase IV trials as well as for any pediatric trial at www.clinicaltrialsregister.eu.

1.4.4. Regulations concerning marketing authorizations

To be marketed, any given manufactured drug product must obtain a regulatory authorization (New Drug Approval or "NDA"/Biological License Application or "BLA") in the US and Autorisation de Mise sur le Marché or "AMM" in France) from the competent authority, being the FDA in the USA, the EMA in Europe and the ANSM in France. Companies apply for an NDA (USA) or an AMM (France) based on quality, safety and efficacy. In Europe, in the USA and in Japan, the dossier is a standard dossier named Common Technical Document "CTD". The file relating to the AMM

describes the manufacture of the active substance, the manufacture of the final product and the clinical and nonclinical studies.

In Europe, there are two types of AMM applications: the community procedures when the drug is intended to be marketed in several European countries and the national procedure when the drug is intended to be marketed in one member state only.



It is possible for a drug to be withdrawn from the market, upon the company's request or upon the request of the health authorities, if a serious problem arises, in particular

a safety-related problem or non-compliance with manufacturing rules.

1.4.4.1. Community procedures

Since 1965, a deep harmonization process of pharmaceutical regulation within the European Community led to new marketing authorization procedures for medicinal products. Since January 1st, 1998, to access the European markets, drug products must be submitted to either the centralized procedure (as defined by Regulation n°2309/93/CEE and modified by regulation n°726/2004/CEE), the mutual-recognition procedure (as defined by Directive 2001/83/CE and modified by Directive 2004/27/CE) or the decentralized procedure since October 2005 (as defined by Directive 2004/27/CE).

- The centralized procedure is compulsory for biologicals, new cancer products, drugs with orphan drug status and, since May 2008, drugs targeting auto-immune disorders and other immune dysfunctions and is optional for new active substances: the applicant submits the marketing authorization application directly to the EMA. The review process is carried out by the Committee for Medicinal Products for Human Use (CHMP) who forwards its scientific assessment report to the European Commission (EC), responsible for issuing the final marketing authorization decision. If the marketing authorization is granted by the EC, it is

automatically valid for all European Union member states. The marketing authorization is valid for a period of 5 years further to the initial registration. Then, a renewal application file must be submitted. Once renewed, the marketing authorization is valid of an unlimited period of time, unless the Agency requests an exceptional additional renewal (for instance, further to a pharmacovigilance issue).

- In the mutual-recognition procedure, companies apply in one only of the member states. When the authorization is granted in this country, it could be extended to other countries via the mutual-recognition procedure.
- In the decentralized procedure, companies apply simultaneously in all member states and the evaluation of the application is conducted in one of the states chosen as a reference country. If the authorization is granted, it is automatically and simultaneously granted in all other member states.

To be registered within more than one country of the European Union, it is mandatory that the medicinal product goes through one of these Community procedures.

1.4.4.2. National procedure

Conversely, this type of procedure is used less and less as it now only applies to marketing authorization applications that are limited to a national territory.

Antibodies developed by Innate Pharma are medicinal products derived from biotechnology and are intended to

be used for the treatment of cancer patients, they will therefore go through the centralized procedure at the time of the marketing authorization request.

1.4.4.3. Registration procedures outside of Europe

Pharmaceutical firms who wish to market their medicinal drugs outside the European Union submit marketing authorization application dossier to the national authorities of the concerned countries, for instance the Food and Drug Administration ("FDA") for the United States of America and the Kosheisho (Pharmaceutical and Medical Device Agency, PMDA) in Japan.

In the USA, the application of a new medicinal drug or NDA, or Biological License Application ("BLA"), is the process used

by the FDA to approve a new medicinal drug to be market in the US market. To obtain this authorization, the manufacturer submits all the data and analysis of non-clinical and clinical trials, all the information concerning the product, and the manufacturing process and procedures.

Antibodies developed by Innate Pharma are medicinal products derived from biotechnology, they will therefore go through a Biological License Application.

1.4.4.4. Non-classical registration procedures

Aside from the traditional procedure of granting a marketing authorization, as described above, there are

non-classical registration procedures that allow a shorter time-to-market for new medicines.

In Europe, they are:

- Conditional approval: valid only one year instead of five. It is granted only if the benefit / risk ratio is positive, that is if the product responds to unmet medical needs, and if the benefits to public health outweigh the risks associated with uncertainty because of an incomplete evaluation of the drug. This temporary character may be renewed if an appropriate report to support this is provided by the sponsor.
- Approval in exceptional circumstances: a marketing authorization may be granted in exceptional cases, reviewed each year when the dossier for assessment of the drug is not complete. For instance when the indication is rarely encountered or that it would be unethical to collect the normal requested data.
- Accelerated approval: the evaluation process is accelerated (150 days instead of 210 days) when a drug represents a therapeutic innovation and is of major interest to public health. The PRIME project (Priority medicines), launched by the EMA in 2015, allows the early identification (from phase II/III) of medicinal products eligible for the accelerated assessment at the time of an application for marketing authorization, and provides further assistance such as scientific advices and enhanced dialogue throughout the development process.
- Temporary authorization of use: this is the opportunity, for instance in France (under what is called an Autorisation Temporaire d'Utilisation, or "ATU") to use a drug that does not have a French or European marketing authorization to treat serious or rare diseases with unmet medical need. The ATU can be granted for a particular patient or for a group of patients.

In the United States, these procedures also allow a faster development and market access of drugs in serious disease for which no appropriate treatment exists and the medical need is high (cancer, AIDS, Alzheimer's disease, etc.).

- The Accelerated Approval is a program that is intended to make promising products for life threatening diseases available on the market on the basis of preliminary evidence prior to formal demonstration of patient benefit. The FDA evaluation is performed on the basis of a surrogate marker (a measurement intended to substitute for the clinical measurement of interest) that is considered likely to predict patient benefit. A result of substitution or marker ("surrogate endpoint") is a result of laboratory or physical sign that is not in itself a

direct measure of the patient's feelings, its functions or survival, but which allows to anticipate a therapeutic benefit. The approval that is granted may be considered as a provisional approval with a written commitment to complete clinical studies that formally demonstrate patient benefit. This procedure is equivalent to the "conditional approval" in Europe.

- The Priority Review is given to drugs that offer major advances in treatment, or provide a treatment where no adequate therapy exists. A priority review means that the time it takes FDA to review a new drug application is reduced to 6 months (instead of 10). This procedure is equivalent to the "accelerated approval" in Europe.
- The Fast Track Program refers to a process for interacting with FDA to facilitate the development and expedite the review of new drugs that are intended to treat serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs. The advantages of this process include scheduled meetings to seek FDA input into clinical development plans and to collect appropriate data that will be needed to support approval. Fast Track designation does not necessarily lead to a Priority Review or Accelerated Approval.
- The "Breakthrough Therapy Designation" has existed since 2012. It is a process aimed at accelerating the development and examination of drugs which are intended to treat serious illnesses and where the preliminary clinical evidence indicates that the drug may exhibit a substantial improvement over the available therapies with regard to (a) clinically significant criterion (criteria).

A drug which is given the designation "Breakthrough Therapy" can benefit from the following:

- All of the features of the designation "Fast Track";
- Intensive support on a program for the development of effective drugs, from Phase I onwards;
- Organizational commitment involving "senior managers".

If research or additional studies show that a product presents a risk when it is marketed, the FDA may require its immediate withdrawal. In addition, FDA may withdraw approval for placing on the market for other reasons, especially if the studies after approval are not made with due care.

1.4.4.5. Orphan drugs

A special authorization procedure is used for orphan drugs.

Orphan drugs are drugs used for the diagnostic, prevention or treatment of deadly or serious rare conditions. To be qualified as rare or orphan disease, the condition should affect no more than 1 person out of 2,000 in the European Union. The FDA grants the status of orphan drug to any drug aimed at treating diseases affecting fewer than 200,000 people a year in the United States (corresponding to a prevalence of < 1/1,000 for a population of 2,500,000 inhabitants).

These medicinal products are qualified as « orphan » products because of the little interest under normal circumstances of Pharmaceutical Industry in studying and marketing these drugs for a small number of potential patients (rare or orphan condition). Indeed, for the pharmaceutical company, the cost of getting the product on the market for such a rare condition could not be offset by expected sales.

In the United States, the 1983 Orphan Drug Act brings together various texts that encourage the development of treatments for orphan diseases. The Orphan Drug Act also provides the possibility of obtaining grants from the

American government to cover clinical trials, tax credits to cover research costs, a possible exemption from application fees when filing for registration with the FDA, and a seven-year exclusivity if a marketing authorization is granted.

In Europe, equivalent legislation has been adopted to promote treatments for rare diseases. Under the terms of Regulation 847/2000/EC of 16 December 1999, as amended by Regulation 847/2000/EC of 27 April 2000, a drug will be considered as an orphan drug if its promoter shows in its submission to the EMEA that it is intended for the treatment of a pathology claim as orphan in the European Union, or that it is intended to be used in a life-threatening or chronically debilitating condition for which there is no satisfactory treatment and where it is unlikely that the marketing of the medicinal product in the Union would generate sufficient return to justify the necessary investment. If the product obtains orphan drug status, it is granted an exclusive 10-year marketing period during which no similar product may be sold for the same indication, as well as an exemption from regulatory fees and other advantages.

1.4.5. The Transparency Decree or Sunshine Act à la française

Decree no. 2013-414 of May 21, 2013 “on the transparency of the benefits given by companies manufacturing or marketing products for healthcare and cosmetic purposes that are intended for humans” was published in the Official Journal of May 22, 2013.

It specifies the details of “transparency” and of “public information” with regard to relationships (benefits obtained or agreements entered into) between companies producing or marketing products for healthcare and cosmetic purposes and certain actors in the field of healthcare.

This “transparency” provision, which is derived from the “Bertrand” law of December 29, 2011 on the enhancement of the safety of drugs and healthcare products, specifies

that industrial companies that are subject to the publication obligation must now make public:

- information relating to agreements entered into with healthcare professionals and other similar persons (with the exception of agreements governed by Articles L. 441-3 and L. 441-7 of the Code de commerce).
- all of the benefits agreed to, the amount of which is equal to or greater than 10 euros.
- the information are gathered on a unique website (www.transparence.sante.gouv.fr) under the responsibility of the Health Minister.

1.5. RESEARCH AND DEVELOPMENT AND INTELLECTUAL PROPERTY

1.5.1. Research and development

See section 1.2 of the present reference document for a description of the Company’s research and development activities and Note Intellectual property expenses from the consolidated financial statements for an analysis of related expenditures.

1.5.2. Intellectual property

Our commercial success will depend in part on obtaining and maintaining patent, trade secret and other intellectual property and proprietary protection of our technology, current and future product candidates and methods used to develop and manufacture them. We cannot be sure that patents will be granted with respect to any of our pending patent applications or to any patent applications filed by us in the future, nor can we be sure that any of our existing patents or any patents that may be granted to us in the future will be sufficient to protect our technology or will not be challenged, invalidated or circumvented. Our success also depends on our ability to operate our business without infringing, misappropriating or otherwise violating any patents and other intellectual property or proprietary rights of third parties.

We rely, in some circumstances, on trade secrets to protect our technology. However, trade secrets can be difficult to protect. We seek to protect our trade secrets, in part, by confidentiality agreements with our employees, consultants, scientific advisors and contractors. We also seek to preserve the integrity and confidentiality of our data and trade secrets by maintaining physical security of our premises and physical and electronic security of our information technology systems. Notwithstanding these measures, these agreements and systems may be breached, and we may not have adequate remedies for any such breach. In addition, our trade secrets may otherwise become known or be independently discovered by competitors. To the extent that our employees, consultants, contractors or partners use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions. For more information regarding the risks related to our intellectual property, please refer to the section 1.9.4 "Risks Related to Intellectual Property Rights."

Patents

We file patent applications to protect our drug candidates, technical processes and the processes used to prepare our product candidates, the compounds or molecules contained in these product candidates and medical treatment methods. We also license rights to patents owned by third parties, academic partners or other companies in our field.

As of December 31, 2016, the term of our patents for our programs are as follows:

- Our lirilumab-related patent portfolio includes 3 granted U.S. patents, 3 pending U.S. non-provisional patent applications, 1 granted European patent, 3 pending European patent applications, 13 granted foreign patents and 30 pending foreign patent applications solely owned by us, and 9 granted U.S. patents, 9 pending U.S. non-provisional patent applications, 6 granted European patents, 7 pending European patent applications, 38 granted foreign patents and 27 pending foreign patent applications co-owned by us with at least one another party. Our lirilumab patent portfolio also includes 1 granted U.S. patent, 2 pending U.S. non-provisional patent applications, 1 granted European patent, 2 pending European patent applications, 3 granted foreign patents and 5 pending foreign patent applications in-licensed by us. This patent portfolio includes composition of matter, formulations, and methods of use patents. The term of first proprietary composition of matter granted U.S. patent runs until 2026 at the earliest.
- Our monalizumab-related patent portfolio includes 3 pending Patent Cooperation Treaty, or PCT, patent applications solely owned by us, 1 granted U.S. patent, 2 pending U.S. non-provisional patent applications, 2 granted European patents, 1 pending European patent application, 10 granted foreign patents and 5 pending foreign patent applications co-owned by us with another party and 7 granted U.S. patents, 5 pending U.S. non-provisional patent applications, 3 granted European patents, 4 pending European patent applications, 17 granted foreign patents and 16 pending foreign patent applications in-licensed by us. This patent portfolio includes composition of matter, formulations, and methods of use patents. The term of first proprietary composition of matter granted U.S. patent runs until 2028 at the earliest.
- Our IPH41 related patent portfolio includes 1 granted U.S. patent, 5 pending U.S. non-provisional patent applications, 2 pending U.S. provisional patent application, 1 pending PCT patent application, 1 granted European patent, 4 pending European patent applications and 26 pending foreign patent applications solely owned by us and 4 granted U.S. patents, 1 granted European patent, 2 granted foreign patents and 2 pending foreign patent applications in-licensed by us.
- Our IPH43-related patent portfolios includes 1 pending U.S. non-provisional patent application, 1 pending U.S. provisional patent application, 1 pending European patent application and 9 pending foreign patent applications solely owned by us.
- Our IPH52-related preclinical program patent portfolio includes 2 pending U.S. provisional application solely owned by us, and 1 pending U.S. provisional patent applications and 1 pending PCT

patent application co-owned by us with at least one other party, and 3 pending U.S. non-provisional patent applications, 1 granted European patent, 2 pending European patent applications and 2 granted foreign patents in-licensed by us.

- Our IPH53-related preclinical program patent portfolio includes 3 U.S. provisional patent applications and 2 pending PCT patent applications solely owned by us, and 1 pending PCT patent application co-owned by us with at least one other party.
- Our IPH33-related preclinical program patent portfolio includes 3 granted U.S. patents, 3 pending U.S. non-provisional patent applications, 2 granted European patents and 3 granted foreign patents and 7 pending foreign patent applications solely owned by us. This patent portfolio includes composition of matter and methods of use patents.

- Our ADC technology patent portfolio includes 2 pending U.S. non-provisional patent applications and 2 pending European patent applications solely owned by us, 1 granted U.S. patent, 5 pending U.S. non-provisional patent applications, 1 pending PCT patent application, 5 pending European patent applications and 8 pending foreign patent applications co-owned by us with at least one other party, and 2 pending U.S. non-provisional patent applications, 2 granted European patents, 4 granted foreign patents and 1 pending foreign patent application in-licensed by us.

- Our bispecific technology patent portfolio includes 3 pending U.S. non-provisional patent applications, 1 pending U.S. provisional patent application, 6 pending foreign patent application and 4 pending PCT patent applications solely owned by us.

The table below summarizes Innate Pharma's patents as of December 31, 2016:

	Lirilumab	Monalizumab	IPH41	IPH43	IPH52	IPH53	IPH33	ADC Technology	Bispecific Technology
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Solely owned by us

PCT patent application	-	3	1	-	-	2	-	-	4
Granted U.S. patents	3	-	1	-	-	-	3	-	-
Pending U.S. non-provisional patent applications	3	-	5	1	-	-	3	2	3
Pending U.S. provisional patent applications	-	-	2	1	2	3	-	-	1
Granted European patents	1	-	1	-	-	-	2	-	-
Pending European patent applications	3	-	4	1	-	-	2	2	-
Granted foreign patents	13	-	-	-	-	-	3	-	-
Pending foreign patent applications	30	-	26	9	-	-	7	-	6

Co-owned by us with at least one other party

PCT patent application	-	-	-	-	1	1	-	1	-
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	Lirilumab	Monalizumab	IPH41	IPH43	IPH52	IPH53	IPH33	ADC Technology	Bispecific Technology
Granted U.S. patents	9	1	-	-	-	-	-	1	-
Pending U.S. non-provisional patent applications	9	2	-	-	-	-	-	5	-
Pending U.S. provisional patent applications	-	-	-	-	1	-	-	-	-
Granted European patents	6	2	-	-	-	-	-	-	-
Pending European patent applications	7	1	-	-	-	-	-	5	-
Granted foreign patents	38	10	-	-	-	-	-	-	-
Pending foreign patent applications	27	5	-	-	-	-	-	8	-

In-licensed by us

Granted U.S. patents	1	7	4	-	-	-	-	-	-
Pending U.S. non-provisional patent applications	2	5	-	-	3	-	-	2	-
Granted European patents	1	3	1	-	1	-	-	2	-
Pending European patent applications	2	4	-	-	2	-	-	1	-
Granted foreign patents	3	17	2	-	2	-	-	4	-
Pending foreign patent applications	5	16	2	-	-	-	-	-	-

The term of individual patents depends upon the legal term for patents in the countries in which they are granted. In most countries, including the United States, the patent term is 20 years from the earliest claimed filing date of a non-provisional patent application or its foreign equivalent in the applicable country.

A patent's term may, in certain cases, be lengthened by patent term adjustment, which compensates a patentee for administrative delays by the regulatory agencies in examining and granting a patent.

Trademarks

At December 31, 2016, we own 4 trademarks, which have either been registered or are in the process of being registered: "Innate Pharma" in the United States, Australia, and Europe (EU community trademark), and "Innate" in Europe (EU community trademark).

Protection of Intellectual Property

We have an internal intellectual property department and we also use external consultants for the filing, maintenance and defense of our patents.

In 2016, we filed 15 new proprietary patent applications as well as 33 applications extending our existing proprietary patents, including 7 patent cooperation treaties, and 26 national applications. We also filed 3 new patent applications co-owned with academic or industrial partners

and 13 patent applications for extensions to patents co-owned with academic or industrial partners, including 2 patent cooperation treaties and 11 national applications. We also filed 2 patent applications for an extension to a patent held solely by our academic or industrial partners.

1.6. IMPORTANT AGREEMENTS ON ASSETS

1.6.1. Agreements on lirilumab

1.6.1.1. Agreements with Bristol-Myers Squibb for out licensing the Company's rights

On July 6, 2011, the Company signed a license and collaboration agreement with the American company Bristol-Myers Squibb concerning the development and commercialization of lirilumab (IPH2102/BMS-986015). Under the terms of the agreement, Innate Pharma granted to Bristol-Myers Squibb exclusive worldwide rights to develop, manufacture and commercialize lirilumab and related compounds blocking KIR receptors. The agreement covers all potential indications for lirilumab.

According to this agreement, Bristol-Myers Squibb is funding the development of lirilumab, and has made an upfront payment to Innate Pharma of 24.9 million euros (35.3 million dollars), non-refundable and non-creditable.

In addition to the initial payment, the Company invoice to Bristol-Myers Squibb the amount of its external costs for the licensed program from the date of signing the contract. Additional payments of up to 430 million dollars, according to the achievement of pre-specified milestones during the development and commercialization period, as well as pre-

specified tiered double-digit royalty payments on worldwide net sales, are also included in the agreement. Milestone payments are scheduled throughout the development of drug candidates and correspond to jumps in value such as the transition of the candidate to new phases of development.

In October 2015, Innate Pharma received a \$5 million milestone payment from Bristol-Myers Squibb triggered by the dosing of the first patient in the Phase II trial of lirilumab in combination with rituximab in patients with relapsed/refractory or high-risk untreated chronic lymphocytic leukemia (CLL).

Innate Pharma received a second milestone payment of \$15.0 million (€13.8 million) in November 2016, following the presentation at the SITC annual meeting (November 2016) of encouraging preliminary activity results from the cohort of patients with SCCHN of a Phase I/II trial, we have been eligible to a milestone. We received the consideration in January 2017.

1.6.1.2. In-licensing agreement with Novo Nordisk A/S

On the date of the present Reference document, the Company is bound to Novo Nordisk A/S by a license agreement concerning the IPH21 program, by which Novo Nordisk A/S granted the Company worldwide exclusive rights for the development, production and commercialization of lirilumab and related compounds that block KIR receptors. According to this agreement, the

Company develops IPH21 (through its license and collaboration agreement with Bristol-Myers Squibb). The history of the various license agreements with Novo Nordisk A/S is described at paragraph 6.5.8.1 of the [2010 Reference document](#), filed with the AMF on 29 April 2011, and at section 4.6.7 of this Reference document.

1.6.1.3. Other agreements on lirilumab by which the Company has acquired rights

At the date of the present Reference document, the Company is also bound to the University of Genoa by a license agreement concerning the IPH21 program, by which the University of Genoa granted the Company worldwide exclusive rights for the development, production and commercialization of products covered by patents directed

to blockade of KIR receptors. The University of Genoa is eligible to receive milestone payments and royalties on future sales. The Company is also bound to Lonza, which is eligible to receive milestone payments and non-disclosed royalties.

1.6.1.4. Summary of the collaboration and/or license agreements concerning IPH21

Licensor	Licensee	Next milestones payments (toward licensee)	Royalties (toward licensor)
Innate Pharma	Bristol-Myers Squibb	Not disclosed	Yes
Novo Nordisk A/S	Innate Pharma	Yes (approval)	Yes
University of Genoa	Innate Pharma	Start of Phase III clinical trials	Yes
Lonza	Innate Pharma	Start of Phase III clinical trials	Yes

1.6.2. Agreements on monalizumab

1.6.2.1. Co-development and commercialization agreement with AstraZeneca

On April 24 2015, the Company has signed a co-development and commercialization agreement with AstraZeneca, along with MedImmune, its global biologics research and development arm, to accelerate and broaden the development of Innate Pharma's proprietary anti-NKG2A antibody, monalizumab, including in combination with durvalumab (MEDI4736), an anti-PD-L1 immune checkpoint inhibitor developed by MedImmune.

The financial terms of the signed agreement include cash payments of up to \$1.275 billion to Innate Pharma as well as double digit royalties on sales. The initial payment is \$250 million, which includes a consideration for the

exclusive global rights to AstraZeneca to co-develop and commercialize monalizumab in combination with durvalumab and access to monalizumab in monotherapy and other combinations in certain areas. AstraZeneca will pay to Innate a further \$100 million prior to initiation of Phase III development, as well as additional regulatory and sales-related milestones of up to \$925 million. AstraZeneca will book all sales and will pay Innate double-digit royalties on net sales. The arrangement includes the right for Innate to co-promote in Europe for a 50% profit share in the territory.

1.6.2.2. In-licensing agreement with Novo Nordisk A/S

On February 5 2014, Innate Pharma SA and Novo Nordisk A/S announced that Innate Pharma had acquired full development and commercialization rights to the anti-NKG2A.

In consideration of the license of anti-NKG2A to Innate Pharma, Novo Nordisk A/S received 2 million euros in cash and 600,000 shares for licensing anti-NKG2A to Innate and is eligible to a total of 20 million euros in potential registration milestones and single-digit tiered royalties on future sales. The acquisition of the Innate Pharma shares was approved at Innate Pharma's shareholders' general meeting on 27 March 2014.

Novo Nordisk A/S had licensed anti-NKG2A from Innate Pharma in 2006 as part of a multi-year research and collaboration agreement between the two companies, which included anti-KIR and anti-NKG2D, as well as anti-NKG2A. That initial license included total milestones of 25 million euros and single-digit royalties, below 10%.

On March 24, 2016, Innate Pharma and Novo Nordisk A/S have signed an agreement relating to the amount owed by Innate Pharma to Novo Nordisk A/S as a result of the agreement signed with AstraZeneca on April 24, 2015

described in section 1.6.2.1 above. Novo Nordisk A/S received 6.5 million euros. In addition, if AstraZeneca pays \$100 million to Innate Pharma, as described previously, Innate Pharma will pay \$15 million of such amount to Novo Nordisk A/S. As at the date of the present Reference document, in view of the development plan results uncertainty, any complementary payment to Novo Nordisk A/S, depending on the further \$100 million paid by AstraZeneca, is uncertain. If AstraZeneca does not pay the further \$100 million or if the AstraZeneca agreement is terminated for any reason, Innate Pharma will pay to Novo Nordisk A/S any amounts that have been budgeted but have not been spent or will not be spent under the initial research and development budget. In light of current development plans and research and development costs incurred to date, the Company do not currently expect any amounts to be paid pursuant to this provision.

The history of the different agreements with Novo Nordisk A/S is described in paragraph 6.5.8.1 of Innate Pharma's 2010 Reference document, which was filed with the AMF on the April 29, 2011, and in section 4.6.7 of this Reference document.

1.6.2.3. Other agreements related to monalizumab by which the Company has acquired rights

On the date of this Reference document, the Company is bound with the University of Genoa on the basis of a license agreement concerning the IPH22 program, through which the University of Genoa has granted to the Company the exclusive international rights to develop, manufacture and market products covered by patents protecting the use

of products such as IPH22. The University of Genoa is eligible to milestone payments and royalties on future sales. The Company is also bound to Lonza, which is eligible to receive milestone payments and non-disclosed royalties.

1.6.2.4. Summary of the collaboration and/or license agreements concerning IPH22

Licensor	Licensee	Next milestones payments (toward licensee)	Royalties (toward licensor)
Innate Pharma	AstraZeneca	Prior decision to initiation of Phase III	Yes
Novo Nordisk A/S	Innate Pharma	At market registration	Yes
University of Genoa	Innate Pharma	Not disclosed	Yes
Lonza	Innate Pharma	Not disclosed	Yes

1.6.3. Other agreements on intellectual property rights

Given the very nature of the Company's activity, signing agreements for the acquisition or sale of intellectual property rights is part of the Company's normal course of business. There are essentially two types of agreements:

- exclusive collaboration and option agreements or research collaboration agreements. These agreements include a part covering collaboration on a specific work plan or in a specific field for a limited period of time and a part granting an exclusive option to license certain intellectual property rights. The duration of exclusive licenses under option varies according to the terms of the contract, but generally lasts for the duration of the underlying intellectual property rights. Under these agreements, the Company pays research and development fees for the collaboration part and for the exclusive license part, it agrees to pay an upfront fee (or technology access fees), milestone payments (which depend on the completion of certain stages) and, if the covered products or technologies are marketed, royalties on sales;
- exclusive agreements for options, licenses or the assignation of rights by which the Company acquires rights to existing intellectual property. The option agreements are generally of limited duration, corresponding to a period during which the Company evaluates the opportunity to acquire the license for the intellectual property rights concerned, and as a compensation for this, the Company generally pays an option fee and covers the past and present intellectual property costs of the assets being optioned. As compensation for the exclusive license rights (whose duration varies according to

the terms of the contract but generally lasts for the duration of the underlying intellectual property rights), the Company notably pays an upfront fee (or technology access fees), milestone payments which depend on the completion of certain stages, and, if the covered products or technologies are marketed, royalties on sales.

Collaboration agreements are important agreements for the Company, as they ensure the acquisition of intellectual property rights on discovery or early stage research, i.e. prior to its field of research and development activities. We notably have an agreement with the University of Genoa, Alessandro Moretta and his research group: the Company is bound to the University of Genoa, Italy, and/or Alessandro Moretta and his research group, by a contract initially signed in November 1999 and which has been renewed since. This contract covers the discoveries made by the laboratory headed by Alessandro Moretta (one of the Company's founding scientists) in the field of cell and NK physiology and their therapeutic applications. This contract enabled the exercise of the licenses for certain intellectual property elements used for the IPH21 and IPH22 programs.

The Company has a certain number of ongoing research collaboration agreements with other academics. The Company also has agreements with Inserm (Institut National de la Santé et de la Recherche Médicale, French National Institute of Health and Medical Research) and Inserm-Transfert, a private subsidiary of Inserm, which manages the promotion and the transfer of Inserm's laboratory science, including agreements signed in March 2004, 2010 and 2013 respectively, in relation to different research programs carried out at the Centre d'Immunologie de Marseille-Luminy (Marseille-Luminy Immunology

Centre, "CIML"). In 2014 we signed a consortium agreement with the University of Aix-Marseille and a number of other organizations for the development of an immuno-technology platform in Marseille.

We have other collaboration agreements, including an agreement signed in 2011 with the Paul Scherrer Institute ("PSI"), a Swiss public research institute, concerning research work conducted within the PSI to develop an antibody engineering technology. The Company has also entered into a license agreement in February 2014 with the Paul Scherrer Institute, in respect of patents in the field of antibody conjugates. The Company also has options, licenses or assignation of rights agreements, signed with organizations, academic laboratories or companies, whether or not they have other collaborative research agreements with the Company. It notably has a licensing agreement related to IPH41 for the treatment of the CTCL. This licensing agreement was signed with Inserm in September 2002. In addition to the lump-sum payments made by the Company at certain milestones reached by IPH41, this contract requires the Company to pay royalties on future sales. The Company has entered into a license agreement in December 2013 with Novo Nordisk Healthcare AG in respect of patents in the field of protein engineering.

In July 2015, the Company announced a translational research agreement with the Paoli Calmettes Institute (IPC), a private not-for-profit comprehensive cancer center in Marseille, France. The aim of the collaboration is to identify specific populations of patients with hematological cancers who may benefit most from treatment with the Company's novel proprietary antibodies, and to identify associated biomarkers.

On January 10, 2016, Innate Pharma and Orega Biotech announced that they entered into an exclusive licensing agreement by which Orega Biotech granted Innate Pharma full worldwide rights to its program of first-in-class anti-CD39 checkpoint inhibitors. Under the terms of the agreement, Orega Biotech will be eligible to undisclosed upfront payment, milestone payments for preclinical, clinical and regulatory achievements as well as royalties on net sales.

On January 11, 2016, Innate Pharma and Sanofi announced that they have entered into a research collaboration and

licensing agreement to apply Innate Pharma's new proprietary technology to the development of innovative bispecific antibody formats engaging NK cells to kill tumor cells through the activating receptor NKp46. Under the terms of the license agreement, Sanofi is responsible for the development, manufacturing and commercialization of products resulting from the research collaboration. Innate Pharma is eligible to up to €400m in development and commercial milestone payments as well as royalties on net sales.

Accounting for payments in relation to these agreements

The Company has two different accounting methods according to the nature of the service:

- contracts related to the provision of services: these contracts are mainly related to research and development personnel made available by the Company's co-contracting party. This availability remains constant throughout the duration of the contract and invoicing for the service is spread out over the period (this is the case of the contracts with the universities of Genoa and Perugia); and
- contracts giving rise to milestone payments: when a milestone has been reached, the Company informs the co-contractor and enters the corresponding expenses into the accounts for the accounting period. Furthermore, when these contracts include an upfront payment, this payment is recorded as income on the basis of the possible obligation of the Company.

Independently of these two accounting methods, some contracts call for the payment of annual fees (which are not royalties) whose cost is accounted for in the corresponding accounting period. These contracts also call for the payment of royalties when the products in question are marketed. No royalties of this type have been paid to date. They will be entered in to the accounts as expenses for the accounting period in question. These contracts do not give rise to deferred charges in the accounts or to the activation of intellectual property elements in the assets of the Company.

I.7. INVESTMENTS AND REAL ESTATE

I.7.1. Investments

Due to the Company's organizational structure, which uses subcontractors to perform the majority of its research and development activities and manufacturing, its investments

in tangible assets are, historically, relatively low in value compared to its research and development expenses, apart from its headquarter, acquired and renovated in 2008 (see



Section 3.2.1.2). During the fiscal year 2016, the Company signed a lease agreement to rent administrative premises in order to face the rise of its staff. Following the move of some teams to these new premises, some refurbishment works were carried out in the headquarters, especially to create new laboratories. The global cost of these refurbishment works amounted to €1.5 million.

Regarding the investments in intangible assets, the acquisition of the rights relating to monalizumab from Novo Nordisk A/S in 2014 and the additional consideration resulting from the agreement signed with AstraZeneca in

2015 have been recognized as intangible assets for €7.0 million and €6.5 million, respectively (see Note 6 of paragraph 3.3). The additional consideration was recognized for €6.3 million in 2015 and €0.2 million in 2016.

In 2016, the Company acquired the rights of an anti-CD39 antibody from the company Orega Biotech. The amounts corresponding to the initial payment and the first development milestone were recognized as intangible assets.

1.7.1.1. Historical investments

During the past three years, investments in tangible assets amounted to €0.4, 0.9 and €3.6 million for the fiscal years 2014, 2015 and 2016, respectively.

As mentioned previously, investments in intangible assets amounted to €7.0, €6.3 and €1.7 million for the fiscal years 2014, 2015 and 2016, respectively.

Net financial investments amounted to €2.0 and €115.9 million for the fiscal years 2014 and 2015, respectively. For the fiscal year 2016, this is a net disinvestment amounting to €68.2 million (transfers from financial assets to cash and cash equivalents in the context of the global cash management policy).

At the end of 2008, the Company moved its offices and laboratories in its new headquarters in Marseille, a 3,000 sqm building located in Luminy (South of Marseille). The total transaction cost (acquisition cost, renovation work and acquisition-related expenses) amounted to 6.8 million euros, excluding some new scientific and office equipments.

1.7.1.2. Current investments

In the context of its budget for the fiscal year 2017, the Company planned the purchase of some laboratory equipments which will enable the modernizing of the

In order to finance these new premises, the Company has signed with Sogebail, a subsidiary of Société Générale, a €6.6 million lease-financing contract, covering a significant part of the acquisition, the estimated works mentioned above and acquisition-related expenses. The lease-financing contract has duration of twelve years. The Company has a purchase option for all of the buildings and land for the lump sum of 1 euro at the term of the contract.

During the fiscal year 2016, the Company signed an amendment with Sogebail in order to finance through a finance-lease agreement a major part of the cost of the refurbishment works carried out in the headquarters (€846 thousand to be reimbursed over four years).

As of December 31, 2016, the net book value of the Company's property, plant and equipment was €9.1 million, compared to €6.3 million euros as of December 31, 2015.

existing park and to carry out the new activities necessary for the development of the Company.

There is neither intangible nor financial in-progress asset.

1.7.1.3. Future investments

To cope with the midterm increase in its staff and activities, the Company initiated a project regarding the construction of a new building. Innate Pharma is in touch with the City of Marseille to acquire a land nearby its own, for which it was granted, in advance, the authorization to undertake studies and to submit a building permit. A part of the staff would be transferred to a 4,500 sqm building for which the Company made preliminary studies and pre-project. At

registration date of the present Reference document, the Company considers a financing through a midterm loan, which would cover for the land acquisition and construction work.

Meanwhile, the Company examines the expansion and reorganization of its current premises to handle short-term staff increase. An extension of its current lease is considered to finance it (see section 3.2.1.2).

I.7.2. Real Estate

On June 9, 2008, Sogébail (a subsidiary of Société Générale) acquired from the City of Marseille a real estate lot comprising approximately 10,000 sqm of land as well as an existing 3,000 sqm building located in Luminy (South Marseille), and then lease-financed it to the Company in order for it to install its headquarters and main laboratories. The Company settled in these premises in December 2008.

The acquisition cost amounted €1,544 thousand (excluding VAT), half of which being allocated to the value of land and the other half allocated to the value of the building. The building is being depreciated since July 1, 2008.

The Company has conducted significant renovation works in the building and transferred its headquarters and main laboratories at the end of 2008. The amount of renovation works conducted amounted to €5,086 thousand (excluding VAT) as of December 31, 2008.

The total amount invested by the Company in this real estate transaction amounted to €6,770 thousand

(excluding VAT), including acquisition price, acquisition-related costs and renovation works.

The Company entered into a twelve-year lease-financing agreement with Sogébail for a total amount of €6,551 thousand (excluding VAT). The difference between the total amount invested and the amount financed through the lease-financing agreement with Sogébail, or €219 thousand, was self-financed by the Company.

Renovation was completed on December 16, 2008. The Company has an option from Sogébail to purchase the real estate lot for the lump sum of 1 euro at the term of the lease-financing agreement.

The topics of Grenelle 2 describing the general policy of Innate Pharma as regards the environment, pollution and waste management are included in paragraph VII (Society and Environmental Responsibility Report) of the Company's management report, will be made available on its website during the second quarter of 2017.

I.8. SOCIAL INFORMATIONS

Employment contracts for employees based in France are subject to the Pharmaceutical Industry Collective Agreement. The Company believes that it has good relationships with its employees.

In 2016, the Company recruited 36 new employees to face the increase in its activities. At December 31, 2016, the Company had 154 employees, compared to 118 at December 31, 2015. On the staff ex-Executive Committee, 77% of Company employees worked directly in R&D. The

staff comprises 46 PhDs, MDs or PharmDs, representing 30% of the total staff.

The topics of Grenelle 2 describing the general policy of Innate Pharma as regards environmental and social matters are included in paragraph VII (Social and Environmental Responsibility Report) of the Company's management report, will be available on its website during the second quarter of 2017. An auditors' report was issued on March 6, 2017 by the firm Deloitte & Associates.

I.9. RISK FACTORS

The Company operates in a constantly evolving environment involving many risks, some of which are beyond its control. Before buying the Company's shares, investors are invited to examine all the information contained in this Reference Document, including the risks described below. The Company has reviewed the risks, and presents in this chapter the risks which it is believed, as of the date of this Reference Document, may have a significant adverse effect on its business, prospects, financial situation, results and growth, and which in this context are important for making any investment decision. Investors' attention is however drawn to the fact that the list of risks presented in Section 1.9 is not exhaustive and that other risks, currently unknown or considered unlikely as of the date of this Reference Document to have a significant adverse effect on the Company, its business, prospects, financial situation, results and development may exist or could occur.

In order to identify and evaluate the risks which might negatively impact its activity, prospects, financial situation, results (or its ability to achieve its objectives) and development, the Company has mapped, since 2007, the risks associated with the Company's business. This has firstly enabled the Company to identify potential risks and

evaluate their probability of incidence as well as their potential impact from a financial, legal, reputational perspective, as well as on the achievements of the objectives of the Company, and then to identify and evaluate ways to control these risks.

The mapping of risks is a management tool. It is periodically reviewed. At the time of the periodic risks review, the set of risks and mitigation actions is reviewed and reassessed. This exercise should give an overview of the risk environment that affects the Company and should enable it to define, if necessary, the action plan for risk

management and the program of internal audits for the year to come.

The risk-mapping exercise enabled the Company to summarize the main risks and group them in the categories, shown below.

1.9.1. Strategic risks

The main strategic risks are:

1.9.1.1. Risks related to the Company's competitive environment

The pharmaceutical market is characterized by rapidly evolving technologies, an emphasis on products protected by intellectual property rights and intense competition. Numerous entities, including pharmaceutical companies, biotechnology companies, academic institutions and other research organizations, are actively engaged in the discovery, research, development and sale of drugs, among which immunotherapy products for cancer (see section 1.3.3 "Market and strategy"). Should the Company obtain a marketing authorization for one of its immunotherapy products, it could compete against a number of established therapies. Such a product could also compete against a number of innovative therapies under development or recently introduced in the market, such as targeted therapies, monoclonal antibodies, anti-cancer vaccines, cell therapy, gene therapy, angiogenesis inhibitors and signal transduction inhibitors.

Many of the Company's competitors developing anti-cancer therapies have considerably greater resources and experience in management, research, access to patient for clinical trials, manufacturing and marketing. In particular, large pharmaceutical laboratories have substantially more experience than the Company in conducting clinical trials and obtaining regulatory authorizations. Smaller or more recently established companies, particularly in immunotherapy, could also be considered competitors. All of these companies are also likely to compete with the Company to acquire rights for promising products and other complementary technologies.

Finally, the Company cannot guarantee that its products will:

- Obtain the regulatory authorizations, be protected by patents or launched faster than those of its competitors;

- Remain competitive in the face of other products developed by the Company's competitors, which would prove to be safer, more effective or less expensive;
- Remain competitive in the face of products of competitors which are more efficient in their manufacturing and their marketing;
- Be commercially successful;
- Not become obsolete or unprofitable due to technological progress or other therapies developed by its competitors.

Such events could have a material adverse effect on the Company's business, prospects, financial situation, results and development.

The strategy of the Company includes entering into partnerships with other organizations, notably pharmaceutical companies for the development, registration and marketing of its drug candidates, as well as academic laboratories or other laboratories to access technologies and innovative targets. There is also intense competition between companies seeking such partnerships, including Innate Pharma.

The Company considers that its business is subject to high competitive risk, particularly given the size of some of its potential competitors. The competitive issue is incorporated into the Company's development choices. The Company constantly analyzes the market and drug candidates in development, notably by gathering opinions from sector experts.

1.9.1.2. Risks associated with the scientific failure of one or more of the Company's R&D programs

The Company's portfolio consists of various programs at different phases of development, each aimed at developing a drug candidate (see section 1.2.2 "Programs being

developed in the Company"). The development of a drug candidate is a long, costly and uncertain process, aimed at demonstrating the therapeutic benefit of this drug

candidate in one or more indications in comparison with existing products or those being developed.

The Company may find itself in a situation where it is unable to demonstrate a good degree of tolerance or the clinical efficacy of one or more of its products, either at the clinical or the preclinical stage. Any delay in the preclinical development of a drug candidate could lead to a delay in initiating its clinical development. A failure in the preclinical development of a drug candidate could lead to abandoning its development. Any delay or failure at the various clinical stages for a given indication could delay the development of the product in this indication or in other indications. It could even lead to the complete halting of its development. Likewise, if the Company were unable to demonstrate a therapeutic benefit for a product, it may have to halt its development. This could also apply to a class of products, where the failure of one of the products could mean halting the development of the whole class.

The risks related to the failure of a drug candidate's development are highly related to the stage of maturity of this drug candidate. Given the relatively early stage of the drug candidates in the Company's portfolio (see section 1.2.2 "Programs being developed in the Company"), the

Company considers that there is a substantial risk that some of them will not reach marketing authorization stage. This risk of failure is inherent to the Company's business. It has already happened for products or classes of products developed by the Company in the past and will continue to happen in the future. All the measures put in place in the context of managing the R&D activities, both in terms of decision-making and of monitoring the projects, are therefore designed to control this risk, and in particular to determine the appropriateness of continuing the programs (and thus committing investments) when this risk is too high.

If failure or program stoppages were to occur too frequently, especially if they are at an advanced stage in the development of the product, this would have significant adverse consequences on the Company's business, prospects, financial situation, results and development.

Therefore, as part of the control of R&D activities, measures are put in place to mitigate this risk in the project monitoring activities and in the decision-making process. In particular, when this risk is too substantial, they aim at identifying the opportunity to pursue and commit to some programs.

1.9.1.3. Other risks associated with the development of the Company's drug candidates

In addition to the risk of scientific failure described in section 1.9.1.2 above, the development of a drug candidate, in particular at the clinical stage, requires considerable investment in terms of both time and financial resources as well as the involvement of highly specialized staff. The same applies for its marketing. The future success of the Company and its ability to generate revenue in the long term therefore depends on a number of operational factors, including:

- The ability to carry out clinical trials within satisfactory timescales and at acceptable costs;
- Where appropriate, the signature of partnerships and/or licensing agreements with more experienced pharmaceutical companies to share, or even carry out, the clinical and commercial development;
- The scalable production of pharmaceutical batches in sufficient quantities and of constant and

reproducible quality, and their storage and transport, for the clinical trials and, where appropriate, marketing;

- The authorization by regulatory authorities to market the Company's products;
- The acceptance of the Company's products by the medical community, healthcare providers and third-party payers (such as social security systems); and
- The commercial success.

If the Company is not able to manage these factors, it will not be able to develop, let alone market its products, even though they may be a success in scientific terms. This would have significant adverse consequences on the Company's business, prospects, financial situation, results and development.

1.9.1.4. Dependence on the most advanced programs

The risks described in sections 1.9.1.2 and 1.9.1.3 above, are even greater as the most advanced drug candidates programs of the Company are at an early stage in their development (Phase I and II – see section 1.2.2 "Programs being developed in the Company"). If the Company is, in the end, unable to successfully develop and eventually market these programs and if, in parallel, the Company is unable to reduce its dependence on these programs, the

Company's business, prospects, financial situation, results and development could be significantly affected.

In order to mitigate the risk of development failure, a number of the Company's most advanced programs may be partnered with more experienced pharmaceutical companies which become responsible for the development and the financing of these programs, as is the case for

example with lirilumab, or responsible for the co-development and the commercialization, as is the case for monalizumab.

The pipeline of proprietary compounds of the Company includes compounds at earlier stages of development.

If the Company were unable to develop these compounds, the Company's business, prospects, financial situation,

results and development could be significantly affected. In order to limit this product dependence risk, the early discovery activities of the Company are one of the Company's priorities as are strategies for partnering, development and acquisition of new compounds.

1.9.1.5. Risks related to the search for new partnerships and the dependence on existing and future partners

In order to develop and market its products, the Company intends to enter, and has entered into collaboration, research and license agreements with pharmaceutical companies that could assist it in the development of drug candidates and the financing of that development, and with institutions and organisms, notably academic institutions, to participate in the Company's research programs and the sharing of aspects of intellectual property rights. To illustrate, the two most advanced programs, lirilumab and monalizumab, are partnered. In the case of lirilumab, an agreement has been signed with Bristol-Myers Squibb which is now responsible for its advanced development and its potential future registration and marketing (see section 1.6.1.1 of this Reference document). In the case of monalizumab, a co-development and commercialization agreement has been signed with AstraZeneca (see section 1.6.2.1 of this Reference document). The Company also has many research agreements with academic institutions for its more upstream programs.

The Company's partners could terminate existing agreements, possibly because they have other, higher priority, products in development or because the therapeutic area concerned is no longer a priority for them.

1.9.1.6. Risks related to financing the activity

Since the Company's operations began in 1999 until the fiscal year 2015 included, it has incurred operational losses. The fiscal year 2016 is the first one presenting a positive result. As of December 31, 2016, the Company's cumulative net losses amounted to €103.6 million, including a net earning of €12.6 million for the fiscal year ended December 31, 2016. Such losses result principally from significant investments in research and development for conducting preclinical studies and clinical trials with the Company's drug candidates.

The Company expects to continue incurring operational losses over the coming years related to its research and development activities, particularly due to continued investments in the development of drug candidates.

To date, none of the Company's products has generated revenue from commercial sales. In the short term, the

Also, the Company may fail to sign new agreements for its other drug candidates and programs. Moreover, the Company's existing and future collaboration, research and license agreements may be unsuccessful.

If the Company is unable to sign new agreements or maintain the existing ones, the Company may have to consider alternative solutions, including continuing the development itself, provided it has the necessary resources, or abandoning or selling some programs completely, which could impede or limit its growth.

The Company cannot control the timing or quantity of resources that its existing or future partners will dedicate to research, preclinical and clinical development, manufacturing or marketing of its products. These partners may not perform their obligations according to the Company's expectations. For such reasons, the Company may encounter significant delays or be unable to launch its products in certain markets.

One or more of these risks could have a material adverse effect on the Company's business, prospects, financial situation, results and development.

Company's revenue should come mainly from payments received under existing or newly signed collaboration and licensing agreements or capital increases. The Company also expects to continue receiving grants, mainly from France and Europe, as well as research tax credits to support its operations. The Company's expenses should comprise research and development expenses, overhead and milestone payments to third parties that it is required to make under the terms of collaborative research, option or licensing agreements.

In the medium to long term, the Company's revenue should come from royalties on sales generated by its partners under the terms of collaboration and licensing agreements for its products, as well as product sales.

The interruption of one of those sources of revenue could have a material adverse effect on the Company's business,

prospects, financial situation, results and development. In order to mitigate as much as possible the Company's operating loss, the Company has implemented reliable and efficient accounting and financial processes and their appropriate utilization is regularly monitored, in particular through the internal control system (see the Report of the Chairman of the Supervisory board in Section 2.4 of this Reference document).

The Company has invested heavily since its business began in 1999. Operating expense was €35.9 million and €58.2 million for the fiscal years ended December 31, 2015 and 2016, respectively, in the absence of recurring income. Due to its solid cash position (€230.7 million as of December 31, 2016 in cash, cash equivalent and financial instruments), the Executive board anticipates that cash, cash equivalents and financial instruments are enough to support the Company's financing for the next twelve months. Beyond that date, or if the Company wishes to embark on additional developments, it will have to find new sources of finance. These could be milestones related to partnered development stage products, the signing of new partnerships with industrial and commercial partners and possibly capital increases (which would have a dilutive effect).

The Company's future capital requirements will depend on numerous factors, such as:

- Higher costs and slower progress than expected for the Company's research and development programs;
- Higher costs and unexpected delays to obtain regulatory approvals, including longer time to prepare submissions to regulatory agencies;
- Costs for preparing, filing, defending and enforcing the Company's patents and other intellectual property rights;
- Costs for technological and market developments, establishing and maintaining collaboration agreements and ensuring the efficient manufacturing and marketing of the Company's products;

- New opportunities for developing promising new products or opportunities to acquire technologies, products or companies.

If no milestone payments were made by current partners, such payments being necessary to continue the development of the products, the Company might be unable to raise sufficient funds on acceptable terms, or to raise any funds at all, when it requires them. The Company might have to:

- Delay, reduce or terminate certain research and development programs;
- Reduce headcount;
- Obtain funds through partnership agreements that may require the Company to assign rights to technologies or products, which it would have otherwise retained;
- Acquire licenses or sign new collaboration agreements that may be less favorable than those that would have been obtained under different circumstances;
- Consider transferring assets or engaging in a close association with another company.

The occurrence of one or more of these risks could have a material adverse effect on the Company's business, prospects, financial situation, results and development, and on the situation of the Company's shareholders.

The Company incorporates financing risk and current uncertainties regarding raising capital on the financial markets into its management process. The signing of partnerships comprising upfront payments as well as milestones spread along the life of the agreement, and eventually royalties on sales aims to diminish, over time, the Company's reliance on the market for funding through capital increase. However, the Company considers that its dependence on the economic and stock-market environment remains high.

1.9.1.7. Risk related to access to public grants and research tax credit

Since the Company began operations in 1999, it has benefited from public funding for research expenditure, and especially from the French research tax credit, for the financing of its business. The Company's income coming from public financing for research expenditures was €7.2 million and €9.6 million, for the fiscal years ended December 31, 2015 and 2016, respectively. The research tax credit was €7.0 million and €9.1 million, for the fiscal years ended December 31, 2014 and 2015. Receivables

from the State in terms of the research tax credit were €9.1 million as of December 31, 2016.

The research tax credit is a major source of financing which could be called into question by a change in French tax regulation or a tax audit which might result in a reduction in amounts received or to be received even though the company complies with the requirements concerning documentation and eligibility of expenses. The Company's compliance with these requirements is actively monitored by the Company's appointed external accountants.



In addition, the research tax credit is usually reimbursed by the Government, during the fourth exercise following which the credit was determined, in the absence of imputation on an amount of tax payable. Nevertheless, since 2010, companies that meet the community SME criteria are eligible for the prepayment of the research tax credit receivables. The SME's status is lost when the eligibility

criteria are exceeded over two consecutive years. The Company has exceeded these criteria for the first time in 2016 (turnover > €50 million). The Company could lose its SME's status if these criteria are exceeded during the year 2017, and consequently its related advantages in particular the prepayment of the research credit tax.

1.9.1.8. Risks associated with managing internal and external growth

The Company's strategy involves continuing the growth of its business internally, with the progress of its own research and development programs, and also externally, by the selective acquisition, in Europe and elsewhere, of complementary products and technologies, or companies with such assets.

The implementation of this strategy depends, in part, on the Company's capacity to carry out these acquisitions for growth under satisfactory conditions and to integrate them in the Company's operations or technology. The implementation of such a strategy could impose significant constraints, in terms of:

- Human resources: training, managing, motivating and retaining a growing number of employees;

- Financial and management system resources, with the identification and management of the appropriate financing;
- Infrastructures, with the expansion or transfer of the Company's laboratories, or the development of the Company's information system.

In view of this, the Company could have difficulty integrating acquisitions in its own operations. If the Company is unable to integrate such acquisitions, this could have a material adverse effect on its business, prospects, financial situation, results and development.

1.9.1.9. Risks related to attracting and retaining key personnel and scientific consultants

The Company's success largely depends on the efforts and the expertise of its executive committee members and key scientific and medical personnel. The loss of their skills could alter the Company's ability to reach its objectives.

In addition, the Company will need to recruit new executive committee members and qualified scientific and medical personnel to carry out its clinical trials and expand into areas that require specialized skills, such as regulatory matters, marketing and manufacturing. The Company competes with other companies, research organizations and academic institutions in recruiting and retaining highly qualified scientific, technical and management personnel.

As competition is very intense in this field, the Company might not be able to attract or retain key personnel and scientific consultants under commercially acceptable conditions.

The Company's policy is to reduce the amplitude of this risk via its human resources management, especially in terms of compensation and distribution of instruments that give access to capital. However, if the Company is unable to keep, attract and retain key personnel, it could be prevented from reaching its overall objectives, and this would have a material adverse effect on its business, prospects, financial situation, results and development.

1.9.1.10. Risks of commercial failure

If the Company obtains marketing authorizations allowing it to sell its products, it may take time for its product to gain market acceptance with the medical community, healthcare providers, and third-party payers.

The degree of market acceptance will depend on several factors, including:

- Healthcare providers' perceptions of the product's therapeutic benefit;
- Clinical developments after marketing authorization;

- Adverse effects occurring after marketing authorization;
- Existence of alternative therapeutic options;
- Ease of the product's use, especially regarding the administration procedure;
- Cost of treatment;
- Reimbursement policies of governments and other third parties;
- Commercialization efforts, from our partners or ourselves;

- Effective implementation of a marketing strategy;
- Support from key opinion leaders.

Poor market penetration resulting from one of these factors could have a material adverse effect on the Company's business, prospects, financial situation, results and development.

1.9.1.1. Risks related to changing in drug reimbursement policies

Once the product is launched, market acceptance will depend, in part, on the reimbursement rate applied by public and private health insurers. Public health insurance and other third-party payers will try to limit the cost of care by limiting or denying coverage for expensive products and therapeutic procedures. There are currently few immunotherapy products against cancer on the market, so there is little experience or precedent of the potential reimbursement of such treatments by insurers.

The Company's ability to successfully market its products will partially depend on the extent to which government authorities, private insurers and other organizations in Europe and in the United States will establish sufficient reimbursement rates for the cost of its products and

However this risk will not become material until the products of the Company will be marketed or close to market.

related treatments. Third-party payers frequently challenge the price of therapeutic products and medical services. Cost control measures implemented by healthcare providers and reimbursement organizations and the effect of possible healthcare reforms could negatively affect the Company's operating results in the future. The Company may not obtain sufficient reimbursements for its products, which would negatively affect their acceptance by the market. In such a case, the Company would be unable to achieve a sufficient return on its research and development investments.

The materialization of one or more of these risks could have a material adverse effect on the Company's business, prospects, financial situation, results and development.

1.9.2. Operational risks

The main operational risks are:

1.9.2.1. Risks associated with failure to control the planning and implementation of the development activities for one or more of the Company's products

Over and above the scientific risks inherent to the Company's business which can cause a delay, or even the halting of one or more of its research and development programs, risks inherent to the Company's organization could arise.

To structure and manage the Company's R&D activities and limit the risks, the Company has established a matrix structure according to management of the programs and based on technical expertises. The operation of the programs is based on the fundamentals of project management, i.e. identifying requirements for resources (human, equipment and financial) and planning to achieve defined and formalized objectives. Provisions for defining and communicating the objectives, for planning,

monitoring and assessing requirements for resources, measuring the achievement of objectives, and for decision-making, are formalized in the Company's quality system.

Failure to comply with these provisions, or to take into account all the data or the latest developments (scientific, technical, medical and/or market knowledge) when planning a program could delay its development or even halt it. Delaying or halting one or more research and development programs could have a significant adverse effect on the Company's business, prospects, financial situation, results and development. Although these risks are common to all players in this sector, they are even more relevant for the Company due to its limited financial and human resources.

1.9.2.2. Risks attributable to subcontractors, suppliers of key materials, external collaborators, consultants or investigators

The Company makes considerable use of third parties in the context of its business. These may be subcontractors, suppliers of key materials, external collaborators (such as academic partners), consultants (for example, in the scientific, strategic and intellectual property fields) or

investigators (physicians leading clinical trials). Although the Company diversifies its sources of supply as much as possible, it does depend on third parties for numerous activities involved in carrying out its research and development programs.



Activities which have to be carried out by bodies with specific approvals which the Company does not have are assigned to subcontractors. The most critical of these activities include the production of batches of drug candidates for the Company's clinical trials in accordance with Good Manufacturing Practices and carrying out regulatory toxicology studies in accordance with Good Laboratory Practices. The Company may also have to subcontract certain activities associated with its clinical trials when they are carried out in foreign countries, in particular in the United States.

Reliance on third-party manufacturers creates additional risks which the Company would not have to deal with if it was to manufacture its own products. These risks include:

- Failure of third-party manufacturers to comply with regulatory and quality control standards;
- Production in insufficient quantities;
- Damage during transport and/or storage of the Company's products (drug candidates) (against which the Company has taken out specific insurance – see section 1.9.7);
- Breach of its agreements by third-party manufacturers;
- Termination or non-renewal of these agreements for reasons beyond its control.

If products manufactured by third-party suppliers fail to comply with regulatory standards, sanctions would be imposed on the Company. These sanctions could include fines, injunctions, civil penalties, refusal by regulatory organizations to grant approval to conduct clinical trials or marketing authorization for the Company's products, delays, suspension or withdrawal of approvals, license revocation, seizure or recalls of its products, operating restrictions and legal proceedings. All of these measures could have a considerable negative impact on the Company's activities.

The fact that non-conformities are noted when carrying out regulatory toxicology studies could result in delays in the development of one or more of the Company's drug candidates and would require further tests to be financed. At a higher cost level, a regulatory non-conformity noted in the context of the clinical trials in which certain activities are carried out by third parties could have similar consequences and lead to marketing authorization being refused for the drug candidates developed.

1.9.2.3. Risks associated with using an unreliable result or unreliable information

Decisions to move the Company's programs forward are taken based on meeting requirements, based on all the results obtained throughout the development phases. If

To limit these risks, the Company pays particular attention to the choice of these third parties and monitoring the services they provide. The Company has defined quality criteria that are applied when third parties are selected and also annually during reassessments. At an operational level, the activities assigned to third parties are monitored and formalized on a daily basis and audits are conducted periodically.

Moreover, contracts signed with subcontractors usually contain clauses that limit their responsibility, which means that the Company might not be able to obtain full compensation for any losses that it might incur in the event the subcontractors involved were to violate these commitments. There is a system for reviewing all contracts in order to limit this risk.

In addition, the subcontractors or suppliers used could cease trading for economic reasons. To reduce this risk, the financial health of the Company's subcontractors and suppliers is regularly monitored.

The Company also uses third parties to provide certain intellectual services such as scientific, medical or strategic consultancy or services associated with intellectual property. These service providers are generally selected for their specific expertise, as is the case with the academic partners with whom the Company collaborates. To build and maintain such a network under acceptable terms, the Company faces intense competition. Such external collaborators may terminate, at any time, their involvement. The Company can exert only limited control over their activities. The Company might be unable to obtain the intellectual property rights to the inventions targeted by collaboration, research and license agreements under acceptable terms. Moreover, these scientific collaborators may assert intellectual property rights or other rights beyond the terms of the agreement. These organizations are monitored as described previously.

The risks associated with intellectual property are covered in section 1.9.4 of this document.

Finally, the Company uses investigators to assist with conducting clinical trials. This involvement is governed by strict regulations and also contracts, with the aim in particular of preventing fraud, for example the generation of fictitious patient data or the biased use of data from patients taking part in the clinical trials. This risk is controlled by means of regular quality control of the data produced and by carrying out audits on the investigational sites.

these results turn out to be incorrect or there is no traceability of the operations and data used to obtain the

results, incorrect decisions could be taken and the Company's programs delayed, or even halted.

The more subcontractors and collaborators the Company uses for key research and development stages, the higher the risk. Managing the Company's subcontractors and

collaborators therefore requires continuous, formalized control and auditing processes, which are described above in section 1.9.2.2. Equivalent internal auditing and control mechanisms have also been set up for work carried out in-house.

1.9.2.4. Risks related to the Company's information system

The main risks of the Company's information system are related to its security and availability, as well as to the integrity and confidentiality of the data. The occurrence of such risks could have a material adverse effect on the Company's business, prospects, financial situation, results and development.

A security policy has been defined and its aim is to secure the different access possibilities to external and local networks, as well as to the software. This policy also contributes to ensuring data confidentiality. Furthermore, an Information Technology Charter details the rules for the use of IT tools and more generally for the information and communication system, as well as the users' responsibilities for the purposes of protecting their own interests and those of the Company.

The unavailability of the information system is also a risk for the Company's activities. Most data is generated electronically and hosted on the Company's network. If these data are not available or lost, the Company could not justify carrying out its research and development operations, thus preventing compilation of the information necessary for the documentation accompanying the development of a drug candidate, irrespective of its stage (preclinical development, clinical development and marketing authorization). In order to ensure data integrity, saving and filing processes have been set up and are reviewed on a regular basis.

1.9.3. Regulatory & legal risks

The main regulatory and legal risks are detailed in this section. The disputes are listed in section 3.3.8 "Judicial and Arbitration Procedures" in this Reference document.

1.9.3.1. Risks related to the Company's regulatory environment

To date, none of the Company's products have received a marketing authorization from a regulatory agency. The Company cannot be sure that it will receive the necessary authorizations to sell its products. The Company's products are subject to extensive regulations and the applicable regulatory requirements are complex, potentially difficult to apply and subject to modification. The ANSM in France, the EMA in Europe and the United States FDA, and their counterparts in other countries, regulate the research and development, preclinical testing, clinical trials, manufacturing, safety, efficacy, record-keeping, labeling, marketing, sale and distribution of pharmaceutical products. In particular, if no authorization is issued by the FDA, it would be impossible for the Company to gain access to the American market, the world's largest pharmaceutical market in terms of value.

The regulatory authorization process for new therapeutic products requires the submission of detailed product characterization, manufacturing and control information, preclinical and clinical data and any information establishing the safety and potential efficacy of the product for each indication. It may also require ongoing studies after marketing authorization as well as manufacturing and quality controls.

Furthermore, inspections can be carried out by the authorities to check that the development of a drug candidate complies with applicable regulations. The organization of the Company, and notably of the regulatory department, aims at limiting the risk of not complying with these regulations and, as a result, the risk that, during an inspection, the regulatory authorities will observe a non-compliance to a rule. Nevertheless, even if the Company is doing its best to comply with the regulations, the regulatory authorities might observe a significant regulatory infringement, which might lead to delays in the development of a program, or its termination and, in the worst case, the termination of the Company's activities.

Data from preclinical and clinical studies are likely to give rise to different interpretations, which could delay the regulatory authorization, restrict its scope or force the Company to repeat trials in order to meet the requirements of the various regulators. The regulatory requirements and processes vary widely among countries, and the Company or its strategic partners may be unable to obtain authorization within each relevant country in a timely manner.



The regulatory authorities may prevent the Company from starting clinical trials or continuing clinical development if the data were not produced according to applicable regulations or if they consider that the balance between the expected benefits of the product and its possible risks is not sufficient to justify the trial. In addition, the Company might decide, or the regulatory authorities may request, to interrupt or end the clinical trials if patients are exposed to unexpected and severe risks.

Moreover, the Company's immunotherapy products are based on new technologies that are constantly evolving and have not been extensively tested on humans. The applicable regulatory requirements are also complex, potentially difficult to apply and subject to significant modifications. Modifications to regulations during the development of a product and regulatory review may lead to delays or the refusal of the authorization.

As described in section 1.4.4.5, there are specific procedures for the development and marketing of orphan drugs. Our drug candidate IPH4102 obtained the orphan drug designation in Europe. It may be possible that we could not benefit *in fine* of these procedures.

In Europe, the United States and other countries, regulations can potentially lead to:

- Significantly delay or increase the cost of development, testing, manufacturing and marketing of the Company's products;

- Limit the indications for which the Company will be authorized to market its products;
- Impose new, more stringent, requirements, suspend marketing authorizations, request the suspension of clinical trials or the marketing of the Company's products if unexpected results are obtained during trials performed by other researchers on products similar to the Company's products.

Finally, where the Company not to comply with the laws and regulations governing its business, it could be subject to sanctions that could include the refusal to authorize pending requests, product recalls, sales restrictions and the temporary or permanent suspension of its operations or civil or criminal proceedings.

All the regulatory procedures are costly, can take many years and their results are difficult to predict.

The materialization of one or more of these risks could have a material adverse effect on the Company's business, prospects, financial situation, results and development. One of the Company's departments is dedicated to the issues of compliance with the Company's regulatory environment for clinical and medical matters, in particular carrying out regular monitoring.

1.9.3.2. Risks related to liability risk and particularly to the risk of product liability actions

The Company is exposed to potential liability, including product liability, inherent to conducting trials, manufacturing and marketing human therapeutic products. The Company could also be liable in connection with clinical trials, including the preparation of therapeutic drug-candidates and unexpected side effects resulting from the administration of such products. Claims or legal proceedings may be filed or brought against the Company by patients, regulatory agencies, biopharmaceutical companies or other third parties using or selling its products. These legal proceedings could include complaints arising from actions taken by the Company's partners, licensees and subcontractors, over whom the Company exercises little or no control. The Company

cannot ensure that its current insurance coverage is sufficient to protect it against such proceedings. If the Company, its partners, licensees and subcontractors were found liable in a proceeding and were unable to obtain and maintain an appropriate insurance coverage at an acceptable price, or to protect themselves by whatever means, it could seriously affect the sale of the Company's products and could adversely affect its business, prospects, financial situations, results and development. The Company could be the subject of civil or penal proceedings that would damage its image. The Company has taken out several insurance policies for limiting these risks, as described in Section 1.9.7.

1.9.3.3. Risks associated with the Company failing to honor its commitments to third parties

The Company has links with academic and industrial partners via research, industrial development or production agreements. These agreements may contain penalties that are applicable in certain circumstances. If the Company does not achieve all or some of the objectives set out in these agreements, or if it has to halt continuation of the contract, these agreements may be terminated and the

Company could have to pay penalties to these third parties, which could have consequences on the financial situation of the Company.

In order to limit this risk, the operational elements of these clauses are incorporated as objectives in the planning of the Company's research and development programs. In

1 addition, the contract review mechanism, which involves the Company's legal department and when necessary specialist consulting firms, is also designed to limit as far as possible the application of penalties associated with uncontrolled situations. The Company endeavors to incorporate validation steps in the implementation of the contracts, following which the Company can decide,

without any penalty, not to continue the contract. Moreover, it should be remembered that, if the Company is liable because it has caused damage to a third party during or because of its business, the Company has taken out third-party liability insurance as indicated in section 1.9.7 of this Reference document.

1.9.3.4. Risks associated with non-competition clauses and other rights and licenses in partnerships with third parties

Although the Company aims to include non-competition clauses in its collaboration, research and license agreements, these restrictions may not provide sufficient protection. The Company's partners might pursue alternative and competitive technologies, either alone or in collaboration with others.

The Company's rights under existing collaboration, research and license agreements could expire or be terminated at critical periods. In addition, the Company

may be unable to obtain licenses for other rights that it might need. If the Company is unable to obtain or maintain such rights or licenses, it might have to find other alternatives or develop the relevant products by itself to avoid infringing the patents or technologies belonging to third parties. These alternatives may not exist or may significantly increase the Company's costs and delay its product development.

1.9.4. Risks associated with intellectual property

1.9.4.1. Risks related to uncertainty in protecting the Company's patents and other intellectual property rights

It is important for the Company's success that it and its licensors and licensees be in a position to obtain, maintain and enforce patents and intellectual property rights in Europe, the United States and other countries. It is possible that:

- The Company might not develop new patentable inventions;
- Patents for which applications are pending, including important patents in certain jurisdictions, may not be issued;
- Patents granted or licensed to the Company or its partners may be challenged, or held invalid or unenforceable;
- The scope of any patent protection may be insufficient to protect the Company from competitors;
- Third parties may claim rights on patents or other intellectual property rights that the Company owns or licenses.

Issuing a patent does not guarantee its validity or enforceability and third parties may challenge these two aspects. The issuance and enforceability of a patent in the field of biotechnology are highly uncertain and raise complex legal and scientific issues. So far, no uniform worldwide policy has emerged concerning the content of patents granted in the field of biotechnology and the scope

of allowable claims. Litigation may be necessary to enforce the Company's intellectual property rights, to protect the Company's trade secrets or determine the validity and scope of the Company's intellectual property rights. Any dispute could result in considerable expenses, reduce the Company's profits and fail to offer it adequate protection. Competitors might successfully dispute patents issued or licensed to the Company in court or other proceedings, which could result in reducing the scope of the Company's patents. Moreover, such patents may be infringed or successfully circumvented through design innovations.

Some of the Company's patents and patent applications are jointly owned with the Company's partners. In many countries, both owners have full rights under a jointly-owned patent. In the absence of a specific agreement, the Company's partners may use such jointly-owned patents to compete with the Company or to grant a license to the Company's competitors. In addition, co-owners may not cooperate with the Company in order to enforce or to defend a jointly-owned patent for right protection purposes.

Any of these events concerning one of the Company's patents or intellectual property rights could have a material adverse effect on the Company's business, prospects, financial situation, results and development. These risks are even more relevant for the Company due to its limited financial and human resources. In order to mitigate this risk, the Company has a department dedicated to

managing intellectual property which uses specialist consultants when this is considered necessary.

1.9.4.2. Specific risks related to patents and intellectual property rights owned by third parties

The expansion of the biotechnology industry and the growing number of patents issued increase the risk that third parties may consider that the Company's products or technologies are infringing their intellectual property rights. In general, patent applications are not published until 18 months after the date of priority applications. In the United States, some patent applications are not published before the patent itself. And, also in the United States, patents can be awarded on the basis of their invention date, which does not always result in a patent being issued to the party who was filed their application first. Discoveries are sometimes published or patented months, often even years, later. The Company cannot be sure that third parties have not been the first to invent products or to file patent applications related to inventions also covered by its pending patent applications or those of its partners. In such instances, the Company might need to obtain licenses to patents from those third parties (licenses which may not be obtained under reasonable terms, if at all), or cease the production and sale of certain products or develop alternative technologies.

Any litigation or claim against the Company, whatever its outcome, could result in substantial costs and could compromise the Company's reputation. Some of the Company's competitors with greater resources may be in a better position for dealing with the costs of complex litigation. Any dispute of this type could severely affect the Company's ability to continue its operations. Specifically, intellectual property litigation could force the Company to:

- Cease selling or using any of its products that are involved in the disputed intellectual property, which would reduce its revenues;
- Obtain a license from the owner of the intellectual property rights, which may not be obtainable on reasonable terms, if at all.

In order to limit this risk, the Intellectual Property department carries out a continuous, active intellectual property watch.

1.9.4.3. Risks related to the Company's inability to protect the confidentiality of its information and know-how

From time to time, the Company provides information and materials to researchers in academic institutions or other public or private entities and requests that they conduct certain tests, or provides information to potential partners. In both cases, the Company relies on confidentiality agreements. The Company's business also depends on its own non-patented technologies, processes, know-how and data that it considers as trade secrets and that it protects in part through confidentiality agreements with its employees, consultants and certain sub-contractors. It is possible that these agreements or trade secret protection measures may not ensure sufficient protection or may be breached, or that the Company might not have adequate solutions for dealing with breach issues, or that the Company's trade

secrets may be disclosed to its competitors or developed independently by them.

One or more of these risks could have a material adverse effect on the Company's business, prospects, financial situation, results and development. The development and implementation of several forms of confidentiality agreements aims to mitigate this risk.

Moreover, the Company's collaborators have a duty of confidentiality with regard to the information to which they have access within the scope of their duties during and after the term of their contract, as described in the Code of Ethics to which all permanent or temporary staff are subject.

1.9.4.4. Risks related to the use of the Company's trademark by third parties

The Company's trademark is an important component of its identity and its products. Even though the main components of the Company's trademark have been filed in France and in Europe and are registered in the United States, other companies in the pharmaceutical sector could use or try to use components of this trademark, and create confusion in third parties' minds (see section 1.5.2 of this Reference document).

The Company may then have to redesign or rename its products in order to avoid overlapping with third parties' intellectual propriety, which could prove impossible, or costly in terms of time and financial resources, and therefore be detrimental to its marketing efforts.

One or more of these risks could have a material adverse effect on the Company's business, prospects, financial situation, results and development. The registration and

maintenance of the Company's brands and the ongoing monitoring of the same through its intellectual property

process aim to mitigate these risks.

I.9.5. Risks related to security, hygiene, technical operations and the environment

I.9.5.1. Risks associated with the Company carrying out its activities

Due to its research and development activities, the Company is exposed to chemical, biological and radiological risks and therefore imposes preventive and protective measures for the protection of its workforce and waste control management in accordance with applicable laws, including part four of the French Labor Code, relating to occupational health and safety.

A health, safety and work conditions committee was formed in February 2007. This committee establishes the annual program for preventing risks, analyses incidents and accidents that occur and decides which corrective and preventive actions are to be implemented.

Due to the general obligation of safety borne by the employer, it must assess any risks and take all necessary measures to ensure the safety and protect the health of its employees. In accordance with articles L. 4121-1 to 3 and R. 4121-1 and 2 of the Labor code, the Company has drawn up and maintains an up-to-date single assessment document for occupational risk which lists all health and safety risks for the Company's personnel.

A guide listing the health and safety recommendations and personal protection equipment has been drawn up and distributed to all personnel.

Work position sheets, which identify hazards and define first aid measures, have been drawn up for all main work positions.

Regarding facilities, due to the nature of the Company's business it does not have any so-called 'classified' facilities. The use of radioactive elements requires a permit, which has been granted by the *Autorité de Sûreté Nucléaire* ("ASN") for nuclear activities for non-medical purposes in accordance with article L.1333-4 of the French public health code and article 3 of French Act No. 2006-686 dated June 23, 2006, relating to openness and safety in nuclear matters. These installations are inspected annually by an approved organization.

Pressurized equipment is subject to the Prefectoral decree dated March 15, 2000.

Lastly, heat pump facilities are subject to the French environmental code, book V, title 1, article R 512-47.

The Company's research and development programs and preclinical tests make use of hazardous materials and biological materials, particularly radio-labeled molecules, solvents and other potentially genotoxic chemicals. For the

latter, the Company meets the requirements for prevention of CMR (carcinogenic, mutagenic, reprotoxic) risks in accordance with decree No. 2001-97 dated February 1st, 2001. The Company also handles genetically recombined material, genetically modified species and pathological biological samples. Consequently, in France and in the jurisdictions where the Company conducts clinical trials, it is subject to environment and safety laws and regulations governing the use, storage, handling, discharge and disposal of hazardous materials, including chemical and biological products and radioactive materials. In France, the Company is required to comply with a number of national, regional and local legislative or regulatory provisions regarding radiation and hazardous materials, including specific regulations regarding the use, handling and storage of radioactive materials and the potential exposure of employees to hazardous materials and radiation. The Company must also comply with decree No. 93-773 dated March 27, 1993, and the order dated December 27, 1994 concerning the use and handling of genetically modified organisms (GMOs) in confined spaces. The Company complies with these regulations.

Regarding the environment, and waste management in particular, the Company currently complies, to the greatest extent possible, with the French environmental code. For example, biological and chemical waste removal and processing is assigned to a specialist company, with which the Company has an annual contract, which can be renewed with a simple amendment.

If the Company does not comply with applicable regulations, it could be subject to fines and even might have to suspend all or part of its operations. Compliance with environmental, health and safety regulations involves additional costs, and the Company may have to incur significant costs to comply with future laws and regulations in relevant jurisdictions. Compliance with environmental laws and regulations could require the Company to purchase equipment, modify facilities and undertake considerable expenses. The Company could be liable for any inadvertent contamination, injury or damage, which could negatively affect its business, although it has subscribed to an insurance policy covering certain risks inherent to its business.

One or more of these risks could have a material adverse effect on the Company's business, prospects, financial situation, results and development.

1.9.5.2. Risks associated with a disaster

A disaster, such as a fire in the Company's premises, which could originate internally or externally in view of its location in a wooded area, could also have a significant effect on the Company's installations and consequently its business. According to the extent of the disaster, there could be development delays of varying lengths, right up to suspension of the Company's operations. To date, no such disaster has affected the Company's facilities. In order to prevent the risk of fire, fire prevention measures have been

put in place, such as clearing the brush in the surrounding green spaces, inspection of the Company's electrical installations by an approved body, and the implementation of a maintenance plan for the fire-fighting equipment. Moreover, in terms of safeguarding, the rare biological material that the Company uses has been identified, duplicated and kept on other sites, with specialist service providers.

1.9.6. Financial Risks

In addition to the above-described risks related to expected future losses and to the financing of the Company's activities, the main financial risks include the following:

1.9.6.1. Risks related to financial assets

The Company's exposure to this type of risk is mainly related to two elements of the balance sheet: cash and cash equivalents and current financial assets. These are the Company's main tangible assets given the nature of the business. These assets comprise current accounts, savings accounts, fixed term accounts and mutual fund shares shared out and a bond portfolio among several first tier banks, which allows the Company to spread the risk inherent in any given financial institution. Interest rate variations have a direct impact on the Company's cash and, therefore, on financial income (see Notes 1 and 4 to the Consolidated Accounts for the fiscal year ended December 31, 2016, that are in section 3.3 of this Reference

document). The Company's policy in terms of cash investments is to favor a minimum level of risk on capital. This policy is described in the appendices of the Consolidated Accounts for the fiscal year ended on December 31, 2016 (included in section 3.3 Notes 1 and 4 of this Reference document).

The following table shows the sensitivity of the Company's financial assets to a variation of 50 base points in the interest rate during the fiscal years ending December 31, 2015 and 2016 (in millions of euros):

	As of December 31,	
	2016	2015
Average balance of cash, cash equivalents and current financial assets	216.8	152.6
Interest income with 50 base points	1.1	0.8
Interest expense with 50 base points	(1.1)	(0.8)

Considering the lack of maturity (short liquidation timeframe) and capital guarantees related to the Company's financial instruments used to invest its cash surplus, the impact on the sensitivity of group's equity by way of these instruments is minor.

1.9.6.2. Exchange rate risk

The Company is exposed to foreign exchange risk inherent in certain subcontracting activities relating to its operations in the United States, which have been invoiced in U.S. dollars. The Company does not currently have recurring revenues in euros, dollars nor in any other currency. As the Company further increases its business, particularly in the United States, it is expected to face greater exposure to exchange rate risk.

In order to cover this risk, the Company kept in U.S. dollars a part of the \$250 million upfront payment received from

AstraZeneca in June 2015 (see Note 1 to the Consolidated accounts "Key events of the fiscal year ended December 31, 2015") corresponding to the expected expenses in U.S. dollars in the short/mid term.

Our policy does not include the use of hedging instruments.

1.9.6.3. Interest rate

The Company has very low exposure to interest rate risk. Such exposure primarily involves money market funds and time deposit accounts. Changes in interest rates have a direct impact on the rate of return on these investments

and the cash flows generated. The Company has no credit facilities. The repayment flows of the advances from Bpifrance are not subject to interest rate risk.

1.9.6.4. Liquidity risk

The Company does not believe that it is exposed to short-term liquidity risk, considering the cash, cash equivalents and short term investments that it had available as of December 31, 2016, amounting to €197.7 million, which was primarily cash and money market funds and term

deposits that are convertible into cash immediately without penalty. Management believes that the amount of cash, cash equivalents and short term investments available is sufficient to fund the Company's planned operations through the next twelve months.

1.9.6.5. Volatility risks with respect to the Company's share price

It is likely that the price of the Company's shares would be significantly affected by events such as changes in its financial results, changes in market conditions related to its sector of activity, announcements of new contracts, technological innovations and collaborations by the Company or its main competitors, developments concerning intellectual property rights (including patents), announcements regarding products currently being developed by the Company or its main competitors, the obtention of required approvals from regulatory authorizations as well as the development, launching and sale of new products by the Company or its main competitors.

Furthermore, the stock-markets have seen considerable changes in value over the last few years, and in most cases, these changes do not reflect the operational and financial performance of the listed companies. In particular, biotechnology companies' share price is highly volatile and may continue to be highly volatile in the future. Fluctuations in the stock-market as well as the macro-economic environment could significantly affect the price of the Company's shares.

1.9.6.6. Risk of dilution

Since the Company's creation, it has regularly allocated or issued stock-options, warrants and free shares to motivate its managers, employees and consultants. In early 2015, the Company increased the capital share available to members of its company savings plan. In the future, the Company could offer other securities providing access to its share capital.

capital, would allow the subscription of 3,759,497 new shares, which represents around 6.51% of the diluted share capital (see Section 4.1.5 of this Reference document). The exercise of financial instruments giving access to the share capital in circulation as well as all allocations or new issuances would lead to a significant dilution for the shareholders.

As of the date of this Reference document, the exercise of all of the financial instruments giving access to share

1.9.6.7. Credit risk

Credit risks mainly lie with research tax credit receivable, customer accounts receivable, and cash & cash equivalents. As for research tax relief, the risk of debt recovery is not considered as significant with respect to receivables from the French government. As for customer accounts receivable, the Company has not yet entered its marketing stage so it has no financial claims vis-à-vis its clients (the

situation as of December 31, 2016 is an exception due to a \$15 million receivable relating to Bristol-Myers Squibb). Concerning risks related to cash, cash equivalents and routine financial instruments, the Company has little exposure with respect to the co-contracting financial institutes whose ratings ascribed by the main credit rating agencies are at least rated A (Standard & Poors).

1.9.6.8. Risks related to fraud, to preparing financial statements and producing financial and strategic data

These risks, which can stem from various types of malfunctions resulting from the accounting and financial processes themselves (whether intentional (fraud) or accidental), could lead the Company to provide an incorrect overview of its accounting and financial situation as regards its key audiences such as pharmaceutical companies, regulatory authorities, administrative departments, and the financial markets.

It believes that the Company's organization in terms of internal control, is well formalized and is adapted to the Company's current situation and allow this type of risk to be faced considering that it takes into account the revision of the six-monthly and yearly accounts by a chartered accountant and their validation by the statutory auditors. The fact that there are internal regulations and an ethics code submitted to all personnel, also helps in limiting this risk.

1.9.7. Insurance and Risk Coverage

The Company's internal procedures in terms of risk prevention and safeguarding as well as the insurance policies that it has subscribed to are considered as acceptable guarantees regarding the main risks which have been identified and which can be covered by an insurance.

In terms of internal procedures, the Company has set up a macro-risk map, which is reviewed annually. This firstly enables potential risks to be identified and their likelihood of occurrence to be assessed, and secondly, it enables control actions to be identified and their effectiveness to be assessed. The adequacy of the risks and the control actions is used to determine a residual risk level. An internal audit program and an action plan can thus be defined and implemented if necessary.

The internal control mechanism and the quality system are also essential tools that contribute to risk management.

The Company has implemented a coverage policy for the main insurable risks that it considers compatible with its cash flow requirements. The total of premiums paid for all insurance policies amounted to €114 thousand and €140 thousands for the fiscal years ending December 31, 2015 and 2016, respectively. Due to the specificity of the Company's business – focused on research at this stage – and to the innovative nature of its approach, the quantification of any risks in the absence of any direct damage rate or damage indicators in its field of study, makes it difficult to determine a guarantee amount, especially in terms of civil liability but the Company feels that the insurance policies mentioned below adequately cover the risks that are inherent to its activities and that its policy in terms of insurance is consistent with practice in its business sector. The Company does not foresee any particular difficulties to maintain suitable levels of insurance in the future that are adapted within the limits of market conditions and capacities, on the condition that there are no major accidents. Insurance policies are taken out with companies that have a good financial score and are selected for their ability to monitor the Company's development. The Company feels that its insurance

coverage and the limits of the latter are reasonable and cautionary due to its activities and related risks.

The Company subscribed to several insurance policies, including the following:

- a "damages to belongings" which covers risks of fire, explosion, lightning, electric damages, special risks, computer risks, cold-storage product loss, transportation loss, steals, equipment failure, and all damages other than those described and not excluded from its premises in Marseille, with a maximum benefit of €19.9 million;
- a "business civil liability" insurance policy which on the one hand covers the risks related to operations – for a guaranteed amount of €6.1 million per accident with a sub-limit of €1.5 million per accident for property and consequential damage caused to third parties – and, on the other hand, professional civil liability risks with a covered amount of €1 million per year of insurance;
- an "inventory and transit" policy which covers risks related to transporting and storing products with a maximum guaranteed amount per accident according to the storage site and €750 thousand per shipment, accident or event. This policy has been adapted to the scope of the updated insured values.

The contracts do not cover the Company's possible losses from operations. The Company estimates that the cost/benefit ratio of covering losses from operations in the event of an accident at this stage of the development, particularly given the lack of revenue from the sale of its products, does not justify subscribing to such coverage. However, the Company has implemented safety procedures for its original biological materials and its computer data, which provides suitable protection for its primary assets.

The Company's liability resulting from clinical trials is covered by specific agreements, the price and guaranteed amounts of which depend on the local regulations applicable in the jurisdiction where the clinical examination

is located; for example, in France the “*Code de la Santé Publique*” (*Public Health Code*) specifies obligatory insurance for clinical trial promoters and the terms of such insurance. The overall amount of the premium and guarantees subscribed for the trials therefore depends on the number of trials, their location and the number of patients involved in the trial.

The Company has also subscribed to a directors and officers liability insurance regarding the execution of their duties, with a total annual maximum guarantee of €15.0 million.

The Company cannot guarantee that it will always be able to maintain or obtain similar insurance coverage at an acceptable price, which could lead it to accept more expensive insurance policies and to assume a higher level of risk, particularly as its business develops. Moreover, one or more significant accidents, even if they are covered by

such insurance policies, could seriously affect the Company’s business and its financial situation if the accident interrupts its business activities, if there are delays in receiving reimbursements from its insurers, if the policy limits are exceeded, and if premium increases could result from the accident.

The materialization of one or more of these risks could have a material adverse effect on the Company’s business, prospects, financial situation, results and development.

Taking into account the outlook of the Company, and especially given that the Company could be in a position to conduct a greater number of clinical trials going forward, the Company believes that its insurance premiums will continue to rise while remaining insignificant in comparison with the amount of its research and development spend, its annual losses and the value of its assets.

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2.1. ADMINISTRATION, SUPERVISORY BOARDS AND GENERAL MANAGEMENT BODIES

The Company was incorporated on September 15, 1999, as a *société par actions simplifiée* (SAS) with an Executive committee.

On June 13, 2005, the Company was transformed into a *société anonyme* (SA) organized with a Supervisory board and an Executive board.

The Executive board represents the Company vis-à-vis third parties, is responsible for producing the financial statements and the budget and is in charge of the administrative and legal operations of the Company. The Executive board meets as often as required by the interests of the Company.

An Executive committee, a management body which is not mandatory (neither by law nor under the By-laws), notably

composed by members of the Executive board, is responsible for managing the operations through the activity and the responsibilities of its members. The Executive committee meets at least once a month.

The Supervisory board exercises permanent control over the Company's management.

In addition, the Company also has an Audit committee, a Compensation and nomination committee, a Transaction committee and a Scientific Advisory Board.

The organization and operation of the Executive board, Supervisory board and governance committees are described in Chapter 1 of the Report by the Chairman of the Supervisory board attached in paragraph 2.4 of this Reference document.

2.1.1. Composition of the Supervisory board and general management bodies

At the Supervisory board's meeting on December 14, 2016, the composition of the executive and non-executive corporate bodies was modified as follows:

- Mondher Mahjoubi was appointed as Chairman of the Executive board and Nicolai Wagtmann and Yannis Morel were again appointed as members of the Executive board. Catherine Moukheibir resigned from her functions as member of the Executive board.
- Hervé Brailly resigned from his functions as Chairman of the Executive board and was appointed as Chairman of the Supervisory board instead of Gilles Brisson, who remains member of the Supervisory board.

These changes took effect on December 30, 2016.

2.1.1.1. Executive board

As of the date of this Reference document, the members of the Executive board of the Company are as follows:

First and last name, nationality and age ⁽¹⁾	Duration of Term	Position	Other Positions and Appointments held in any other company over the last five years
Mondher Mahjoubi French Age 58	<u>First nomination:</u> Supervisory board of 12/14/16, with effect on 12/30/16 <u>Term expires:</u> Ordinary General Meeting of 2020 to be held to vote on the accounts for the fiscal year ending on 12/31/19	Chairman of the Executive board	<u>Positions previously held in unlisted companies:</u> Senior VP "head of oncology TA" at Genentech <u>Positions previously held in listed companies:</u> Senior VP "head of oncology TA" at AstraZeneca

2.1 ADMINISTRATION, SUPERVISORY BOARDS AND GENERAL MANAGEMENT BODIES

Nicolai Wagtmann Danish Age 53	<u>First nomination:</u> Supervisory board of 12/12/13 as a replacement for Francois Romagné	Member of the Executive board and Chief Scientific Officer	<u>Position previously held in a listed company:</u> VP, head of the inflammation biology and member of the direction of the biopharmaceutical unit research at Novo Nordisk A/S (end on the contract in 2013).
	Renewed by the Supervisory board of 03/27/14 Renewed by the Supervisory board of 12/14/16 with effect on 12/30/16 <u>Term expires:</u> Ordinary General Meeting of 2020 Meeting to be held to vote on the accounts for the fiscal year ending on 12/31/19		
Yannis Morel French Age 43	<u>First nomination:</u> Supervisory board of 06/25/15	Member of the Executive board and Business Development	None
	Renewed by the Supervisory board of 12/14/16 with effect on 12/30/16 <u>Term expires:</u> Ordinary General Meeting of 2020 Meeting to be held to vote on the accounts for the fiscal year ending on 12/31/19		

(1) For the purposes of their appointment, the members of the Company's Executive board are domiciled at the Company's head office.

Mondher Mahjoubi, aged 58, M.D., was appointed as and Chairman of the Executive board (CEO) on December 30, 2016. Prior joining Innate Pharma, Dr. Mahjoubi led the Oncology area at AstraZeneca beginning in November 2013, firstly as Senior Vice President in charge of the cancer pipeline global strategy and then as the World Global General Manager in charge of the strategy and the medical affairs and commercial activities in oncology with the direct responsibility for the activities on the US market. During these three years, he significantly contributed to develop the oncology pipeline and to create a new leadership strategy, which led to the market authorization for two therapeutics innovations (Lynparza and Tagrisso) and to prepare the future commercialization of durvalumab. Before joining AstraZeneca, he spent seven years at Roche-Genentech where he was successively World Medical Director in charge of oncology medical affairs and then Senior Vice President in charge of the global strategy in oncology. He began his career at Sanofi, where he spent 15 years and held several operational and strategic positions in France and in the world, relating to the medical

affairs, the marketing and the sales. Before joining the pharmaceutical industry, Mondher Mahjoubi was an oncologist doctor at Institute Gustave Roussy in Villejuif between 1987 and 1991, as resident doctor. He graduated from the University of Tunis (MD and success to the resident doctor exam), from University of Paris Sud (certification in medical oncology) and from University Lariboisière Saint-Louis (methodology, clinical research and pharmacology). He is a member of the American Society of Clinical Oncology and European Society of Medical Oncology.

Nicolai Wagtmann, aged 53, Ph.D., brings significant biopharmaceutical research and development experience to the Company, having spent 14 years in the R&D organization at Novo Nordisk A/S where he built a portfolio of "first-in-class" therapeutic antibodies for treatment of cancer and chronic inflammatory diseases. In 2005, he was appointed Vice President and Head of Inflammation Biology and member of the Biopharmaceuticals Research Unit management team, with global responsibilities for Novo Nordisk's A/S portfolio of biopharmaceuticals in

immunology, growth hormone and hemophilia. Prior to that, he held roles as Director of Cancer & Immunobiology and other management roles at Novo Nordisk A/S. Nicolai Wagtmann received his Ph.D. in immunology from the University of Copenhagen. He held academic appointments at the National Institutes of Health and the Centre for Immunology in Marseille, France.

Yannis Morel, aged 43, Ph.D., joined the Company in December 2001. Between 2001 and 2007, he occupied

several positions in the R&D Department of the Company, from immunology researcher to team leader and program manager of R&D. Since 2007, he has been responsible for the business development of the Company. He first graduated in molecular physical chemistry, then studied for a PhD in Oncology (University of Aix-Marseille) and graduated from the Ecole Normale Supérieure of Cachan (France).

2.1.1.2. Supervisory board

The members of the Company's Supervisory board as of the date of this Reference document are as follows:

First and last name, nationality age and professional address	Duration of Term	Position	Other Positions and Appointments held in any other company over the last five years
Hervé Brailly⁽¹⁾ French Age 55 Innate Pharma 117, Avenue de Luminy 13009 Marseille	<u>First nomination:</u> Supervisory board of 12/14/16 with effect from 12/31/16, appointment following Philippe Pouletty resignation <u>Term expires:</u> Ordinary General Meeting of 2017 Meeting to be held to vote on the accounts for the fiscal year ending on 12/31/16	Chairman of the Supervisory board	<u>Mandates and positions in unlisted companies:</u> Member of the executive committee and treasurer of EurobioMed; Member of the development council of Marseille Provence Métropole; Member of the Strategy and Prospects committee of Aix Marseille University; Member of the investment committee of SATT Sud-Est; Chairman of Kervrant Biotech SAS. <u>Mandate in listed companies:</u> Chairman of the Executive board of Innate Pharma (resignation on 12/29/16) <u>Terminated mandates:</u> Member of the Supervisory board of Inserm Transfert (not renewed in 2014); Elected member of the Chamber of Commerce of Marseille (not renewed in 2012); Member of the board of directors of Platine Pharma Services (not renewed in 2014), Chairman of the Board of directors of Innate Pharma, Inc. (resignation on 12/30/16).

2.1 ADMINISTRATION, SUPERVISORY BOARDS AND GENERAL MANAGEMENT BODIES

First and last name, nationality age and professional address	Duration of Term	Position	Other Positions and Appointments held in any other company over the last five years
Gilles Brisson French Age 65 Innate Pharma 117, Avenue de Luminy 13009 Marseille	<u>First Appointment:</u> Ordinary General Meeting on 06/26/07 Renewed by the Ordinary General Meetings on 06/23/09, 06/29/11, 06/28/13 and 04/27/15. <u>Term expires:</u> 2017 Ordinary General Meeting to be held to vote on the accounts for the fiscal year ending on 12/31/16.	Member of the Supervisory board	<u>Mandates and positions in unlisted companies:</u> Chairman of Mutabilis holding SAS; Chairman of the Supervisory board of Ethypharm SA; Member of the Supervisory board of the Carso Group; Chairman of the Board of directors of Mauna Kea Technologies (listed company).
Patrick Langlois, French Age 71 PJI Conseils 6, Avenue Frederic Le Play 75007 Paris	<u>First Appointment:</u> Ordinary General Meeting on 05/25/10 Renewed by the Ordinary General Meetings on 06/23/09, 06/29/11, 06/28/13 and 04/27/15. <u>Term expires:</u> 2017 Ordinary General Meeting to be held to vote on the accounts for the fiscal year ending on 12/31/16.	Member of the Supervisory board	<u>Mandates in listed companies:</u> Stallergènes Greer PLC: Independent member of the Board of directors and member of the Compensation committee; Scynexis (US): Director and member of the Compensation and audit committees; Newron (Italy): Director, Chairman of the Audit committee and member of the Compensation committee; Sensorion SA (FR): Chairman of the board and Chairman of the compensation committee. <u>Terminated mandates:</u> Diaxonhit (France): Director and member of the Audit committee (not renewed in 2014); ONXEO SA: Chairman of the Board of Directors (not renewed in 2016).
Irina Staatz-Granzer German Age 56 Zielstattstrasse 44, D-81379, Munich, Germany	<u>First Appointment:</u> Ordinary General Meeting on 06/23/09 Renewed by the Ordinary General Meetings on 06/29/11, 06/28/13 and 04/27/15 <u>Term expires:</u> 2017 Ordinary General Meeting to be held to vote on the accounts for the fiscal year ending on 12/31/16.	Vice Chairman and member of the Supervisory board	<u>Positions in unlisted companies:</u> Staatz Business Development & Strategy, founder Blink Therapeutics Ltd: Chairman (2014); Blink Biomedicals SAS: Chairman (2015); PLCD (German Pharma Licensing Club): President. <u>Terminated position:</u> CEO of U3 Pharma AG

First and last name, nationality age and professional address	Duration of Term	Position	Other Positions and Appointments held in any other company over the last five years
Novo Nordisk A/S , represented by Karsten Munk Knudsen ⁽¹⁾ Danish Age 44 Novo Allé 2880 Bagsværd Denmark	<u>First Appointment:</u> Ordinary General Meeting on 06/26/07 Renewed by the Ordinary General Meetings on 06/23/09, 06/29/11, 06/28/13 and 04/27/15. <u>Term expires:</u> 2017 Ordinary General Meeting to be held to vote on the accounts for the fiscal year ending on 12/31/16.	Member of the Supervisory board	<u>None</u>
Michael A. Caligiuri American Age 61 OSU James Cancer Hospital, 300W. 10th Avenue, Suite 519, Columbus, OH43210	<u>First Appointment:</u> Ordinary General Meeting on 06/26/13 Renewed by the Ordinary General Meetings on 04/27/15. <u>Term expires:</u> 2017 Ordinary General Meeting to be held to vote on the accounts for the fiscal year ending on 12/31/16.	Member of the Supervisory board	<u>Other positions and mandates in unlisted Company:</u> Member of the Board of Directors of the American Association of Cancer Research (AACR); President of the National Cancer Policy Forum, of the National Institute of Medicine (USA) Member of the Management Committee of Pelotonia; President of the Society for Natural Immunity
Véronique Chabernaud French Age: 55 Innate Pharma 117, Avenue de Luminy 13009 Marseille	<u>First Appointment:</u> Ordinary General Meeting on April 04/27/15. <u>Term expires:</u> 2017 Ordinary General Meeting to be held to vote on the accounts for the fiscal year ending on 12/31/16.	Member of the Supervisory board	<u>Other positions and mandates held in unlisted Company:</u> Founder of the Company named «Créer la Vitalité»

(1) Non-independent members of the Supervisory board.

The members of the Supervisory board of Innate Pharma do not attend any other subsidiary of the Company.

Hervé Brailly, Ph.D., aged 55, is a co-founder and chaired the Executive committee from the time the Company was created in 1999 until it was converted into a *société anonyme* with an Executive board and a Supervisory board on June 13, 2005 and was Chairman of the Executive board until December 30, 2016. Previously, he was a researcher at Immunotech SA, a biotechnology start-up acquired in

1995 by Beckman-Coulter (1986–1994), and was in charge of marketing, business development and R&D at the same company (1994–1998). Beginning in 1998, Mr. Brailly was the director of a business unit of the company with 65 employees (R&D, marketing, manufacturing), with annual sales of 30 million U.S. dollars. He was the force behind the growth of the business activities in China for the

same company between 1994 and 1998. Hervé Brailly is also member of the executive committee and treasurer of the bio cluster EuroBioMed which groups companies in life sciences and technologies together in the French PACA region. Hervé Brailly graduated from the Ecole des Mines de Paris (1983) and a Doctor of Immunology, with a specialization in immuno-pharmacology.

Gilles Brisson, aged 65, HEC graduate, has fulfilled management positions at Rhône-Poulenc then Aventis, as Chairman of the Executive board, Chairman of the Supervisory board of Aventis Pharma SA, and then Europe Manager for Aventis Pharma. He had previously held an international career with Rhône-Poulenc Rorer and then Aventis, in the United States, in France and in Japan, with overall responsibilities especially as Senior Vice President Corporate Development of Rhône-Poulenc Rorer and Senior Vice President of Worldwide Communications and Public Affairs for Aventis.

Patrick Langlois, aged 71, joined the Rhône-Poulenc group in 1975 and was appointed in particular Financial Director of the Rhône-Poulenc group in 1997 and Financial Director and Executive Vice President of the Aventis group from 2002 to 2004. M. Patrick Langlois has been Managing Partner of PJJ Conseils since 2005 and is a Director of several biopharmaceutical companies.

Irina Staatz-Granzer, aged 56, Pharmacist, held several positions in the pharmaceutical industry, mostly in Business Development at Hermal, Boots Healthcare International, Knoll, Scil Biomedicals and as CEO (Scil Technology, U3 Pharma). She founded and is CEO of Staatz Business Development & Strategy and within this frame advises her international clients on collaborations, licensing agreements and M&A transactions.

Novo Nordisk A/S, represented by Karsten Munk Knudsen, aged 45. He holds a MSc. Finance from the University of Aarhus. He joined Novo Nordisk IT in 1999 to be responsible of the financial department. He then held various positions in the group, in particular in the United States. He is currently Senior Vice President Corporate Finance.

Michael A. Caligiuri, aged 61, is the CEO of The James Cancer Hospital and Director of the Comprehensive Cancer Center at The Ohio State University. He attended Stanford University Medical School and trained in Internal Medicine, Oncology, Bone Marrow Transplantation, and Immunology at Harvard's Brigham and Women's Hospital and The Dana

Farber Cancer Institute. Dr. Caligiuri is a leukemia physician and a laboratory scientist focused on innate immunity (natural killer cell biology) and genesis and treatment of leukemia. His laboratory is comprised of 30 people (postdoctoral students, research scientists, predoctoral students, technicians and undergraduate students) and is funded by the United States National Cancer Institute. Over 1500 patients have been accrued to clinical trials designed or co-designed by Dr. Caligiuri.

Véronique Chabernaud, aged 55, oncologist and ESSEC graduate, occupied for 20 years, both national and international top-ranked positions in the pharmaceutical industry. In particular, she occupied the positions of Director of the France oncological operational unit at Sanofi Aventis, Vice President Marketing Sales at Aventis Intercontinental and Europe, and Director of Oncology Global Medical Affairs at Rhône-Poulenc Rorer. She was also consultant with companies in the innovative technology sector with high impact on public health, both in France and abroad (Genomic Health, BioSystems International, MaunaKea Technologies, Ariana Pharma). In 2007, she founded her company Créer la Vitalité which helps companies and organisations in the development of a global health approach. Véronique Chabernaud also founded the association "Enfance et Vitalité" which offers "Health" workshops to children. She is also co-writer of "Human capital versus capital human".

Observer

The Fonds Stratégique d'Investissement (French sovereign fund) (known as Bpifrance Participations) was appointed by the General Meeting of shareholders on May 25, 2010, then renewed each year, as observer (legal person) permanently represented by a natural person. Bpifrance Participations is represented by Mr. Olivier Martinez.

Olivier Martinez, aged 46, Ph.D., MBA is Senior Investments Director of the Investments Biotech Department of the Direction of Innovation of Bpifrance. Previously, Mr. Martinez was Investments Director of CDC Entreprises (2010-2013) and Partner of Bioam Gestion (2000-2010). He is also a member of the Supervisory board of Adocia, Alizé Pharma, Fab Pharma, Genticeil, Poxel and Cerenis Therapeutics. Mr. Martinez graduated from the Ecole Normale Supérieure and holds a Ph.D. in cellular biology from Paris XI University and a MBA from the Collège des Ingénieurs.

2.1.1.3. Executive committee

As of the date of this Reference document, the seven members of the Executive committee including the three members of the Executive board are:

Name	Start date	Age	Main operation responsibilities
Mondher Mahjoubi	Since 2016	58	CEO, General management, General corporate policy and Human resources
Yannis Morel	Since 2011	43	Executive Vice-president, Business Development
Nicolai Wagtmann	Since 2014	53	Executive Vice-president, CSO
Jérôme Tiollier	Since 2001	57	Executive Vice-president, CDO, Operations
Marcel Rozencweig	Since 2010	71	Executive Vice-president, President of the subsidiary Innate Pharma, Inc. and consultant of Innate Pharma
Pierre Dodion	Since 2014	62	Executive Vice-president, CMO
Laure-Hélène Mercier	Since 2016	39	Executive Vice-president, CFO

There are no service contracts between members of the Executive committee and the Company or its subsidiaries, except for a consultancy agreement signed between Mr. Marcel Rozencweig and the Company.

Jérôme Tiollier, aged 57, joined the Company in September 2001. He is the Executive Vice-president in charge of operations. Dr. Tiollier graduated from the University of Lyon and holds a doctorate in cellular biology and immunology. He previously worked at IMEDEX SA, a division of Institut Mérieux (1986–1997). Before joining the Pasteur Mérieux's IMTIX Transplant business unit (acquired by Sangstat in 1998), he worked as Director of Preclinical development (1997–1999) and Director of Research and Development Europe (1999–2001). In the latter position, he managed pharmaceutical projects (including Thymoglobulin and Antilfa) and was involved in the company's medication research activities.

Marcel Rozencweig, aged 71, joined the Company in 2009 as consultant for Innate Pharma SA and President of its subsidiary Innate Pharma Inc.. Specialist in Internal Medicine, graduated from the Université Libre de Bruxelles, Belgium, he created and directed Bristol-Myers Squibb's clinical research group, which developed all new cancer-related products marketed by BMS between 1983 and 2001 (including carboplatin and le paclitaxel). Under his management, 17 registration files (for new molecules or additional indications) were successfully filed by Bristol-Myers Squibb in relation to cancer, AIDS and infectious diseases. Before joining the industry, Dr. Rozencweig pursued an academic career, and he is still Adjunct Associate Professor of Medicine at the University of New York. He set up and chaired several EORTC study groups,

dedicated to multinational therapeutic studies, in particular, the Early Clinical Trials Group (or clinical trial groups of new products). Marcel also launched the symposia cycle at the EORTC-NCI-AACR (first in Brussels in 1978).

Pierre Dodion, aged 62, joined the Company in 2014. He is a medical oncologist, with a specialization degree in Oncology from the Université Libre de Bruxelles, Belgium and a MBA degree from the Saint Joseph University of Philadelphia, PA. He is a senior executive with 27 years of experience in the pharmaceutical industry having worked at Pfizer, Novartis and Aventis (named now Sanofi). In 2007, he joined ARIAD Pharmaceuticals (Nasdaq: ARIA), first as Senior Vice President and Chief Medical Officer, then as Senior Vice President Corporate Development and Operations.

Laure-Hélène Mercier, aged 39, joined the Company in 2007 and was appointed Chief Financial Officer on December 30, 2016. Prior to her current position, Laure-Hélène Mercier served as Executive Vice President in charge of Finance since October 2016 and was previously Director of Investor Relations. Prior to joining the Company, Ms. Mercier held positions as an equity analyst at Oddo Securities and Natexis Bleichroeder. She has a MSc in Neurosciences from Université Aix-Marseille and a MBA from ESSEC Business School.

2.1.1.4. Statement on the Executive board, Supervisory board and general management bodies

To the best of the Company's knowledge and as of the date of this Reference document, there are no family ties between the members of the Executive board, Supervisory board and Executive committee. Likewise, to the best of the Company's knowledge and as of date of this Reference document, there are no arrangements or agreements signed with the main shareholders, customers, suppliers or others, except as set out in the present Reference document.

Furthermore, to the best of the Company's knowledge and as of the date of this Reference document, no members of the Executive board, Supervisory board or Executive committee have been:

- found guilty of fraud during at least the last five years;

- declared bankrupt, in receivership or liquidation, in a capacity as executive director or company officer, during at least the last five years; or
- the subject of an official public reprimand or sanction issued by statutory or regulatory authorities during at least the last five years.

Finally, to the best of the Company's knowledge and as of the date of this Reference document, no member of the Executive board, Supervisory board, or Executive committee has been prohibited by a court from acting as a member of a management, administration or supervisory body of an issuer or being involved in the management or running the affairs of an issuer during at least the last five years.

2.1.2. Conflicts of interest in the Executive board, Supervisory board and general management bodies

At the date of this Reference document, and to the best of the Company's knowledge, there is no actual or potential conflict between the private interests of the members of the Executive board and Supervisory board and the Company's interests.

Furthermore, on this same date, the Company is not informed of any actual or potential conflict between the private interests of the members of the Executive committee who are not also members of the Executive board and the Company's interest.

2.1.3. Scientific Advisory Board

As stated in the Report of the Chairman of the Supervisory board attached in section 2.4 of the present Reference document, the Company also has a Scientific Advisory Board, composed in 2016 of five external consultants to the Company. As a reminder, this Scientific Advisory Board is not a Supervisory board committee within the meaning of Article R. 225-29 of the French Commercial Code. Its

members are selected by the Executive board, this is not an administration body of the Company.

At the date of this present Reference document, the members of the Scientific Advisory Board are as follows:

Name	Relations with the Company	Member of the Scientific Advisory Board since
Bernard Malissen	Consultant	2000
David Raulet	Consultant	2000
Philip Greenberg	Consultant	2000
Ronald Levy	Consultant	2013
François Romagné	Consultant	2014

Bernard Malissen is the Chairman of the Company's Scientific Advisory Board. Bernard Malissen is an immunologist who has devoted most of his working life to antigen recognition and the activation of T cells, as well as to the genetics of the T receptor. He is one of the pioneers in the field of molecular immunology in Europe. Bernard Malissen is member of the Science Academy of the Institut de France and has received the CNRS silver medal for his contributions, as well as numerous international distinctions.

David Raulet is a specialist in cell and molecular immunology. In that capacity, he has made significant contributions to the advancement of knowledge on $\gamma\delta$ T lymphocytes and NK cells. His most recent work is related to stimulator and inhibitor receptors activated by NK cells to detect tumor cells, and the molecules corresponding to these receptors. Mr. Raulet was the head of the immunology department at the University of California at

Berkeley and teaches immunology in the Department of Cell and Molecular Biology. He received the Choh Hao Li prize in 1999 and the William B. Coley prize for immunology in 2002 in recognition of his accomplishments and in 2015 he received the Schekman Chair for its contributions. Before going to Berkeley in 1991, he was an assistant and associate professor at MIT.

Philip Greenberg is a professor of medicine and immunology at the University of Washington and heads the immunology department at the Fred Hutchinson Cancer Research Center in Seattle. Philip Greenberg's laboratory focuses on studying anti-tumor T cell response and developing new cell and molecular approaches for immune intervention in oncology. He is one of the pioneers in adoptive cell immunotherapy.

Ron Levy is a professor of medicine and Leader of the Lymphoma Program at Stanford School of Medicine.

Previously, he was Chief of the Division of Oncology at Stanford School of Medicine for 20 years. His research is focused on the study of lymphomas and tumors of the immune system. He has helped to develop and test the first antibody against cancer that was approved by the US Food and Drug Administration (FDA) for the treatment of lymphomas. He was elected to the National Academy of Sciences in 2008.

François Romagné is an Engineering graduate of the Institut National Agronomique Paris Grignon, a Doctor (Ph.D.) of Immunology, a co-founder of Innate Pharma, and has been its Scientific Director since 1999. Mr. Romagné has devoted his entire career to translational research in immunology in the areas of T cell immunology and innate immunity, having authored 60 publications and been named as inventor on 10 patents. Mr. Romagné spent the

first 14 years of his career at the biotechnology company Immunotech, where he held various positions in research and development while control of Immunotech changed hands (Coulter, then Beckman Coulter). At the time he held his last position at Immunotech/Beckman Coulter as the R&D manager of a business unit, he was also the coordinator of a wide European network to develop a new technology for tracking specific antigen T cells (Tetramere Technology). His scientific work at Immunotech gave him the opportunity to establish the long-term working relationships with the other scientific founders of Innate Pharma, which finally led to the creation of Innate Pharma. In January 2014, François Romagné assumed the lead of the new immuno-technology platform MI-mAbs at Aix-Marseille University, which Innate Pharma co-founded, as industrial sponsor.

2.1.4. Governance committees of the Supervisory board

As stated in the Report of the Chairman of the Supervisory board attached in 2.4 of the present Reference document, the Company also has an Audit committee, a Compensation and nomination committee and a

Transaction committee. The composition, operation and governance of these committees are described in paragraph 2.4.2.4 of the Report by the Chairman of the Supervisory board.

2.2. COMPENSATION AND BENEFITS OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD MEMBERS

2.2.1. Principles and criteria of determination, allocation and attribution of the compensation (“*ex ante*” vote)

In accordance with “Sapin II” Law 2016-1691 dated 12/09/16, which established an “*ex ante*” mandatory vote, the general principles of the compensation policy for the 2017 fiscal year will be presented into a Compensation report, which will be issued and published on the Internet website of the Company during the second quarter of 2017.

Under the provisions of Article L. 225-82-2 of the French Code of commerce and Article R. 225-29-1 of the French Code of commerce, created by Article 4 of the 2017-340 Decree dated March 16, 2017, such report on the principles and criteria of determination, allocation and attribution of

the fixed, variable and exceptional components of the total compensation and the benefits of the Executive board and Supervisory board members, will also be attached to the Management report issued in accordance with Articles L. 225-100 *et seq.* of the French Code of Commerce.

This principles and criteria presented under the Compensation report will be submitted to the shareholders’ approval at the next General Meeting, on June 23, 2017, deciding on the 2016 fiscal year’s financial statements and can only be implemented after having received the favorable vote on the simple majority of the shareholders present or represented.

2.2.2. Compensation of the Executive board members in 2016 (“*ex post*” consultative vote)

This section shows the compensation of the Executive board members in function during the 2016 fiscal year (*i.e.* Mr. Brailly, Wagtman and Morel).

2.2.2.1. Equity instruments definitions

AGA Management	Mean the free shares granted by the Executive board to the members of the Executive board and the Executive committee, which distribution has been authorized by the General Meeting of June 2, 2016 within its 21 st resolution, with a fixed acquisition period of three years subject to presence condition.
AGAP Management	Mean the free preferred shares convertible into ordinary shares granted by the Executive board to the members of the Executive board, which distribution has been authorized by the General Meeting of June 2, 2016 within its 24th resolution. Each AGAP Management may be converted into a maximum of 200 ordinary shares by application of a conversion ratio depending on multiple years criteria defined by the General Meeting of June 2, 2016. The AGAP Management are subject to a fixed acquisition period of one year and a retention period of two years. Performance criteria will be evaluated over such three-year period.
AGA Employees	Mean the free shares granted by the Executive board to the employees, which distribution has been authorized by the General Meeting of June 2, 2016 within its 22 nd resolution, with a fixed acquisition period of one year and a retention period of two years.
AGAP Employees	Mean the free preferred shares convertible into ordinary shares granted by the Executive board to the employees, which distribution has been authorized by the General Meeting of June 2, 2016 within its 25th resolution. Each AGAP Employee may be converted into a maximum of 200 ordinary shares by application of a conversion ratio depending on multiple years criteria defined by the General Meeting of June 2, 2016. The AGAP employees are subject to a fixed acquisition period of one year and a retention period of two years. Performance criteria will be evaluated over such three-year period.
BSA	Mean the warrants giving the right to subscribe new shares.
BSAAR	Mean the redeemable equity warrants or BSAAR, which are securities whose subscription price and exercise price are fixed at their fair value as determined by an expert. The BSAAR subscription therefore represents an investment on the part of the beneficiary. At the end of the exercise period, if they have not been exercised, the BSAAR becomes void. The Company benefits from a clause called «forcing» making it possible to encourage holders to exercise their redeemable equity warrants when the market price exceeds the exercise price and reaches a threshold defined in the BSAAR issuance agreement. The Company may, then, subject to a time period for notifying holders that will permit them to exercise the BSAAR, decide to reimburse the warrants not exercised at a unit price equal to the BSAAR acquisition price paid by its holder.

2.2.2.2. Components of the compensation granted to the Executive board members during the 2016 fiscal year

2.2.2.2.1. Fixed compensation

The compensations mentioned in the table below summarize the wages paid in 2016 to the Executive board members under their employment contract or to the fees paid to them under their consultancy agreement.

	2015	2016
Hervé Brailly, Chairman until December 30, 2016	260,000	300,000
Variation	+13.0%	+15.4%
Yannis Morel, Member of the Executive board	141,000	165,000
Variation	+23.7%	+17.0%

Nicolai Wagtmann, Member of the Executive board	161,928	170,964
Variation	0%	+5.6%
Catherine Moukheibir, Member of the Executive board until December 30, 2016	320,000	288,000
Variation	+20.5%	-10.0%

The decision to increase the fixed compensation of the salaried Executive board members is motivated by the desire to be in step with French and European biotechnology market practices and accordingly attract and retain talents. The compensation of the salaried Executive board members is in the lower range of the compensation granted in similar companies in the biotechnology area in France and in Europe.

Mrs. Catherine Moukheibir, member of the Executive board bound to the Company by a consultancy agreement,

resigned from her mandate as Executive board member on December 14, 2016, with effect on December 30, 2016. During the 2016 fiscal year, she was bound to the Company by a consultancy agreement and wasn't eligible to any compensation linked to annual performance. Mrs. Moukheibir is still bound to the Company through her consultancy agreement, which provisions have been modified to take into consideration the willing of the Company to use the services of Mrs. Moukheibir occasionally until June 30, 2017.

2.2.2.2.2. Annual variable compensation paid in cash

The table below shows the maximum of the fixed compensation that represents the annual variable compensation in cash (on the basis of a 100% achievement) for 2016.

Executive board members with employment contract	2016
Hervé Brailly, Chairman of the Executive board	40%
Nicolai Wagtmann, Executive board member	30%
Yannis Morel, Executive board member	30%

In 2016, the collective objectives defined by the Supervisory board upon recommendation of the Compensation and nomination committee at the beginning of the year, included 60% for the objectives tied to progress and success of the programs and 40% for the corporate objectives.

For the Executive board members, the Supervisory board, upon recommendation of the Compensation and nomination committee, has fixed individual objectives, which embraced the collective objectives with a specific weight for each member of the Executive board.

The tables below show, for each member of the Executive board, the individual objectives, which have been assigned to them by the Supervisory board, their respective weight and their level of achievement:

- Hervé Brailly

Individual performance criteria for Hervé Brailly (40%) of variable annual compensation)

R&D (40%)

Management and progress of clinical programs (e.g. enrollment in the clinical trials, regulatory approvals, partnerships' management)	30%	>30%
Progress of preclinical programs (preM0 to M1)	10%	>10%

2.2 COMPENSATION AND BENEFITS OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD MEMBERS

Corporate (60%)		
Corporate development activity	20%	20%
IR activity	15%	15%
Implementation of recruitment plan	25%	25%
Total	100%	>100%

- Yannis Morel

Individual performance criteria of Yannis Morel (30% of annual variable performance)	Individual weighting	Achievement
R&D (50%)		
Management and progress of clinical programs (e.g. enrollment in the clinical trials, regulatory approvals, partnerships' management)	40%	>40%
Progress of preclinical programs (preM0 to M1)	10%	>10%
Corporate (50%)		
Corporate development activity	50%	40%
IR activity	/	/
Implementation of recruitment plan	/	/
Budget and cash target	/	/
Total	100%	>100%

- Nicolai Wagtmann

Individual performance criteria of Nicolai Wagtmann (30% of annual variable compensation)	Individual weighting	Achievement
R&D (70%)		
Management and progress of clinical programs (e.g. enrollment in the clinical trials, regulatory approvals, partnerships' management)	40%	>40%
Progress of preclinical programs (preM0 to M1)	30%	>30%
Corporate (30%)		
Corporate development activity	10%	10%
IR activity	/	/
Implementation of recruitment plan	10%	10%
Budget and cash target	10%	10%
Total	100%	>100%

The individual performance criteria, as shown in the tables above, are divided into subcriteria with an achievement percentage for each member of the Executive board. For

confidentiality and strategic purposes, such subcriteria cannot be disclosed.

In 2016, several subcriteria were overachieved with respect to the achievement criteria:

- Clinical subcriteria with a major expansion of trial for the combination of lirilumab and nivolumab and a recruitment beyond the objectives determined for IPH4102; and
- Clinical subcriteria with a number of new preclinical projects and achievement of predetermined milestones higher than the target.

To reflect the objectives' overachievement and the Company's success in 2016, and notably the milestones achieved, which helped the Company to become more mature and to begin its transition to the next development

stages, the Compensation and nomination committee, after having assessed the percentage of achievement of such criteria and subcriteria, has noticed that each member of the Executive board had overachieved several criteria. The Compensation and nomination committee therefore recommended to the Supervisory board to pay an annual variable compensation in cash corresponding to 115% of achievement of the target amount fixed at the beginning of the year. The Supervisory board followed the recommendation of the Compensation and nomination committee. It is to be noted that for the collective objectives of the employees (other than the Executive board members), the overachievement was fixed to 130%.

The table below shows the amount of the annual variable compensation paid to each member of the Executive board for the 2016 fiscal year following such decisions:

Amounts to be paid to the members of the Executive board under the compensation relating to annual performance	Fixed compensation (€)	% of variable on the fixed compensation	% of achievement of the performance criteria for the calcul of the variable compensation	Variable 2016 (€)
Hervé Brailly	280,000	40%	115%	128,800
Yannis Morel	165,000	30%	115%	56,925
Nicolai Wagtmann	170,964	30%	115%	58,650

2.2.2.2.3. Long-term incentive – Distribution of free preferred shares

Following the decision of the Supervisory board dated December 14, 2016, adopted upon recommendation of the Compensation and nomination committee, the Supervisory board, on October 21, 2016, used the delegation granted

by the 24th resolution of the General Meeting held on June 2, 2016 to grant 1,400 AGAP Management to the three Executive board members.

The table below shows such distribution:

Executive board members	Number of AGAP Management distributed	% of maximum dilution ⁽¹⁾
Hervé Brailly	500	0.19%
Yannis Morel	450	0.17%
Nicolai Wagtmann	450	0.17%

(1) On the basis of the number of shares of the non-diluted share capital on the date of attribution by the Executive board and assuming that the AGAP Management have been fully converted (1 AGAP = 200 ordinary shares)

- Valuation of the AGAP Management distributed on October 21, 2016

On the date of their distribution on October 21, 2016 to Hervé Brailly, Yannis Morel and Nicolai Wagtmann, the AGAP Management were valued at €836 per AGAP by an independent auditor.

On December 31, 2016, such AGAP Management distributed on October 21, 2016 were valued at €911 to take into account the variation deriving from internal criteria.

2.2 COMPENSATION AND BENEFITS OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD MEMBERS

- Valuation of the AGAP Management distributed on December 30, 2016

On the date of their distribution on December 30, 2016 to Mondher Mahjoubi (see the Compensation report and Table 6-1 of the Reference document), the AGAP Management were valued at €956 per AGAP by an independent auditor.

On December 31, 2016, the valuation of the AGAP Management distributed on December 30, 2016 was still €956.

The number of AGAP distributed to each member of the Executive board was decided according to their experience and their level of liability.

2.2.2.2.4. Exceptional distribution of free shares for recruitments

At the time of his recruitment, Mondher Mahjoubi benefited from the following exceptional attributions of AGA Management and AGAP Management on December 30, 2016:

- 250,000 AGA Management, and
- 3,000 AGAP Management (representing 1.11% of maximum dilution, calculated on the same basis than above).

2.2.2.2.5. Summary of the equity instruments owned by the Executive board members

The table below summarizes the share equivalents of the equity instruments owned by the members of the Executive board on the date of this Reference document:

Executive board members	AGAP Management ⁽²⁾		(number of shares in case of maximum conversion)	AGA Management ⁽²⁾	TOTAL	% of maximum dilution ⁽¹⁾
	BSAAR	BSA				
Mondher Mahjoubi	–	–	600,000	250,000	850,000	1.57%
Yannis Morel	88,000	–	90,000	–	178,000	0.33%
Nicolai Wagtmann	68,500	–	90,000	–	158,500	0.29%
Total	156,500	–	780,000	250,000	1,186,500	2.20%

(1) On the basis of the number of shares comprising the undiluted share capital on the date of this Reference document and assuming that the AGAP have been fully converted (1 AGAP = 200 ordinary shares)

(2) Non definitely acquired by the beneficiaries at the date of this Reference document

2.2.2.2.6. Exceptional compensation of Mr. Hervé Brailly

On December 14, 2016, as part of the Company's change of management, the Supervisory board, upon recommendation of the Compensation and nomination committee, approved the payment of an exceptional discretionary compensation amounting to €300,000 (gross amount) to Mr. Hervé Brailly, as founder of the Company since 1999 and Chairman of the Executive board since 2005. Such compensation comes to reward the 17 years of

effort of Mr. Brailly, who has been able to make Innate Pharma becoming one of the world's leader in immune oncology and one of the French biotechnology success. Such compensation results from a discretionary and unilateral decision of the Supervisory board and cannot be regarded as an amount due under a commitment under Article L. 225-90-1 of the French code of commerce.

2.2.2.2.7. Other components to be noted under the compensation of the Executive board members in 2016

- Consultancy agreement with Mrs. Moukheibir

Mrs. Catherine Moukheibir, Executive board member until December 30, 2016, was bound to the Company since 2011 by a consultancy agreement that made changing the volume of her work flexibly possible, depending on the Company's needs and enabled the Company to have a high

level consultant available with work volume and financial expense adapted to its needs.

This consultancy agreement was entered into force for a 2-year term and was amended on April 30, 2011 and renewed twice on March 4, 2013 and then on March 6, 2015.

Under the resignation of Mrs. Catherine Moukheibir from her functions as member of the Executive board on December 30, 2016, the consultancy agreement as renewed on March 6, 2015 was amended on December 14, 2016 with effect on December 30, 2016 for a six-month

period (*i.e.* until June 30, 2017). The amendment of December 14, 2016 allows the Company to request, occasionally, the services of Mrs. Moukheibir and therefore to switch from a fixed number of days to *ad hoc* services, upon request of the Company.

2.2.2.3. Consultation of shareholders concerning the elements of compensation of the Executive board members

In accordance with the recommendations of the AFEP/MEDEF code (French corporate governance code for publicly traded companies) revised in November 2016 (Article 26.1 of the AFEP/MEDEF code), with which Company complies in accordance with Article L.225-37 of the French Commercial Code, the following information on the elements of compensation due or paid for the 2016 fiscal year to each Executive Company officers must be submitted to the shareholders' opinion.

Consequently, it will be proposed at the next General Meeting approving the financial statements of the fiscal year ended December 31, 2016 that an opinion be given on the elements of compensation due or paid for the 2016 fiscal year to Mr. Hervé Brailly, Chairman of the Executive board and Mr. Nicolai Wagtmann, Ms. Catherine Moukheibir and Mr. Yannis Morel, members of the Executive board.

2.2 COMPENSATION AND BENEFITS OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD MEMBERS

Elements of the compensation due or paid for the fiscal year ended on December 31, 2016 to Mr. Hervé Brailly, Chairman of the Executive board, submitted for the opinion of the shareholders

Elements of compensation	Amounts	Commentaries
Fixed remuneration	280,000	Gross compensation of 280,000 euros for the 2016 fiscal year approved by the Supervisory board meeting on February 17, 2016 on the proposal of the Compensation and nomination Committee. Changes in fixed compensation are presented on section 2.2.2.2.1 of this document. This compensation corresponds only to the salary paid to Mr. Brailly under the terms of his employment contract.
Annual variable compensation	128,800	On the recommendation of the Compensation and nomination Committee meeting on December 13, 2016, Mr Brailly's variable remuneration is 128,800 euros, corresponding to achievement of 115% of the 2016 performance criteria. The criteria and their level of achievement are described in paragraph 2.2.2.2.2
Exceptional compensation	300,000	Upon recommendation of the Compensation and nomination committee meeting of December 13, 2016, the Supervisory board meeting of December 14, 2016 granted to Mr Brailly an exceptional compensation (see 2.2.2.2.6 of this Reference document).
Variable long-term compensation	89,852 ⁽¹⁾	Mr. Brailly benefited from being awarded 500 AGAP by the Executive board meeting of October 21, 2016 upon authorization by the General Meeting of June 2, 2016 (24th resolution). By way of information, it is stated that as of December 31, 2016 Mr. Brailly also held: 200,000 BSAAR 2011 and 150,000 BSAAR 2015.
Attendance fees	N/A	Like all members of the Executive board, Mr. Brailly does not receive attendance fees.
Value of all types of benefits	13,009	Mr. Brailly receives a management vehicle and a supplementary pension plan "Article 83".
Severance pay	N/A	Mr. Brailly does not receive any severance pay.
Non-competition indemnity	N/A	Mr. Brailly does not receive any non-competition indemnity.
Collective pension plan with defined contributions (components took into account to determine the global compensation)	3,635	Mr. Brailly has an "Article 83" pension contract with AG2R La Mondiale, at a contribution rate of 2% of his gross salary, of which 1.20% is paid by the Company.

(1) On 12/31/16, the AGAP were valued at €911 per AGAP (see section 2.2.2.2.3 of the Reference document)

Elements of the remuneration due or paid for the fiscal year ending on December 31, 2016 to Ms. Catherine Moukheibir, member of the Executive board, submitted for the opinion of the shareholders

Elements of compensation	Amounts	Commentaries
Fixed compensation	280,000	The continuation of the contract including compensation awarded to Ms. Moukheibir was approved by the Supervisory board meeting on March 6, 2015. An amendment to the Consultancy Agreement approved by the Supervisory board meeting of December 14, 2016 was signed to change the conditions of intervention and the contractual period following the resignation of Mrs. Moukheibir from its functions as member of the Executive board. The changes in fixed compensation are presented in paragraph 2.2.2.2.1 of this Reference document. This compensation corresponds only to the fees paid to Ms. Moukheibir under the terms of her consultancy agreement.
Annual variable compensation	N/A	Ms. Moukheibir does not receive any annual variable compensation.
Exceptional compensation	N/A	Ms. Moukheibir does not receive any exceptional compensation.
Long-term compensation elements	0	Mrs. Moukheibir did not benefit from any variable long-term compensation in 2016. For information purposes, Ms. Moukheibir held the following as at December 31, 2016: 50,000 BSA 2013, 75,000 BSA 2014 and 40,000 BSAAR 2015.
Attendance fees	N/A	Like all members of the Executive board, Ms. Moukheibir does not receive attendance fees.
Value of all types of benefits	N/A	Ms. Moukheibir does not benefit from any benefit in-kind.
Severance pay	N/A	Ms. Moukheibir does not receive any severance pay.
Non-competition indemnity	N/A	Ms. Moukheibir does not receive any non-competition indemnity.
Collective pension plan with defined contributions (components took into account to determine the global compensation)	N/A	Ms. Moukheibir does not have any supplementary pension plan.

2.2 COMPENSATION AND BENEFITS OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD MEMBERS

Elements of compensation due or paid for the fiscal year ending on December 31, 2016 to Mr. Nicolai Wagtmann, member of the Executive board, submitted for the opinion of the shareholders

Elements of compensation	Amounts	Commentaries
Fixed compensation	170,964	Gross compensation of 170,964 for the 2016 fiscal year approved by the Supervisory board meeting on February 17, 2016 on the proposal of the Compensation and Nomination Committee. Changes in fixed compensation are presented in paragraph 2.2.2.2.1 of this Reference document. This compensation corresponds only to the salary paid to Mr. Wagtmann under the terms of his employment contract.
Annual variable compensation	58,650	On the recommendation of the Compensation and nomination committee meeting on December 13, 2016 the annual variable remuneration of Mr. Wagtmann is 58,650 euros, corresponding to achievement of 115% of the 2016 performance criteria. The criteria and their level of achievement are described in paragraph 2.2.2.2.2 of this Reference document.
Allowance	16,158	School fee allowance amounting to 16,158 euros.
Exceptional compensation	–	Mr. Wagtmann does not receive any exceptional compensation.
Variable long-term compensation	80,867 ⁽¹⁾	Mr. Wagtmann was granted 450 AGAP Management by the Executive board meeting of October 21, 2016 upon authorization of the General Meeting of June 2, 2016 (26th resolution) For information purposes, M; Wagtmann held the following as at December 31, 2016: 68,500 BSAAR 2015.
Attendance fees	N/A	Mr. Wagtmann receives a management vehicle and benefited from a supplementary pension plan “Article 83”.
Value of all types of benefits	4,841	Mr. Wagtmann does not receive any severance pay.
Severance pay	N/A	Mr. Wagtmann does not receive any non-competition indemnity.
Non-competition indemnity	N/A	Mr. Wagtmann has an “Article 83” Retirement Plan with AG2R La Mondiale, at a contribution rate of 2% of his gross salary, of which 1.20% is paid by the Company.
Collective pension plan with defined contributions (components took into account to determine the global compensation)	2,121	

(1) On 12/31/16, the AGAP were valued at €911 per AGAP (see section 2.2.2.2.3 of the Reference document)

Elements of the compensation due or paid for the fiscal year ending on December 31, 2016 to Mr. Yannis Morel, member of the Executive board, submitted for the opinion of the shareholders

Elements of compensation	Amounts	Commentaries
Fixed compensation	165,000	Gross compensation of 165,000 for the 2016 fiscal year approved by the Supervisory board meeting on February 17, 2016 on the proposal of the Compensation and Nomination Committee. Changes in fixed compensation are presented in paragraph 2.2.2.2.1 of this Reference document. This compensation corresponds only to the salary paid to Mr. Morel under the terms of his employment contract.
Annual variable compensation	56,925	On the recommendation of the Compensation and nomination committee on December 13, 2016 the annual variable compensation of Mr. Morel is 56,925 euros corresponding to the achievement of 115% of the 2016 performance criteria. The criteria and their level of achievement are described in paragraph 2.2.2.2. of this Reference document.
Exceptional compensation	–	Mr. Morel does not receive any exceptional compensation.
Variable long-term compensation	80,867 ⁽¹⁾	Mr. Morel was granted 450 AGAP Management by the Executive board meeting of October 21, 2016 upon authorization of the General Meeting of June 2, 2016 (24 th resolution)
Attendance fees	N/A	Like all members of the Executive board, Mr. Morel does not receive attendance fees.
Value of all types of benefits	3,982	Mr. Morel received a management vehicle and benefited from a supplementary pension plan “Article 83”.
Severance pay	N/A	Mr. Morel does not receive any severance pay.
Non-competition indemnity	N/A	Mr. Morel does not receive any non-competition indemnity.
Collective pension plan with defined contributions (components took into account to determine the global compensation)	2,032	Mr. Morel has an “Article 83” Retirement Plan with AG2R La Mondiale, at a contribution rate of 2% of his gross salary, of which 1.20% is paid by the Company.

(1) On 12/31/16, the AGAP were valued at €911 per AGAP (see section 2.2.2.2.3 of the Reference document)

2.2.3. Compensation of the Supervisory board members for 2016

2.2.3.1. Attendance fees

The Annual General Meeting of June 2, 2016 voted a total amount of 200,000 euros in attendance fees. This amount is distributed among the members of the Supervisory board

according to a calculation, which depends on their rate of attendance at meetings and their responsibility in committees.

The table below shows the attendance rate of the Supervisory board members during the 2016 fiscal year:

	Supervisory board	Audit committee	Compensation and nomination committee	Transaction committee	% of attendance
Gilles Brisson	100% (8/8)	100% (5/5)	100% (6/6)	–	100%
Philippe Pouletty	88% (7/8)	–	83% (5/6)	–	86%
Patrick Langlois	75% (6/8)	100% (5/5)	100% (6/6)	–	92%
Irina Staatz-Granzer	100% (8/8)	100% (5/5)	–	–	100%
Michael A. Caligiuri	100% (8/8)	–	–	–	100%
Véronique Chabernaud	100% (8/8)	–	83% (5/6)	–	92%
Novo Nordisk A/S	88% (7/8)	–	–	–	88%

On the basis of such elements and the allocation grid applicable during the 2016 fiscal year (before its change following the appointment of Hervé Brailly as Chairman of the Supervisory board – see paragraph 2.2.3.1 above), the Company paid attendance fees to the members of the Supervisory board in 2016 amounting to €199,990, allocated as follows:

Amount of the attendance fees paid	
Gilles Brisson	47,113 euros
Philippe Pouletty	35,335 euros
Patrick Langlois	38,700 euros
Irina Staatz-Granzer	27,643 euros
Michael A. Caligiuri	23,076 euros
Véronique Chabernaud	28,123 euros

2.2.3.2. Warrants (bons de souscription d'actions)

The independent members of the Supervisory board received, in the past, some BSA. No BSA was granted during the 2016 fiscal year.

The table below summarizes the share equivalents of the equity instruments held by the members of the Supervisory board on December 29, 2016:

Members of the Supervisory board	BSA circulating	% dilution ⁽¹⁾
Gilles Brisson	40,000	0.07%
Philippe Pouletty	10,000	0.02%
Irina Staatz-Granzer	35,000	0.07%
Patrick Langlois	–	–
Novo Nordisk A/S	–	–

Members of the Supervisory board	BSA circulating	% dilution ⁽¹⁾
Michael Caligiuri	25,000	0.05%
Véronique Chabernaud	14,200	0.03%
TOTAL	124,200	0.23%

(1) based on the number of shares comprising the undiluted share capital at the date of this Reference document.

2.2.4. Summary of the compensation according to AMF n°2009-16 recommendation: compensation, benefits, options and free shares given to members of the Executive board, Supervisory board and general management bodies

The following tables are resulting from the AMF recommendation No. 2009-16 of December 20th, 2010 and updated on April 13th, 2015 on the guidelines for the elaboration of the reference document.

The following table (Table 1) summarizes the compensation, options and ordinary shares allocated to each member of the Executive board for the last two fiscal years:

Table 1	Summary table of compensation, options and shares allocated to each member of the Executive board ⁽²⁾	
	2016	2015
Hervé Brailly , Chairman of the Executive board		
Compensation for the fiscal year (see details in Table 2)	721,809	459,766
Valuation of variable long-term compensation allocated during the fiscal year	89,852 ⁽¹⁾	–
Valuation of options allocated during the fiscal year		
Valuation of free shares allocated during the fiscal year (see details in Tables 6 and 6-1) – Excluding additional social security charges	–	–
Total	811,661	459,766
Nicolai Wagtmann , Member of the Executive board since December 12, 2013		
Compensation for the fiscal year (see details in Table 2)	250,613	281,264
Valuation of variable long-term compensation allocated during the fiscal year	80,867 ⁽¹⁾	–
Valuation of options allocated during the fiscal year		
Valuation of free shares allocated during the fiscal year (see details in Tables 6 and 6-1) – Excluding additional social security charges	–	–
Total	331,480	281,264
Yannis Morel , Member of the Executive board since December 12, 2015		
Compensation for the fiscal year (see details in Table 2)	225,907	242,696
Valuation of variable long-term compensation allocated during the fiscal year	80,867 ⁽¹⁾	–
Valuation of options allocated during the fiscal year		
Valuation of free shares allocated during the fiscal year (see details in Tables 6 and 6-1) – Excluding additional social security charges	–	–
Total	306,774	242,696

Table 1	Summary table of compensation, options and shares allocated to each member of the Executive board ⁽²⁾	
	2016	2015
Catherine Moukheibir , Member of the Executive board		
Compensation for the fiscal year (see details in Table 2)	280,000	320,000
Valuation of variable long-term compensation allocated during the fiscal year	-	-
Valuation of options allocated during the fiscal year		
Valuation of free shares allocated during the fiscal year (see details in Tables 6 and 6-1) – Excluding additional social security charges	-	-
Total	280,000	320,000

(1) On 12/31/16, the AGAP were valued at €911 per AGAP (see section 2.2.2.2.3 of the Reference document)

(2) The reported amount corresponds to the accounting expense recorded in the consolidated accounts in accordance with the IFRS 2 standard.

To the best of the Company's knowledge, no hedging instrument has been set up by the corporate officers at the date of this Reference document.

The following table (Table 2) summarizes the compensation allocated to each member of the Executive board for the last two fiscal years:

Table 2	Compensation allocated to each member of the Executive board			
	2016		2015	
	Due for the fiscal year	Paid during the fiscal year	Due for the fiscal year	Paid during the fiscal year
Hervé Brailly , Chairman of the Executive board				
Fixed compensation	280,000	280,000	260,000	260,000
Variable compensation	128,800	104,000	104,000	105,133
Exceptional compensation	300,000	60,000	83,197	23,197
Variable compensation over several years	89,852 ⁽¹⁾	0 ⁽¹⁾	0 ⁽¹⁾	0 ⁽¹⁾
Attendance fees	-	-	-	-
Other compensation items ⁽²⁾	13,009	13,009	12,569	12,569
Total	811,661	457,009	459,766	400,899
Nicolai Wagtmann , Member of the Executive board				
Fixed compensation	170,964	170,964	161,928	161,928
Variable compensation	58,650	44,000	44,000	39,441
Exceptional compensation	-	30,000	44,277	14,277
Variable compensation over several years	80,867 ⁽¹⁾	0 ⁽¹⁾	0 ⁽¹⁾	0 ⁽¹⁾
School fee allowance	16,158	16,158	26,932	26,932
Attendance fees	-	-	-	-
Other compensation items ⁽²⁾	4,841	4,841	4,127	4,127
Total	331,480	265,963	281,264	246,702

Table 2

Compensation allocated to each member of the Executive board

	2016		2015	
	Due for the fiscal year	Paid during the fiscal year	Due for the fiscal year	Paid during the fiscal year
Yannis Morel, Member of the Executive board				
Fixed compensation	165,000	165,000	141,000	141,000
Variable compensation	56,925	36,000	36,000	28,050
Exceptional compensation	–	50,000	62,580	12,580
Variable compensation over several years	80,867 ⁽¹⁾	0 ⁽¹⁾	0 ⁽¹⁾	0 ⁽¹⁾
Attendance fees	–	–	–	–
Other compensation items ⁽²⁾	3,982	3,982	3,116	3,116
Total	306,774	254,982	242,696	184,746

Catherine Moukheibir, Member of the Executive board

Fixed compensation	280,000	264,004	320,000	287,669
Variable compensation	–	–	–	–
Exceptional compensation	–	–	–	–
Variable compensation over several years	0 ⁽¹⁾	0 ⁽¹⁾	0 ⁽¹⁾	0 ⁽¹⁾
Attendance fees	–	–	–	–
Other compensation items ⁽²⁾	–	–	–	–
Total	280,000	264,004	320,000	287,669

(1) Messrs. Brailly, Wagtmann and Morel have respectively been granted in 2016, 500, 450 and 450 AGAP Management giving them right to a maximum of, respectively, 100,000, 90,000 and 90,000 ordinary shares (see paragraph 2.2.2.1). On 12/31/16, the AGAP were valued at €911 per AGAP (see section 2.2.2.2.3 of the Reference document).

(2) Messrs. Brailly, Wagtmann and Morel and Mrs. Moukheibir have respectively been granted in 2015 150,000, 68,500, 88,000 and 40,000 BSAAR 2015. The subscription price paid by the beneficiaries was €1.15 per BSAAR 2015, which corresponds to the fair value at the time of the subscription (this price was fixed by the Executive board on the recommendation of an independent expert). Consequently, there is no advantage according to IFRS 2.

(3) Company car and pension benefits. Pension benefits to the Executive board members are described in 4.6 of the Reference document and in Note 2.1 in the appendix to the 2016 Consolidated Accounts.

The amounts given in the table above are gross pre-tax amounts. They include the advantage resulting from a collective retirement plan with defined contributions.

The following table (Table 3) summarizes the compensation allocated to each member of the Supervisory board for the last two fiscal years:

Table 3 Compensation allocated to each member of the Supervisory board

	Paid in 2017 for 2016	Paid in 2016 for 2015
Gilles Brisson, Chairman, independent member		
Attendance fees	47,113	44,500
Other compensation	–	–

Table 3 Compensation allocated to each member of the Supervisory board

	Paid in 2017 for 2016	Paid in 2016 for 2015
Philippe Pouletty , independent member of the Supervisory board.		
Attendance fees	35,335	36,000
Other compensation	–	–
Patrick Langlois , independent member of the Supervisory board		
Attendance fees	38,700	40,500
Other compensation	–	–
Irina Staatz-Granzer , independent member of the Supervisory board		
Attendance fees	27,643	27,500
Other compensation	–	–
Michael Caligiuri , independent member of the Supervisory board		
Attendance fees	23,076	21,750
Other compensation	–	–
Véronique Chabernaud , independent member of the Supervisory board		
Attendance fees	28,123	17,000
Other compensation	–	–

It is stated that Bpifrance Participations does not receive any compensation related to its position as observer.

The following table (Table 4) summarizes the equity instruments allocated to each company officer during the fiscal year. It replaces the summary of stock options granted during the year to each company officer by the issuer, not applicable for the year.

Table 4 Equity instruments allocated to the members of the Executive board in 2016

	Date of decision of the Executive board	Nature of the instrument	Valuation of the instrument ⁽¹⁾	Number of instruments allocated during the year	Definitive allocation
Mondher Mahjoubi	12/30/16	AGAP Management	€956	3,000	12/30/17 ⁽²⁾
Mondher Mahjoubi	12/30/16	AGA Management	€14.6	250,000	12/30/19
Hervé Brailly	10/21/16	AGAP Management	€911	500	10/21/17 ⁽²⁾
Yannis Morel	10/21/16	AGAP Management	€911	450	10/21/17 ⁽²⁾
Nicolai Wagtmann	10/21/16	AGAP Management	€911	450	10/21/17 ⁽²⁾
Catherine Moukheibir	–	–	–	–	–

(1) According to the same method as that used for the consolidated financial statements (for the valuation of the AGAP see paragraph 2.2.2.2.3 of this Reference document).

(2) Definitive allocation at the end of a two-year retention period.

The following table (Table 5) summarizes the equity instruments exercised during the year by each company officer. It replaces the summary of stock options exercised by each company officer during the year.

Table 5 Equity instruments exercised by each member of the Executive board during the year

	Date of decision of the Executive board	Nature of the instrument	Date of definitive acquisition	Availability date	Performance criteria	Number of instruments exercised during the year	Exercise price
Hervé Brailly	-	-	-	-	(1)	-	-
Yannis Morel	-	-	-	-	(1)	-	-
Nicolai Wagtmann	-	-	-	-	(1)	-	-
Catherine Moukheibir	07/17/13	BSA 2013	-	-	(1)	25,000	€2.36

(1) Performance criteria are defined by the 23rd resolution of the General Meeting of June 2, 2016.

The following table (Table 6) summarizes the free shares allocated to each company officer during the year:

Table 6 Free ordinary shares allocated for each member of the Executive board⁽²⁾

	Date of the Executive board	Number of shares attributed	Valuation of the shares ⁽¹⁾	Date of definitive acquisition	Availability date	Performance criteria
Mondher Mahjoubi	12/30/16	250,000	€14.6	12/30/19	12/30/19	no
Hervé Brailly	-	-	-	-	-	-
Yannis Morel	-	-	-	-	-	-
Catherine Moukheibir	-	-	-	-	-	-
Nicolai Wagtmann	-	-	-	-	-	-

(1) According to the same method as that used for the consolidated financial statements.

(2) The members of the Supervisory board are not eligible for the free shares.

The following table (Table 6-1) summarizes the free preferred shares allocated to each company officer:

Table 6-1 Free preferred shares allocated to each company officer during the year

	Date of decision of the Executive board	Number of shares allocated	Valuation of the shares ⁽²⁾	Definition acquisition date	Availability date	Performance criteria
Mondher Mahjoubi	12/30/2016	3,000	€956	12/30/2017	12/30/2019	(1)
Hervé Brailly	10/21/2016	500	€911	10/21/2017	10/21/2019	(1)
Yannis Morel	10/21/2016	450	€911	10/21/2017	10/21/2019	(1)
Nicolai Wagtmann	10/21/2016	450	€911	10/21/2017	10/21/2019	(1)
Catherine Moukheibir	-	-	-	-	-	-

(1) Performance criteria are defined under the 23rd resolution of the General meeting of June, 2 2016

(2) On 12/31/16, the AGAP were valued at €911 per AGAP (see section 2.2.2.2.3 of the Reference document)

2.2 COMPENSATION AND BENEFITS OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD MEMBERS

The following table (Table 7) summarizes the free shares available for each company officer:

Table 7 Free ordinary shares available for each member of the Executive board ⁽¹⁾			
	Date of decision of the Executive board	Number of available ordinary shares	Conditions for acquisition
Hervé Brailly.....	—	—	—
Nicolai Wagtmann	—	—	—
Catherine Moukheibir	—	—	—
Yannis Morel	—	—	—

(1) The members of the Supervisory board are not eligible for the free shares

The following table (Table 8) summarizes the history of allocation of equity instruments to the company officers as of January 31, 2017:

Table 8 – History of allocation of equity instruments

Equity instruments	BSA					BSAAR		Free shares	
Equity instruments	BSA 2011–2	BSA 2013	BSA 2014	BSA 2015–1	BSA 2015–2	BSAAR 2011	BSAAR 2015	AGAP Management	AGA Management
Date of shareholders meeting	06/29/11	06/28/13	03/27/14	04/27/15	04/27/15	06/29/11	04/27/15	06/02/16	06/02/16
Date of decision of the Executive board or Executive Committee	07/29/11	07/17/13	07/16/14	04/27/15	07/01/15	09/09/11	07/01/15	01/21/16 12/30/16	12/30/16
Total number of equity instruments that could be subscribed	350,000	300,000	150,000	150,000	150,000	1,000,000	1,500,000	5,000 ⁽³⁾	350,000
Total number of shares that could be subscribed following the Executive board allocation	225,000	237,500	150,000	70,000	14,200	650,000	1,050,382	1,000,000	300,000
Number of equity instruments allocated to company officers and subscribed	132,500	100,000	75,000	35,000	14,200	300,000	346,500	4,400	250,000
Hervé Brailly	–	–	–	–	–	200,000	150,000	500	–
Mondher Mahjoubi	–	–	–	–	–	–	–	3,000	250,000
Catherine Moukheibir ⁽⁴⁾	70,000	75,000	75,000	–	–	–	40,000	–	–
Nicolai Wagtmann	–	–	–	–	–	–	68,500	450	–
Yannis Morel	–	–	–	–	–	100,000	88,000	450	–

Table 8 – History of allocation of equity instruments

Equity instruments	BSA					BSAAR		Free shares	
Equity instruments	BSA 2011–2	BSA 2013	BSA 2014	BSA 2015–1	BSA 2015–2	BSAAR 2011	BSAAR 2015	AGAP Management	AGA Management
Gilles Brisson	25,000	–	–	15,000	–	–	–	–	–
Philippe Pouletty ⁽⁴⁾	–	–	–	10,000	–	–	–	–	–
Patrick Langlois	–	–	–	–	–	–	–	–	–
Irina Staatz–Granzer	25,000	–	–	10,000	–	–	–	–	–
Michael A. Caligiuri	–	25,000	–	–	–	–	–	–	–
Véronique Chabernaud	–	–	–	–	14,200	–	–	–	–
Starting date of the exercise period	07/29/11	07/17/13	07/16/14	04/27/15	07/01/15	09/09/11	07/01/15	10/21/17 or 12/30/17	12/30/19
Expiration date	07/29/21	07/17/23	07/16/24	04/26/25	06/30/25	09/09/21	06/30/25	04/21/26 or 06/30/26	–
Subscription price	1.77€	2.36€	8.65€	9.59€	14.05€	2.04€	7.20€	–	–
Total number of ordinary shares subscribed as of 01/31/17	120,560	153,640	75,000	–	–	395,000	1,940	–	–
Cumulated number of equity instruments cancelled or lapsed	–	–	–	–	–		2,720	–	–
Number of equity instruments outstanding as of 01/30/17	104,440	83,860	75,000	70,000	14,200	255,000	1,045,722	1,000,000	300,000

(1) All beneficiaries of BSA 2014, BSA 2015–1 and BSA 2015–2 are authorized to exercise 1/24th of their share warrants on a monthly basis over a 2-year period after the date the shares were granted. The BSA allocated in 2011, 2013 and 2014 are fully available.

(2) All beneficiaries of BSAAR 2015 are authorized to exercise 1/24th of their share warrants on a monthly basis over a 2-year period after the date the shares were granted and the shares issued following such exercise are subject to a two-year retention period ending on July 1st, 2017

(3) The achievement of the performance criteria gives right to the conversion of one free preferred share to a maximum of 200 ordinary shares

(4) The equity instruments have been allocated to Catherine Moukhebir and Philippe Pouletty while they were corporate officers. At the date of this document, Catherine Moukhebir and Philippe Pouletty resigned from their respective mandates.

The following tables (Table 9–1 and 9–2) summarize equity instruments allocated to Executive committee members during the year (excluding Executive board members) and the equity instruments exercised during the year:

Table9-1 Equity instruments allocated to Executive committee members excluding Executive board members

	Date of decision of the Executive board	Nature of the instrument	Aggregate number of instruments subscribed or purchased	Definitive acquisition date	Availability date	Performance criteria (1)
Jérôme Tiollier	10/21/16	AGAP Management	100	10/21/2017	10/21/2019	Yes
Marcel Rozencweig	10/21/16	–	–	–	–	–
Pierre Dodion	10/21/16	AGAP Management	250	10/21/2017	10/21/2019	Yes
Laure-Hélène Mercier	10/21/16	AGAP Management	250	10/21/2017	10/21/2019	Yes
Laure-Hélène Mercier	10/21/16	AGA Management	50,000	10/21/2019	10/21/2019	No
Laure-Hélène Mercier	10/21/16	AGA Employees	1,162	10/21/2017	10/21/2019	No

(1) The performance criteria of the AGAP Management are defined under 23rd resolution of the General Meeting of June 2, 2016

Tableau 9-2 Equity Instruments exercised by Executive committee members (excluding Executive board members) during the year

	Date of Executive board	Nature of the instrument	Aggregate number of instruments subscribed or purchased	Subscription price of the instrument	Exercise price
Marcel Rozencweig	07/29/11	BSA 2-2011	700	€0.01	€1.77
Marcel Rozencweig	07/16/14	BSA 2014	37,500	€0.01	€8.65

The following table (Table 10) summarizes the history of the allocation of free shares, including the shares allocated from employee savings plan to company officers over the three last fiscal years:

Table 10 Allocation of free shares to each company officer⁽²⁾

	Date of Executive board	Number of free shares	Acquisition conditions
Hervé Brailly	01/26/2015	588	Corresponding to 300% of the premium invested in the PEE by the beneficiary ⁽¹⁾
Yannis Morel	01/26/2015	549	Corresponding to 300% of the premium invested in the PEE by the beneficiary ⁽¹⁾
Nicolai Wagtmann	01/26/2015	300	Corresponding to 300% of the premium invested in the PEE by the beneficiary ⁽¹⁾

(1) See paragraph 2.3.3 "Company savings plan"

(2) The members of the Supervisory board are not eligible to free shares

The following table (Table 11) provides details concerning conditions of compensation and other benefits offered to each company officer during the fiscal year:

Additional information on conditions of compensation and other benefits offered to Executive board members				
Table 11	Work contract	Complementary retirement savings scheme ⁽³⁾	Benefits or advantages due or likely to be due in the case of retirement or change of position	Benefits due to non-competition clause
Hervé Brailly⁽¹⁾ Chairman & CEO Start of term: 1999 End of term: 12/29/16	Yes	Yes	No	No
Yannis Morel ⁽²⁾ Business development Start of term : 2015 End of term : 12/29/16	Yes	Yes	No	No
Nicolai Wagtmann EVP CSO ⁽³⁾ Start of term: 2014 End of term: underway	Yes	Yes	No	No
Catherine Moukheibir⁽⁴⁾ EVP Senior Advisor Finance Start of term: 2011 End of term: underway	No	No	No	No

(1) On March 27, 2014, the Supervisory board renewed Mr. Brailly as Chairman of the Executive board and has authorized the combination of Mr. Brailly's employment contract and his board mandate. It is understood that he does not receive any specific compensation for his board mandate in 2016, such as the other members of the Executive board.

(2) Mr. Morel resigned from his mandate as Executive board member on December 14, 2016, with effect on December 30, 2016 and was appointed as member of the Executive board by the Supervisory board meeting of December 14, 2016, with effect on December 30, 2016. The Supervisory board meeting of December 14, 2016 authorized him to combine his employment contract and his board mandate. It is understood that he does not receive any specific compensation for his board mandate in 2016, such as the other members of the Executive board.

(3) Mr. Wagtmann resigned from his mandate as Executive board member on December 14, 2016, with effect on December 30, 2016 and was appointed as member of the Executive board by the Supervisory board meeting of December 14, 2016, with effect on December 30, 2016. The Supervisory board meeting of December 14, 2016 authorized him to combine his employment contract and his board mandate. It is understood that he does not receive any specific compensation for his board mandate in 2016, such as the other members of the Executive board.

(4) Catherine Moukheibir had, during the 2016 fiscal year, a consultancy contract described in paragraph 2.2.2 of this Reference document.

(5) The characteristics of the collective retirement plan with defined contributions ("Article 83" retirement plan) are described in Note 2) k) of the Consolidated Accounts for the year ended December 31, 2016 contained in paragraph 3.3.1 of this Reference document.

The total amounts of the amounts recorded as charges during the 2016 fiscal year under the Complementary retirement savings scheme amounted to 785,000 euros.

2.2.5. Table 12 - Summary of the equity interests in the Company held by the members of the Executive board, Supervisory board and Executive Committee as of January 31st, 2017

Executive board, Supervisory board or Executive Committee	Number of shares directly owned (I)	Number of shares owned by related entities ⁽¹⁾ (II)	Total (IV) (I+II)	Total number of new shares upon exercise of, warrants redeemable warrants, AGA and AGAP (III)Total (IV) (I+II)		Percentage of diluted capital ⁽²⁾	
Executive board Members							
Mondher Mahjoubi	–	–	–	850,000	850,000	1.47	%
Nicolai Wagtmann	58,600	–	58,600	158,500	217,100	0.37	%
Yannis Morel	54,937	–	54,937	178,000	232,937	0.40	%
Supervisory board Members							
Hervé Brailly	1,084,784	–	1,084,784	450,000	1,534,784	2.66	%
Gilles Brisson	48,059	–	48,059	40,000	88,059	0.15	%
Patrick Langlois	4,141	4,000	8,141	–	8,141	0.00	%
Irina Staatz – Granzer	100	–	100	35,000	35,100	0.06	%
Novo Nordisk A/S represented by Mr. Karsten Munk Knudsen	5,564,708	–	5,564,708	–	5,564,708	9.63	%
Michael A. Caligiuri	1	–	1	25,000	25,001	0.04	%
Véronique Chabernaude	10	–	10	14,200	14,210	0.02	%
Executive Committee							
Jérôme Tiollier	160,982	–	160,982	90,000	250,982	0.43	%
Marcel Rozenzweig	0	–	–	–	–	0.00	%
Pierre Dodion	372	–	372	107,000	107,372	0.18	%
Laure–Hélène Mercier	4,914	–	4,914	145,662	150,576	0.26	%
Total	6,981,608	–	6,985,608	2,093,362	9,078,970	15.72	%
Other shareholders	47,029,146	–	47,025,146	1,666,135	48,691,281	84.28	%
Total	54,010,754	–	54,010,754	3,759,497	57,770,251	100.00	%

(1) Related entities refer to entities with which the member has a capital, statutory or contractual relationship (employment or other contract).

(2) The diluted capital is calculated after the theoretical exercise of all options, company founder share subscription warrants and redeemable warrants and after a final allocation of the shares distributed free of charge on that date.

2.3. EMPLOYEES

2.3.1. Employee shareholding

The following table summarizes the equity instruments granted to employees (excluding members of Executive committee) during the fiscal year:

Date of Executive board	Nature of the instrument	Aggregate number of instruments subscribed
10/21/16	AGAP Employees	2,486
10/21/16	AGA Employees	99,932
12/30/2016	AGA Employees	149,943

The equity instruments attributed to the corporate officers and Executive Committee members are detailed in Table 8.

The most of the employees' beneficiaries of incentive instruments to capital in the form of stock options, free shares, free preferred shares, redeemable warrants (BSAAR) and warrants (BSA) granted between 2003 and 2016.

Under Article L. 225-102 of the French Commercial Code, the equity participation of employees (held in the registered

accounts of the Company and excluding company officers participation) amounts to 553,213 shares, representing 1.02% of the shares (of the undiluted share capital) issued on February 10, 2017.

2.3.2. Employee profit sharing

There is no profit-sharing agreement.

2.3.3. Company savings plan

The Company created a company savings plan on October 29, 2004. This plan was replaced in December 2014 by a new company savings plan allowing to invest in the Company's shares.

All employees who have worked with the Company for at least three months may join the plan. The plan is funded through voluntary contributions by employees and, potentially, profit sharing, employee share ownership, company contributions and blocked accounts that have matured, subject to such processes are put in place by the Company.

Any employee who wishes to make payments must commit to make a payment of at least 50 euros and the total amount paid in any one year may not exceed 25% of:

- Gross annual salary if still employed or retirement benefits if retired;

- The income received for the duties performed at the Company if a member of the Executive board.

The Company will cover its costs of operating the plan. No other specific contribution is required from the Company.

The amounts paid into an employee's account are available only after five years from the first day of the seventh month in the year of payment (*i.e.* July 1), or the first day of the fourth month of the fifth fiscal year following the one in which they were paid in (*i.e.* April 1) if the Company has set up a scheme with profit sharing. The amounts paid in are used to purchase mutual fund shares (five diversified mutual funds were created as part of this plan) as specified by the employee. If the employee does not provide any specification, the amounts paid in will be invested in a mutual investment fund devoted to this purpose and designated in the plan.

2.4. REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD ON CORPORATE GOVERNANCE AND INTERNAL CONTROL

REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD ON THE COMPOSITION OF THE SUPERVISORY BOARD AND ON COMPLIANCE WITH THE PRINCIPLE OF BALANCED REPRESENTATION OF MEN AND WOMEN, PREPARATION AND ORGANIZATION OF THE SUPERVISORY BOARD AS WELL AS ON INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES ESTABLISHED BY THE COMPANY FOR FISCAL YEAR 2016

2.4.1. Introduction

Pursuant to the provisions of Article L. 225-68 of the Code of Commerce, the chairman of the Supervisory board hereby reports to you on the composition of the Supervisory board and the application of the principle of balanced representation of women and men on the Supervisory board, on the conditions for preparation and organization of the work of the Supervisory board as well as on internal control and risk management procedures established by Innate Pharma ("Innate Pharma" or the "Company") and its subsidiaries (together "the Group") for the fiscal year ended on December 31, 2016.

This present report was written in accordance with the guidelines for implementing risk management and internal control mechanisms for small and mid-cap companies, published by the French Authority of Financial Markets ("AMF") on July 22nd, 2010. These guidelines are a revised and updated edition of the 2007 reference framework for small and mid-cap companies published by the AMF in 2008.

This report takes into account the AMF's recommendation n°2012-02 (DOC-2012-02) on "corporate governance and executive compensation referring to the AFEP/MEDEF Code", published on February 9th, 2012 in the format of a consolidated presentation of all the recommendations contained in its annual reports and updated in particular on December 4th, 2013, December 11th, 2014 and on

December 22nd, 2015. The application guide for the AFEP/MEDEF corporate governance code of listed companies of December 2016 also served as a guide for drafting this report.

This report takes into account the AMF's recommendation n°2016-05 (DOC-2016-05) and notably its Title 7 on "Chairman's reports on internal control and risk management procedures", published on October 26th, 2016, cancelling and reiterating the recommendation n°2013-17 published on November 4th, 2013 and amended on January, 13th 2015.

This report was prepared on the basis of the summary of the Company's operations in 2016. The draft report was submitted for discussion to the Executive board. A final draft was presented and discussed during the Audit Committee meeting on February 2nd, 2017.

In accordance with Article L. 225-68 of the Code of Commerce, this report was approved by the Supervisory board during its meeting on February 2nd, 2017.

The Statutory Auditors will issue a report, appended to their report on the annual accounts, which contains their observations on this report with respect to internal control procedures and risk management relating to the presentation of accounting and financial information.

2.4.2. Corporate governance : composition, application of the principle of a balanced representation of women and men, preparation and organization of the work of the Supervisory board during the 2016 fiscal year

Innate Pharma is a French *Société Anonyme* organized with an Executive board and a Supervisory board. As such, it is subject to the terms of Articles L. 225-57 to L. 225-93 of the Code of Commerce and related regulatory provisions.

2.4.2.1. Statement regarding corporate governance

At the date of this report, the Company has three Supervisory board committees: the Audit Committee, the Compensation and Nominations Committee, and the Transaction Committee. It does exist also a Scientific Advisory Board which is not composed with members of the Supervisory board.

The operating rules of these committees are governed by the Charter of the Supervisory board, as amended on June 28, 2012 and as published on the Company's web site.

The Company complies with the AFEP/MEDEF corporate governance recommendations for publicly listed companies updated on November 24th, 2016 ("AFEP/MEDEF recommendations") which can be consulted on the site www.medef.com, and applies the principles set out therein,

except as set out in paragraph 5 of this report. In accordance with the recommendations included in this

code, the reasons for not applying certain principles are explained in this report.

2.4.2.2. Organization and operation of the Supervisory board

The Company originally incorporated in SAS, was transformed in 2005 into a « *Société Anonyme* » with a Supervisory board and Executive board. This organization helps to distinguish the functions of leadership and management, performed by the Executive board, and

functions of controls devolved to the Supervisory board. This separation allows balancing the powers between the executive functions and control functions that inspire the principles of corporate governance.

2.4.2.2.1. Composition of the Supervisory board

Members of the Supervisory board

The Company's Supervisory board is composed of a minimum of three members and a maximum of eighteen members. The members of the Supervisory board are appointed for a renewable term of two years at the General Meeting of shareholders, which may revoke their mandates at any time. The appointees are selected from among the shareholders and may be individuals or companies. Each member must own at least one of the Company's shares for the entire term of the mandate. The age limit for being a member of the Supervisory board and the limitations on holding such a mandate concurrently with a mandate in another company are subject to the applicable legal and regulatory provisions. The Supervisory board appoints a Chairman and a Vice-Chairman from its members who are individuals.

Since the General Meeting of shareholders of April 27th, 2015 the Supervisory board of Innate Pharma comprises seven members. At the date of this report, five of these members are independent within the meaning of the rules set out in the AFEP/MEDEF recommendations. All the members of the Supervisory board have been nominated in accordance with Articles L. 225-69 et seq. of the Code of Commerce.

In accordance with the AFEP/MEDEF recommendations, Article 2.2 of the Charter of the Supervisory board, as modified on June 28th, 2012, states that a member of the Supervisory board is an independent member when:

"He or she is not involved in any relationship with the Company, its group or its management, which could compromise his or her judgment"⁷, and

He or she does not represent a shareholder who holds more than 10% of the voting rights of the Company⁸.

Therefore, an independent member must not:

- be a current employee or corporate officer of the Company or, if applicable, of one of its subsidiaries; a current employee or director of a corporation or other entity, which, pursuant to Article L. 233-3 of the Code of Commerce, controls the Company individually or in concert with other persons, or a current employee or director of an entity consolidated by the Company, or have held any of these positions within the past five years;
- be a corporate officer of a company in which the Company is, either directly or indirectly, a director, or in which an employee or a corporate officer of the Company either currently or within the past five years is a director;
- be a customer, supplier, investment banker or commercial banker:
 - that is significant to the Company or, if applicable, to one of its subsidiaries; or
 - for which the Company or one of its subsidiaries represent a significant part of its business;
- have any close family relationship to a corporate officer of the Company or, if applicable, of a subsidiary;
- have been an auditor of the Company or, if applicable, of one of its subsidiaries, or within the past five years;
- be a corporate officer of the Company for more than twelve years;
- receive or have received a significant remuneration from the Company or from one of its subsidiaries, except for directors' fees, including participation in stock options plan or to any form of performance-limited remuneration scheme.

The Board may consider that a member of the Supervisory board, even though he or she may meet the criteria above, does not qualify as independent based on his or her and

⁷ AFEP/MEDEF recommendation, Article 8.2

⁸ AFEP/MEDEF recommendation, Article 8.7

2.4 REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD ON CORPORATE GOVERNANCE AND INTERNAL CONTROL

the Company's particular situation in view of its shareholdings or of any other reason.

At the date of this report, two members of the Supervisory board are considered as non-independent members:

Novo Nordisk A/S, represented by Mr. Karsten Munk Knudsen, which holds 10.3% of the shares and voting rights of the Company at the date of this report; and

Mr. Hervé Brailly, who was Chairman of the Executive board from 2005 to 2016.

In 2017, the Supervisory board will discuss the relations between independent members of the Supervisory board and the Company, according to the above-mentioned criteria, being noted that Mr. Philippe Pouletty, member of the Supervisory board for more than twelve years, was considered by the Supervisory board as independent because of the lack of any financial or other links with the Company and his reputation as well his role in the biotechnology field in France. Mr. Pouletty resigned from his mandate as member of the Supervisory board on December 30st, 2016 and is therefore no longer member of the Supervisory board.

The other following members of the Supervisory board are regarded as independent since they meet the above-mentioned criteria: Mr. Gilles Brisson, Mr. Patrick Langlois, Ms. Irina Staatz-Granzer, Mr. Michael Caligiuri and Ms. Véronique Chambermaid.

Possible conflicts of interest that could result from certain discussions in the Supervisory board lead to the exclusion

of the conflicted Supervisory board member(s) from these discussions.

The Chairman of the Supervisory board is currently a non-independent member.

Any Board mandate held by the members of the Supervisory board in other companies (such as described in Reference document) is independent of their mandate with the Company. Members of the Supervisory board of Innate Pharma SA have no such mandate in the affiliates of the Company.

The members of the Supervisory board have been renewed, or nominated, at the General Meeting of shareholders of April 27th, 2015 for two years and their mandate will expire at the General Meeting of shareholders held in 2017 called to vote on the accounts for the fiscal year ended on December 31, 2016.

Following the resignation of Mr. Philippe Pouletty on December 14, 2016 with effect on December 30, 2016, the Supervisory board of December 14, 2016 appointed, according to Article L. 225-78 of the Code of Commerce, a new member and Chairman of the Supervisory board, provided that the next General Meeting of the Company ratifies such appointment. Therefore, Mr. Hervé Brailly was appointed as Chairman of the Supervisory board until the 2017 General Meeting voting on the 2016 financial statements, its mandate being subject to ratification by such meeting.

The members of the Supervisory board are, at the date of this report:

Name	Function and Status	Nationality	Age
Hervé Brailly	Chairman of the Supervisory board Non-independent member	French	55
Irina Staatz-Granzer	Vice-president of the Supervisory board Independent member	German	56
Gilles Brisson (1)	Independent member	French	65
Patrick Langlois	Independent member	French	71
Novo Nordisk A/S	Non-independent member – Represented by Karsten Munk Knudsen	Danish	45
Michael A. Caligiuri	Independent member	American	61
Véronique Chabernaud	Independent member	French	55

(1) Gilles Brisson resigned from his functions as Chairman of the Supervisory board while keeping its mandate as member of the Supervisory board.

More information on the members of the Supervisory board, including their name, surname, age and position and the duration of their mandate and the list of the other mandates and positions held in other companies during the last five years as well as the number of the Company's shares held by each will be given in sections 2.1.1.2 and 2.2.2 of the Reference document.

Members of the Supervisory board are globally recognized experts in the Company's business.

With Mrs. Staatz-Granzer and Mrs. Chabernaud, the Supervisory board comprises two women out of seven members. The Article L.225-69-1 of the Code of Commerce, in its version in force as from January 1st, 2017 provides that the Supervisory board must comprise at least 40% of members of each sex and the gap between the number of members of each sex cannot be higher than two. The Supervisory board currently studies candidatures so that upon renewal of the members of the Supervisory board during the annual General Meeting, which will be held in 2017 at the latest, the Board's composition comprises at least 40% female members in accordance with aforesaid provisions.

2.4.2.2.2. Charter of the Supervisory board

On March 15, 2007, the Supervisory board first approved its Charter setting operating rules of the Board and of its committees. The Charter, which was last modified on June

2.4.2.2.3. Missions of the Supervisory board

The main missions of the Supervisory board are as follows:

- Discussion of strategic orientations,
- Appointment of the members of the Executive board,
- Exercise of permanent control over the Company's management by the Executive board, review of the annual and half-year accounts and communication of relevant information to shareholders and to the financial markets,
- Review of the annual budget (in December, for the following year) and the revised budget (in September, for the ongoing year),
- Review of the reports of its committees,
- Approval of the present annual report from the Chairman of the Supervisory board regarding the conditions of the composition, preparation and organization of the Supervisory board, as well as the internal control and risk management procedures, and

Observers

The By-laws of the Company gives the General Meeting of shareholders the right to appoint, at its discretion, one or more observers, who may be either individuals or legal entities, shareholders or not, for a term of one year that expires at the General Meeting of shareholders called to vote on the latest financial accounts prepared after the first anniversary of their mandate. These mandates are renewable indefinitely.

The observers take part in all meetings of the Supervisory board, with the right to speak under the same procedures as those set forth for the members of the Supervisory board. They receive the same information and communications as the latter and are bound by the same terms of confidentiality and discretion. The obligations of deontology mentioned in the Charter of the Supervisory board are applicable to the observers.

The mandate of Bpifrance Participations, represented by Mr. Olivier Martinez has been renewed for a one-year term expiring at the General Meeting called in 2017 to approve the financial statements for the 2016 fiscal year. Bpifrance Participations is shareholder of the Company.

28th, 2012, is currently under updating to adapt it to the changes in legislation and regulations and is available on the Company's website.

- Authorization of significant transactions.

It may therefore carry out any verifications and inspections it deems appropriate and obtain any documents it considers useful for the performance of its tasks, at any time during the year. In the framework of its monitoring of the management of the Executive board, the Supervisory board is informed by all means about the financial position, treasury, commitments of the Company and the most significant events and operations for the Company as provided by the Supervisory board internal rules. Once a quarter, the Supervisory board receives a report written by the Executive board.

The Supervisory board presents its comments on the Executive board's annual management report (the *Rapport de Gestion*) and the accounts at the General Meeting of shareholders.

The Supervisory board may give one or more of its members special powers for one or more particular purposes. The Supervisory board may decide to create specific committees and set their composition and powers;

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such committees carry out their work under the control of the Supervisory board, although the powers given to the Supervisory board itself by law or the By-laws may not be delegated to such committees, nor may such committees reduce or limit the powers of the Executive board.

On December 14, 2016 the Supervisory board entrusted Mr. Hervé Brailly, in addition to its functions as Chairman of the Supervisory board, under Article L. 225-84 of the Code of Commerce, with a special mission, which will be performed during the 2017 fiscal year and will end on December 31, 2017 and may be renewed for one-year period, consisting in:

- Support the change of Company's team in 2017 and facilitate the transition;
- Introduce Mr. Mahjoubi to the local, regional and French interlocutor (politicians, scientifics,

economists) of the Company and to the key opinion leaders in the Company's fields of activities;

- Advise the Company with regard to scientific strategy and notably with regard to bi-specifics platforms and ADC and new targets and technologies;
- Continue and, as the case may be, establish some contacts required for business development activities;
- Help to identify new targets of acquisition (preclinical projects, companies)
- Be involved in some financial relations activities.

There are no service contracts between members of the Supervisory board and the Company or its subsidiaries.

2.4.2.2.4. Meetings of the Supervisory board

The Supervisory board meets as often as is required in the interest of the Company, and at least once per quarter. Meetings are called by its Chairman or its Vice-Chairman, at the headquarters or in any other place indicated in the notice of the meeting in accordance with Article 19 of the Company by-laws. In 2016, the Supervisory board met eight times with an average attendance rate of 92.86%.

The Chairman of the Supervisory board must call a meeting of the Supervisory board within 15 days if one or more members of the Executive board or one-third or more of the members of the Supervisory board present a request for him to do so. If the request remains unanswered, the members requesting the meeting may call it themselves and must provide a notice of the meeting's agenda.

The Supervisory board is not validly in session unless at least half of its members are present. Decisions are approved by a majority of the members of the Supervisory board present or represented at the meeting. Each member of the Supervisory board has one vote and cannot represent more than one fellow colleague. If there is a tie vote, the Chairman has the casting vote.

In the course of the 2016 fiscal year, the main topics addressed by the Supervisory board were the monitoring of the clinical trials, which took place in 2016, discussion on the results obtained and their impact on the Company's

development, monitoring of the partnership agreements and notably the discussions with Novo Nordisk A/S following the co-development partnership relating to IPH2101 entered into between the Company and Astra Zeneca and the signing of the related agreement with Novo Nordisk A/S, research strategy and preclinical development of new drug candidates, discussion of the strategy of the Company and the outlooks of business development and monitoring activities of financial communication and investor relations, extension of the existing premises and laboratories and the real estate project related thereto, changes of governance and notably the appointment of Mondher Mahjoubi as CEO. For the preparation of the Supervisory board meetings, the members are sent, in the days preceding the meeting, a detailed agenda together with the Executive board's report on activity since the previous meeting, plus any other document that may be necessary or useful for consultation or decision-making purposes during the Supervisory board meeting.

After the Supervisory board meetings, the minutes are drafted by a secretary appointed during the Supervisory board meeting. These draft minutes are sent to the members along with the agenda and documentation for the next meeting. They are approved and signed, if necessary after correction by the members.

2.4.2.2.5. Evaluation of the Supervisory board's work

In accordance with the AFEP/MEDEF recommendations, a periodic evaluation of the Supervisory board's works is conducted through a self-evaluation based on a questionnaire drawn up by the Company. The Board members have decided at the Supervisory board's meeting

of April 25, 2016, to establish a self-assessment of which results have been presented and discussed during the Supervisory board meeting held on February 2, 2017 during which this report has been presented.

2.4.2.3. Executive board and executive committee organization and operation

Executive board

The Company is managed by an Executive board composed by a minimum of two members and a maximum of five, who perform their duties under the control of a Supervisory board. Under current law, the age limit for being a member of the Executive board is 65. The mandate of any Executive board member who reaches this legal age limit is terminated immediately and the Executive board member is considered to have resigned its position.

The Executive board of Innate Pharma is composed of four members appointed for a renewable term of three years. In 2016, the members of the Executive board were:

- Hervé Brailly, Chairman of the Executive board, who resigned on December 14, 2016 with effect on December 30, 2016 from its functions as Chairman and member of the Executive board,
- Nicolai Wagtmann,
- Yannis Morel,

Catherine Moukheibir linked to the Company by a consultancy agreement, who resigned on December 14, 2016 with effect on December 30, 2016 from its functions as member of the Executive board.

Since December 30th, 2016, the members of the Executive board are:

- Mondher Mahjoubi, Chairman of the Executive board, appointed for a three-year period as from December 30, 2016 by the Supervisory board held on December 14, 2016,
- Nicolai Wagtmann, appointed for a three-year period as from December 30, 2015 by the Supervisory board held on December 14, 2016,
- Yannis Morel, appointed for a three-year period as from December 30, 2015 by the Supervisory board held on December 14, 2016,

The members of the Executive board are appointed, in accordance with the law, by the Supervisory board, which appoints one of them as the Chairman and establishes the method and amount of their compensation when they are appointed. While members of the Executive board are not required to be shareholders, they must be individuals. In compliance with the By-laws of the Company, they may also be revoked individually by the Supervisory board.

If one of the seats of the Executive board becomes vacant, the Supervisory board must fill it within two months. The member of the Executive board appointed as a substitute remains in office for the duration of his predecessor's mandate.

The Executive board is not validly in session unless at least half of its members are present. Any member of the Executive board may send a representative or attend meetings by video conference or by any other means of telecommunication. No member of the Executive board may hold more than one proxy. The decisions of the Executive board are approved by a majority of the votes present and represented.

In 2016, the Executive board met 8 times with an average attendance rate of 81.25%. Since the beginning of 2017, the Executive board has met once with an average attendance rate of 100%.

The Executive board is responsible for the management of the Company that it represents. The Supervisory board exercises permanent control over the Company's management. The members of the Executive board meet as often as required in the interest of the Company, but at least once a quarter, as called for by the Chairman or a member of the Executive board appointed for this purpose. The meetings of the Executive board are chaired by the Chairman of the Executive board. In his absence, the Executive board appoints a Chairman for a particular meeting.

The Executive board has the widest powers to act on behalf of the Company in accordance with the corporate purpose and within the limits of the powers expressly attributed by the law to the Supervisory board and to meetings of shareholders and defined in the Company By-laws, which are regularly updated. The Executive board also exercises its power subject to any restriction of power set by the Supervisory board. The Company By-laws and the Supervisory board internal rules do not mention any limitation to the Executive board's powers. The members of the Executive board are kept informed on a daily basis of any subject related to their specific area of competence.

Therefore, the Executive board may not make any decisions about the sale of real estate property, the total or partial sale of holdings, granting securities, pledges, warrants and guarantees, without the approval of the Supervisory board.

The Chairman of the Executive board represents the Company in its relations with third parties. The Supervisory board may also assign this power of representation to one or more other members of the Executive board; such persons then have the title of "Managing Director".

The Executive board is notably empowered for determining, implementing and controlling the Company's strategy, for implementing the commercial and financial orientations in relation to operational actors, for

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nominating key personnel, as well as for the external communication and general policy of the Company.

If so authorized by the Supervisory board, the members of the Executive board may divide management tasks among themselves. However, this division may under no circumstances result in the Executive board losing its shared responsibility for managing the Company. There are no family ties between the members of the Executive board and the Executive Committee, either between themselves or with any member of the Supervisory board, the Audit, Compensation and Nominations or the Transaction committees, or the Scientific Advisory Board.

Executive Committee

The Company's Executive Committee is composed of members with significant experience in strategy, financial management, research and development project management, the negotiation of industrial and commercial agreements in the field of innovative companies in general and in biotechnology in particular. The Executive Committee meets at least once a month and deals with all subject regarding the management of the Company, and in particular its exposure to risks and accounting and budgeting monitoring.

In 2016, the members of the Executive Committee were as follows:

Name	Start date	Age	Main operation responsibilities
Hervé Brailly	Since 1999	55	CEO, General management, General corporate policy and Human resources
Nicolai Wagtmann	Since 2014	53	Executive Vice-president, CSO
Yannis Morel	Since 2011	43	Executive Vice-president, Business Development
Catherine Moukheibir	Since 2011	57	Executive Vice-president, Senior Advisor Finance
Pierre Dodion	Since 2014	62	Executive Vice-president, CMO
Jérôme Tiollier	Since 2001	57	Executive Vice-president, CDO
Marcel Rozencweig	Since 2010	71	Executive Vice-president, President of the subsidiary Innate Pharma, Inc.
Laure-Hélène Mercier	Since 2016	39	Executive Vice-president, Finance

Since December 30th, 2016, the members of the Executive Committee are:

Name	Start date	Age	Main operation responsibilities
Mondher Mahjoubi	Since 2016	58	CEO, General management, General corporate policy and Human resources
Nicolai Wagtmann	Since 2014	53	Executive Vice-president, CSO
Yannis Morel	Since 2011	43	Executive Vice-president, Business Development
Pierre Dodion	Since 2014	62	Executive Vice-president, CMO
Jérôme Tiollier	Since 2001		Executive Vice-president, CDO
Marcel Rozencweig	Since 2010	71	Executive Vice-president, President of the subsidiary Innate Pharma, Inc.
Laure-Hélène Mercier	Since 2016	39	Executive Vice-president, CFO

Mrs. Catherine Moukheibir resigned from her functions as member of the Executive board on December 14, 2016 with effect on December 30, 2016 and is no longer a member of the Executive Committee since that date.

Mrs. Laure-Hélène Mercier was appointed to the Executive Committee by the Supervisory board held on October 21, 2016, upon recommendation of the Compensation and Nominations Committee held on October 13, 2016. Mrs. Laure-Hélène Mercier was appointed as Chief Financial

Officer (CFO) on December 14, 2016 with effect on December 30, 2016.

Mr. Hervé Brailly resigned from his functions as Chairman of the Executive board on December 14, 2016 with effect on December 30, 2016 and is no longer a member of the Executive Committee since that date.

Mr. Mondher Mahjoubi was appointed as Chairman of the Executive board on December 14, 2016 with effect on December 30, 2016 and is member of the Executive Committee since that date.

Detailed information on the expertise and experience of the members of the Executive Committee are presented in section 2.1.1.3 of the Reference document.

There are no service contracts between members of the Executive Committee and the Company or its subsidiaries, except for a consultancy agreement signed between Mr. Marcel Rozencweig and the Company.

There are no family ties between the members of the Executive Committee, either with any member of the Supervisory board, the Audit, Compensation and Nominations or the Transaction committees, or the Scientific Advisory Board.

2.4.2.4. Organization and operation of the governance committees of the Supervisory board

Audit committee

An Audit Committee has been created by the Executive Committee (when the Company was a *société par actions simplifiée*) on July 1, 2003 and confirmed by the Supervisory board on April 27, 2006.

The members of the Audit Committee and their relationship with the Company, at the date of this report, are listed in the table below:

Name	Relationship to the Company	Audit Committee member since
Patrick Langlois (Chairman of the Audit Committee)	Member of the Supervisory board	2010
Gilles Brisson (expert member)	Member of the Supervisory board	2010
Irina Staatz-Granzer	Member of the Supervisory board	2013
Hervé Brailly	Chairman of the Supervisory board	December 30, 2016

Mr. Patrick Langlois, Mr. Gilles Brisson and Mrs. Irina Staatz Granzer are independent members of the Supervisory board. Mr. Hervé Brailly is Chairman and non-independent member of the Supervisory board.

Mr. Brisson, an independent member of the Supervisory board, is the Audit Committee member "with special financial or accounting skills" as stipulated by Article L. 823-19 of the Code of Commerce and the report of the work group on Audit Committees (AMF recommendation dated July 22, 2010), due to his experience in the pharmaceutical industry and the senior management positions he previously held with Rhône-Poulenc and Aventis. The Charter of the Supervisory board sets the rules relating to the composition, the organization and the role of the Audit Committee.

The Chairman of the Audit Committee, and the other members, all members of the Supervisory board, receive attendance fees for their participation on this committee.

In addition to the Audit Committee members, representatives from the finance and internal control

departments as well as the Statutory Auditors attend the Audit Committee meetings.

The Audit Committee meets as often as the Company's interests require, and at least twice a year, after the limited audit of the half-year accounts or the audit of the annual accounts and before the first Supervisory board meeting following the half-year and annual accounting closing dates. He hears the Company's management, the Chief Financial Officer and the Statutory Auditors. The Chief Financial Officer presents the account. In addition, a risk mapping is reviewed on a regular basis by the Audit Committee. The statutory auditors present the essential points of the legal audit and accounting options adopted. When appropriate, the Audit Committee may use the services of an external expert. The main missions of the Audit committee are the following of the legal control of the half-year and annual accounts, evaluation of internal control practices, risk analysis, the monitoring of the process for drawing up the financial information published by the Company and consistency checking and, the assessment of whether it would be opportune to make any

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changes to the accounting methods, the review of the Statutory Auditors' conclusions, the choice of Statutory Auditors (at the end of their term), their fees, and a review of their independence. The Committee reviews and approves the report from the Chairman of the Supervisory board on the internal control. The question of internal control is a recurrent item in the agenda of the Audit committee.

During the 2016 fiscal year, the main issues dealt with by the Audit committee were:

- Review of the financial reports presented by management,
- Auditors' presentation regarding the legal audit and the accounting options adopted,
- Review of the budget process, and
- Review of the risk mapping;
- Review of the cash management.

The Audit Committee reports to the next Supervisory board and, depending on the case, minutes are sent to the members of the Supervisory board, along with other

documentation for the Supervisory board meeting following the Audit Committee meeting. A member of the Audit Committee also intervenes during the Supervisory board meeting in order to report on the principal conclusions of the Audit Committee.

The financial reports and the agenda are sent to the members of the Audit Committee one week before the meeting. At the end of the Committee meeting, a session takes place between the members of the Audit Committee and the Auditors.

In 2016, the Audit Committee met four times with an average rate of attendance of 100%.

Compensation and nomination committee

A Compensation and Nominations Committee, that was created by the Management Committee (when the Company was a *société par actions simplifiée*) on January 17, 2001 and confirmed by the Supervisory Committee on April 27, 2006. At the date of the present report, the Compensation and Nominations Committee is composed of:

Name	Relationship to the Company	Member of the Compensation and Nominations Committee Since
Gilles Brisson (Chairman of the Compensation and Nominations Committee)	Member of the Supervisory board	2007
Hervé Brailly	Chairman of the Supervisory board	December 30, 2016
Patrick Langlois	Member of the Supervisory board	2011
Véronique Chabernaud	Member of the Supervisory board	2015

Mr. Brisson, Mr. Langlois and Ms. Chabernaud are independent members of the Supervisory board. Mr. Hervé Brailly is a non-independent member of the Supervisory board.

Mr. Gilles Brisson was appointed as Chairman of the Compensation and Nominations Committee by the Supervisory board held on December 14, 2016, with effect on December 30, 2016.

Mr. Pouletty is no longer member of the Compensation and Nomination Committee since he resigned from his functions as member of the Supervisory board on December 14, 2016, with effect on December 30, 2016.

Given its size, resources and business, the Company does not believe that a nomination committee separate from the compensation committee is necessary.

The main missions of the Compensation and Nominations Committee are: the review of the Company's remuneration policy, in particular the evolution of the payroll, the

description of the collective objectives (for the whole company) and individual objectives (for members of the Executive board and the Executive Committee), the compensation of the members of the Executive board and the Executive Committee and the policy concerning the distribution of tools equity such as warrants, stock-options, free shares and capital increase reserved for members of the Company savings plan.

The Compensation and Nominations Committee meets as often as required and at least once a year. The Committee reports to the next Supervisory board and, depending on the case, minutes of its meetings are sent to the members of the Supervisory board under the meeting of the Supervisory board following the meeting of the Compensation and Nominations Committee.

In 2016, the key tasks of the Compensation and Nominations Committee were as follows:

- Review the professionalism and objectivity of the procedures for appointing officers and members of the Executive Committee, as well as certain key employees. The Committee was responsible for arranging the recruitment of independent members of the Supervisory board;
- Analyze the situation of each member of the Supervisory board in terms of their other relations with the Company in order to verify that there is no conflict of interest and ensure that their independence is not compromised;
- Make recommendations for salary adjustments for members of the Executive board and Executive Committee;
- Set the collective objectives of the Company as well as the individual objectives of the members of the Executive board and Executive Committee and make proposals for appropriate bonuses;
- Assess the extent to which such goals have been reached and make recommendations about the amount of the final collective and individual bonuses to be given each year to the members of the Executive board and the Executive Committee;
- Make recommendations as to the Company's salary policy for the other members of the staff; and
- Make recommendations to the Executive board on allocating investment instruments approved or authorized by the General Meeting of shareholders.

In 2016, the Compensation and Nominations Committee met six times with an average attendance rate of 93.33%.

In 2016, the main issues addressed by the Compensation and Nominations Committee were:

- The description of collective objectives (of the Company) and individual objectives (of the members of the Executive board and of the Executive Committee)
- The compensation of the members of the Executive board and of the Supervisory board;
- The policy for the distribution of means of equity participation;
- The distribution of attendance fees to the independent members of the Supervisory board;
- The change of CEO and the change in the members of the Supervisory board;
- The appointing and the determination of the compensation allocated to the new CEO;
- The appointment of the previous CEO as Chairman of the Supervisory board, determination of its compensation, its special mission and the compensation attached.

Transaction committee

A Transaction Committee, created by the Supervisory board on September 21, 2007, and at the date of the present report currently composed of:

Name	Relationship to the Company	Member of the Transaction Committee since
Irina Staatz-Granzer	Member of the Supervisory board	2009
Gilles Brisson	Member of the Supervisory board	2007
Novo Nordisk A/S represented by Karsten Munk Knudsen	Member of the Supervisory board	2011

The primary responsibility of the Transactions Committee is to examine, with the Company and its investments bankers or consultants, the business and corporate development opportunities that the Company could be considering (these strategic opportunities may include the acquisition of rights on products or the acquisition of other companies as well as out-licensing opportunities), and to this end it has to :

- Analyze the fundamentals of the products and/or companies targeted by the Company, notably in relation to the Company's own fundamentals,

- Analyze the feasibility of a transaction, and
- If need be, participate in the process of selecting and defining the missions for the Company's investment bankers and/or consultants.

The Committee reports to the next Supervisory board and, depending on the case, minutes of its meetings are sent to the members of the Supervisory board, under the meeting of the Supervisory board following the meeting of the Transactions Committee. The frequency and contents of the meetings depend on operations of development engaged by the Company.

In 2016, the Transactions Committee did not met.

2.4.2.5. Organization and operation of the Scientific Advisory Board

The Company gets also a Scientific Advisory Board, composed of five consultants in 2016, which all work outside of the Company. It was created by the Management Committee on May 9, 2000, given that the Company was established in the form of simplified joint stock company (*Société par actions simplifiée*). The Scientific Advisory

Board is not a committee of the Supervisory board as provided in Article R. 225-56 of the Code of Commerce. Its members are appointed by the Executive board.

The members of the Scientific Advisory Board and their relationship with the Company, at the date of the present report, are listed in the table below:

Name	Relationship to the Company	Member of the Scientific Committee since
Bernard Malissen	Consultant	2000
David Raulet	Consultant	2000
Philip Greenberg	Consultant	2000
Ronald Levy	Consultant	2013
François Romagné	Consultant	2014

Detailed information on the expertise and experience of the members of the Scientific Advisory Board are presented in section 2.1.3 of the Reference document.

The Scientific Advisory Board analyses the research and development work in progress at the Company plus any significant expansion project in its scientific field or in a related field. The Chairman of the Scientific Committee intervenes during the Supervisory board meeting, particularly in order to comment the work of the Scientific Advisory Board, and, depending on the case, minutes sent to the Supervisory board.

This type of advisory committee is very common in companies involved in biotechnologies. In 2016, the key tasks of the Scientific Committee were as follows:

To evaluate the Company's new products development strategy from a scientific perspective,

To evaluate the progress of the Company's research programs to implement this strategy, examining both the results obtained and the skills and expertise involved, and

To propose or evaluate opportunities for acquiring new products and new technologies.

The members of the Scientific Advisory Board receive compensation based on their attendance at meetings of the Scientific Advisory Board. In the 2016 fiscal year, this compensation totaled USD 20,000 (around EUR 18,358).

In 2016, the Scientific Advisory Board met once with an average rate of attendance of 100%.

The Charter of the Supervisory board governs the operating rules of the Scientific Advisory Board.

2.4.2.6. Compensation of Supervisory board members and company officers

Full information relating to the principles and rules set by the Supervisory board to determine the remuneration and other perks granted to Supervisory board members appears in chapter 2.2 of the Reference document and in chapter VI of the Executive board's annual management report.

It is stated that the Company uses the device "say on pay" under which the remuneration of company officers due or

awarded for the year ended is subject to a shareholder vote.

The information relating to the "say on pay" are set out in chapter VI of the Management Report and the Executive board Report and paragraph 2.2 of this Reference document.

2.4.2.6.1. Supervisory board

Attendance fees

Since 2007, the Company pays attendance fees to independent members of the Supervisory board. Attendance fees include a fixed and a variable part, the latter being based on actual participation in meetings of the Supervisory board and its committees.

The rules of distribution were discussed in the Compensation and Nominations Committee and then approved by the Supervisory board meeting on December 11, 2007. In addition to a fixed annual amount common to all the beneficiaries, each member, except for the Chairman of the Supervisory board, is eligible for payments depending on his attendance to meetings of the Supervisory board and of the committees (see section 1.4 of this report). The variable part depending on the attendance to meetings of the Supervisory boards or committees predominates over the annual lump sum.

The envelope of attendance fees voted at the General Meeting of shareholders on June 2nd, 2016 was 200,000 euros.

Mr. Brailly appointed as Chairman of the Supervisory board, will receive in 2017, upon recommendation of the Compensation and Nominations Committee held on December 13th, 2016, agreed by the Supervisory board held on December 14, 2016, an annual fixed gross compensation amounting to EUR 50,000, according to Article L. 225-81 of the Code of Commerce. Besides, upon recommendation of the Compensation and Nominations Committee held on December 13, 2016, agreed by the Supervisory board held on December 14, 2016, Mr. Brailly will receive during the 2017 fiscal year, according to Article L. 225-84 of the Code of Commerce, an exceptional compensation amounting to EUR 100,000 in consideration for its special mission, which will be performed in addition to its functions as Chairman of the Supervisory board (see the report on executive compensation dated about, and published on the Company website during, the second quarter 2017).

The table below provides the amounts granted to each of the independent members of the Supervisory board for the years 2015 and 2016:

In euros	Attendance Fees 2015	Attendance Fees 2016
Gilles Brisson	44,500	47,113
Philippe Pouletty	36,000	35,335
Irina Staatz-Granzer	27,500	27,643
Patrick Langlois	40,500	38,700
Michael Caligiuri	21,750	23,076
Véronique Charbernaud	17,000	28,123
Total	187,250	199,990

Warrants

Warrants giving the right to purchase shares, have been distributed to independent Supervisory board members.

The table below summarizes the last distribution of warrants still available to independent members of the Supervisory board, where each warrant entitles the holder to subscribe one new share:

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Number of warrants				
Date of the General Meeting	06/29/11	06/28/13	04/27/15	04/27/15
Date of the Executive board meeting	07/29/11	07/17/13	04/27/15	07/01/15
Gilles Brisson , Chairman of the Supervisory board, independent member	25,000	–	15,000	–
Philippe Pouletty , independent member of the Supervisory board	–	–	10,000	–
Irina Staatz-Granzer , Vice-chairman of the Supervisory board, independent member	25,000	–	10,000	–
Michael A. Caligiuri , independent member of the Supervisory board	–	25,000	–	–
Patrick Langlois , independent member of the Supervisory board	–	–	–	–
Véronique Chabernaude , independent member of the Supervisory board	–	–	–	14,200

(1) Philippe Pouletty resigned from his functions as member of the Supervisory board on December 14, 2016 with effect on December 30, 2016

To distribute these warrants, the recommendation of the Compensation and Nominations Committee is notably based on market practices, as known and detailed by the members of the Compensation and Nominations Committee, as well as on external information collected by

the Company and made available to the Compensation and Nominations Committee, including a comparison with public companies of the biotechnology industry in France and Switzerland.

2.4.2.6.2. Executive board

The remuneration of the members of the Executive board and the Executive Committee is set by the Supervisory board, following the recommendation of the Compensation and Nominations Committee.

The remunerations and any benefits in kind of the members of the Executive board and the Executive Committee are detailed in Chapter 2.2 of the Reference document and in section VI of the Executive board's annual management report (in particular with respect to Say on pay information). The fixed part of the remuneration is separate from the variable part, whose mechanisms are explained in that document. In order to set the remuneration and any benefits in kind of the members of the Executive board and the Executive Committee, the Supervisory board, assisted for this purpose by the Compensation and Nominations Committee, take into account the performance of the Company as a whole, the collective and individual performances of the executives and the current practices in companies of comparable size and maturity in the biotechnology sector, in France and abroad.

Regarding Article 22 of the AFEP/MEDEF recommendations, relating to employment contract for the Chairman of the Executive board, the Supervisory board of March 27, 2014, renewed the mandate of Mr. Brailly, as CEO until December 30, 2016 and authorized him to hold concurrently his employment contract and his mandate as Chairman of the Executive board. Mr. Brailly's position as Chairman of the Executive board was not remunerated, as for other members of the Executive board.

Mr. Mondher Mahjoubi, new CEO since December 30, 2016, is not bound by any employment contract with the Company.

Under the resignation of Mr. Brailly from its functions as CEO, the Supervisory board held on December 14, 2016, upon recommendation of the Compensation and Nominations Committee, agreed the payment of an exceptional gross amount amounting to EUR 300,000 to Mr. Brailly in consideration of its crucial role as founder and CEO of the Company for 17 years.

The Company does not provide contractual indemnities ("golden parachutes") for Executive board members.

CHAPTER 2 - CORPORATE GOVERNANCE

2.4 REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD ON CORPORATE GOVERNANCE AND INTERNAL CONTROL

2.4.2.7. Participation of shareholders at general meetings

The last annual General Meeting of shareholders was held on June 2, 2016 at the Company's head office, in accordance with Articles 26 to 34 of the Company by-laws. Shareholders (present or represented) represented 45.084%

of the capital and voting rights of the Company. Shareholders were offered the choice to vote by mail, to give a proxy to the Chairman of the meeting or to attend to the meeting.

2.4.2.8. Article L.225-100-3 of the French Code of Commerce

The information stipulated by Article L.225-100-3 of the Code of Commerce is set out in the section IV of the Executive board's annual management report.

2.4.2.9. Table of recommendations of AFEP/MEDEF Code not followed by the Company

AFEP MEDEF CODE	NON COMPLIANCE	EXPLANATIONS
The Code recommends that the Supervisory board of the Company includes at least 40% female members after the first General Meeting of shareholders held in 2016. When the Board is composed of fewer than nine members, the gap between the number of male and female members cannot exceed two (§6.4).	The Supervisory board is currently composed of seven members including two female members representing less than 40%. The gap between the members of each sex is higher than two.	The Board shall review applications to remedy the situation before the terms of the mandates of the members of the current Supervisory board, that is before the 2017 General Meeting called to approve the 2016 financial statements in accordance with the law n°2011-103 of January 27th 2011.
The Code recommends that all members of the Audit Committee must get financial and accounting expertise (§ 1.5.1).	The Rules of Procedure of the Supervisory board, in accordance with Article L.823-19 of the Code of Commerce, provides only one member of the Audit Committee should present financial and accounting skills.	The rules of procedure are consistent with the law and the size, resources and accounting issues of the Company. In any event, Mr. Brailly, Brisson, Langlois and Mrs. Irina Staatz-Granzer have, in terms of their career, the skills required.
The code recommends the renewal of members of the Supervisory board for each. (§13).	The mandates of the members of the Supervisory board are renewed at the same time and not in phases.	This choice is explained by the short duration of the mandates (two years), which allows for a renewal of the Composition of the Company's Supervisory board on a regular basis and so, in the Company's view, achieves the intended purpose.
The code recommends that the nominations committee designs a plan for replacement of executive directors in the event of unforeseeable vacancy (§16.2.2).	The Compensation Committee has not yet decided on this issue.	Under the Company's by-laws, in the event of vacancy of the Executive board members, the Supervisory Council must make an appointment to fill the post within two months.

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When an officer is a corporate officer of the company, it is advisable to terminate his employment contract which binds the Company (§21).	Until December 30, 2016, the CEO combined an employment contract with a mandate.	The Supervisory board during the renewal of Mr. Brailly on March 27, 2014, authorized Mr. Brailly to hold his employment contract and its mandate. The employment contract of Mr. Brailly terminated when he resigned from his functions as CEO (i.e. on December 29, 2016). Mr. Mahjoubi, new CEO is not bound by any employment contract with the Company.
The Code recommends that the fixed remuneration of the executive directors shall be reconsidered at relatively long intervals, for example three years (§24.3.1)	The reference base wage of the members of the Executive board and of the other members of the Executive Committee is fixed annually by the Supervisory board on the basis of a recommendation from the Compensation and Nominations Committee.	The Company complies with Article L. 225-82-2 of the Code of Commerce (Law n°2016-1691, dated December 9, 2016 relating to the transparency, the fight against corruption and the modernization of the economic life), which provides for two shareholders' votes: An "ex ante" vote on the "principles and criteria of determination, allocation and distribution of fixed, variable and exceptional components of the total compensation and the benefits of all kinds" allocated to the corporate officers; and An "ex post" vote on the "fixed, variable and exceptional components of the total compensation and the benefits of all kinds paid or allocated under the previous fiscal year".

2.4.3. Internal control procedures

The internal control mechanism set up by the Company based on the recommendations set out in "risk management and internal control reference framework: implementation guidelines for small and mid-cap companies", updated and published by the French financial markets authority (AMF) on July 22, 2010.

As a reminder, the scope of internal control is not limited solely to procedures for making financial reporting more reliable.

The mechanism applies to the parent company Innate Pharma and its subsidiary Innate Pharma Inc., fully owned. Internal control procedures specific to each subsidiary could be put in place in the future, based on their specific operations and risks.

2.4.3.1. Definition and objectives of internal control

Within the Company, internal control is a process set up by the Supervisory board, the Executive board, the Executive Committee, the intermediate management and the employees.

It comprises a range of resources, behaviors, processes and actions adapted to the specificities of the Company and contributes to the control of its activities, the efficiency of its operations and the efficient use of its resources. It must also take appropriately into account the significant risks, whether operational, financial or conformity risks.

The internal control system aims at providing the Company with reasonable assurance that:

- It complies with the applicable laws and regulations;
- It is applying instructions and strategic orientations such as determined by the management;
- Its internal processes work well, notably those related to the protection of its assets; and
- Its financial information is reliable.

2.4.3.2. Company policy with regard to internal control

The internal control policy is determined based on the Company's objectives.

One of Innate Pharma's significant concerns is to ensure that its activities are controlled. The executive management has therefore backed the installation and the retention of a quality system, certified ISO 9001 since 2005, a mechanism of internal control and a mechanism of risk management.

Because of its business model which relies on capital increases, and the nature of its activity, i.e. research and development of drug candidates in the immunotherapy field, the Company is very much exposed to various financial, legal, strategic and operational risks. Innate Pharma is therefore especially committed to identifying and controlling these risks and wants to be able to give its

The mechanism contributes to the prevention and control of the risks that the Company will not achieve the objectives that it has set itself. The purpose of controlling risks related to the Company's operations and to accounting and financial information is aimed at (i) providing managers with tools necessary for managing the business, (ii) providing shareholders and the public with reliable accounting and financial information and (iii) enabling the Company to comply with the applicable laws and regulations.

The Company's internal control process is nevertheless essentially based on human means. Thus, while it may give a reasonable assurance, it cannot provide an absolute guarantee that the risks the Company is facing are fully controlled.

shareholders a relevant vision of its risk environment. The implementation of actions aiming at reducing the risk is integrated to the quality system or the system of internal control based on the nature of the risks.

The Company sees its internal control mechanism as a process of continuous and progressive improvement with the objective of complying with the internal control recommendations published by the AMF.

In order to formalize the control process, an internal control manual has been drafted and is regularly updated. It defines the Company's policy regarding internal control, defines responsibilities as well as all the decisions contributing to the control of this activity and to internal control.

2.4.3.3. Internal control responsibilities

By virtue of its mission, the Supervisory board is the primary participant in the Company's internal control system.

The Audit Committee, the Compensation and Nominations Committee and the Transaction Committee are the key tools the Supervisory board has at its disposal for internal control tasks.

Members of the Executive board, of the Executive Committee, the intermediate management and the personnel are the actors of the internal control process.

The Quality system and the Risk Management mechanism are monitored by the Director Quality & Compliance in collaboration with the Director, Administration & Finance, for aspects related to internal control and financial risks. The Director Administration & Finance is in charge of implementing, formalizing and monitoring the mechanism of internal control within the Company. He reports to the Executive board, to the President of the Audit Committee and to the President of the Supervisory board.

2.4.3.4. Distribution of relevant information

2.4.3.4.1. External communication

As a listed company, the Company complies with strict rules relating to the distribution of information. A code of ethics stipulates that all staff have a duty of confidentiality with regard to certain information, and a code of stock market deontology defines the confidentiality and secrecy obligations relating to so-called privileged information. A list of "insiders" who are party to such privileged information has been drawn up.

Press announcements are released on a regular basis by the Company. They are drafted internally and subject to a reviewing process involving the Executive board and the

Supervisory board for strategic and financial information. Press releases comprising half-year or full-year financial accounts are also reviewed and discussed by the Audit Committee.

The Reference document provides the main financial information and notably a discussion on the Company's financial situation and results, the main risk factors, an overview of the activities as well as the governance rules. This document is updated on yearly basis.

Information about the Company can be accessed on its website www.innate-pharma.com.

2.4.3.4.2. Internal communication

Internally, the Company has set up certain tools to distribute and share information.

Information regarding the Company's policy and objectives are discussed during annual "strategic goals" meetings with all employees. The Executive Committee members share information regarding the Company and their own field with their teams through various *ad hoc* forums.

As described above, the Executive Committee reviews on a monthly basis the strategic, budgeting and accounting

information and reports to the Executive board and the Supervisory board.

For operational use, an Electronic Document Management (EDM) system is used to manage Quality system procedures, documentation related to the Company's activities and ensure that they are accessible.

2.4.3.5. Mapping and analysis of risks

The operational risks identified as of today are presented in Section 1.9 "Risk factors" of the Reference document.

Risk mapping is one of the first and major steps for setting up and optimizing an internal control system and control of the operations. Indeed, identifying and evaluating the risks enables to identify actions to be defined for better risk and operation control

The macro risk map has currently identified the following families of risks:

- Strategic;
- Operational;
- Financial;
- related to fraud;
- related to communication;
- regulatory legal and related to intellectual property;
- related to human resources;
- related to hygiene, security of technical installations and environment;
- related to IT systems.

The risk mapping was updated in 2016 following a detailed review.

The residual risks as well as new control actions proposed are presented and discussed at the Audit Committee.

- In terms of financial and accounting information, the Company distinguishes three types of risks: Risks related to establishing the accounts and producing financial data, which could result from different dysfunctions arising from the accounting and financial processes themselves;
- Risks related to the disclosure and communication of financial information, with regards to the selection of indicators, the drafting of documents and the financial communication itself;
- Market-related risks linked to foreign exchange risks on operating expenses and to variations of interest rates concerning cash flow and financial instruments.

In order to complete the approach described above, which directly derives from the control actions already in place, the Company also takes into account the conclusions given by its Statutory Auditors as well as their recommendations, which are discussed each year with the Audit Committee

and the Supervisory board. The matrix of key controls is currently being updated. The results of this external evaluation by the Statutory Auditors are presented and

discussed with the Audit Committee and with the Supervisory board.

2.4.3.6. Control environment

2.4.3.6.1. Internal control procedures relating to operational processes

Since its inception, the Company has adopted a quality approach which led to ISO 9001 certification in 2005 for its research and development activities in the field of immunotherapy medication. Since then, the certification was renewed every year.

The Quality system is one of the major mechanisms in place for monitoring the operational risks.

The application of strategic direction and orientations given by the Executive board is partly defined in the context of the strategic goals process.

The functioning and the control of the operations are described in the quality system, which covers the following processes:

- Policies and strategic goals;
- Management of the quality system;
- Human resources: skills management;

- Research and development (preclinical and clinical);
- Pharmaceutical operations;
- Procurement;
- Animal facilities;
- Management of scientific equipment;
- Management of buildings and facilities;
- Information systems.

The organization of the quality system is the first element of the operational risk management. The implementation of the procedures as described in the Quality System is subject to regular internal control audits.

Compliance with laws and regulations is the responsibility of the participants in the various processes (process pilots, program managers and project managers).

2.4.3.6.2. Internal control procedures relating to accounting and financial information

The Company considers that risks regarding financial management are currently limited, for the following reasons:

- In general, the Company's Senior management and more particularly the personnel of the accounting and finance department are trained and experienced, and thus familiar with internal control matters and respond positively to the recommendations of the Audit Committee and the Statutory Auditors,
- The Company calls upon independent experts for the evaluation of accounting entries that are complex or require significant management estimates (for instance for the free preferred shares allocated during the 2016 period);
- The half-year and annual accounts are reviewed by an external chartered accountant prior to their presentation to the Statutory Auditors,
- Independent consultants are retained to calculate provisions for retirement compensation and seniority awards
- Payroll management is subcontracted to the external chartered accountant,

Responsibility for external financial communication is entrusted exclusively to the members of the Executive Committee and to a department of Financial communication and Investor Relations, Catherine Moukheibir was a member of the Executive Committee since March 1, 2011 and provided the financial strategy of the Company under a consultant contract, she was also a member of the Executive board. Catherine Moukheibir resigned from her functions within the Executive Committee on December 14, 2016, with effect on December 30 2016 retaining her consultant contract and was replaced by Laure-Hélène Mercier.

Furthermore, an EVP Finance function was created in the year 2016.

The Company has a regular dialogue with its Statutory Auditors, its Audit Committee or with third-parties for the interpretation or adoption of new accounting standards be they French or IFRS adoption of new accounting as well as for measures related to internal control.

The book of accounting and financial procedures defines the accounting principles, responsibilities of the personnel of the accounting and finance department, as well as the main processes performed in the Company's operations.

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As part of the annual closing 2016, the accounting team has been strengthened with the arrival of a new person who will particularly improve the segregation of duties and

enhance the effectiveness of operational controls related to the preparation of the financial statements.

2.4.3.6.3. Internal control system in place

Through the yearly update of risk mapping enabling risks and control actions to be reviewed and evaluated, and also through the work performed by the Statutory Auditors on internal control as part of their legal assignment, the Company believes that it possesses the necessary means for the implementation of appropriate control tools. This system complements the active role played by the Audit Committee in this respect.

The Company also created a proprietary management information system, IP Center, which is gradually integrating the various management procedures likely to represent a risk in view of their economic significance for the Company. For example, a module for procurement was introduced in 2006 to ensure that no purchase order is issued by the Company without prior verification and authorization by the persons possessing the appropriate delegation. The computerization of this process has also improved accounting cut-offs between periods (separation of accounting years).

A dedicated purchasing function was also created. This person is responsible for price negotiation with suppliers as well as the verification of services performed before payment is made to the suppliers.

The management of contracts has been gradually integrated into the IP Center. The management module of the contracts enables the Company to gain a better appreciation of its commitments by providing a rapid and

convenient overview of agreements signed or awaiting signature, and by matching the contractual information with the resulting accounting elements.

The IP Center, which operates as a database management system and extracts elements from various software programs, including the Company's own accounting software, is also the tool used for formalizing the budget process and monitoring this budget during the year. This monitoring was further improved through the installation of a module specific to the clinical activity, used to monitor the progress of current clinical trials based on two criteria: the number visits made by the patients included and the duration of the trial.

Time and activity management software was implemented in order to improve resource management and notably the identification of needs and the calculation of the allocation of resources per project. This software also contributes to improving the documentation relating to subsidies and research tax credit.

Risk matrices were formalized for the following accounting cycles of the Company: "Purchasing", "Payroll" and "Fixed Assets". These matrices identify, for each risk, the appropriate implemented risk control(s) covering this risk. In addition, in order to ensure the absence of conflicting functional responsibilities, a matrix of tasks across the organization has been set up. A matrix of controls on the closing process was also formalized.

2.4.3.7. Monitoring and supervision of the internal control process

The Executive board monitors and supervises the internal control process and ensures that it is relevant and appropriate for the Company's objectives.

The continuous monitoring is part of the day to day activities and comprises regular checks conducted by the Executive Committee. The existence of a quality management system contributes to the supervision of the process: it enables to control the changes related to the process and the documentation, to identify non-conformities, and to analyze the efficiency indicators of the defined processes. A formal review of the quality system takes place once a year to evaluate its effectiveness.

Periodic supervision has also been set up, entailing an internal audit program. The internal audits program involves "quality" audits, allowing the evaluation of the implementation of the procedures which have been set up.

The Supervisory board is informed regularly and as needed, by the Executive board, of the processes related to risk management and internal control. Besides, the results of each significant update of the risk mapping and the conclusions of the auditors, under their audit mission, on the past period are presented to the Audit Committee. The main conclusions of this evaluation are then reported to the Supervisory board by the Chairman of the Audit Committee.

This report, which is drafted each year by the Chairman of the Supervisory board, reports the conditions of the preparation and organization of the works of the Supervisory board and of the internal control and risk management processes implemented by the Company.

Despite the procedures and mechanisms stated previously, we identified during the 2016 period a significant deficiency of our internal control related to contract which

generated an accelerated recognition of our turnover in the 2015 half-year financial statements. This one-time error, resulting from an exceptional event, has been corrected in the 2015 annual financial statements.

In addition, we identified that our risk assessment process related to the preparation of our financial statements was not detailed enough to identify, implement and follow actions of specific controls to address those risks. In order to solve these problems and in a progress-making approach in relation with the growth of the Company, we

implemented and formalized a review of operational cycles and prior half-year and annual closing in order to identify the major impacts on the financial statements linked to the period. As a result, we identified existing controls or controls to be implemented in order to reduce the identified risks. In particular, such actions will promote closer ties between the clinical data and the accountancy, the decision making in case of one-time significant events, a deeper review of the accounting entries and the data development files impacting the accountancy.

2.4.3.8. Summary of actions taken in 2016

In 2016, the Company has implemented a system of double signatures for transfers according to defined ceilings.

As part of the 2016 half-year closing, the Company has, for the first time, formalized a half-year closing planning document. This document aims to identify areas of risk considered as significant by the management and controls set up to mitigate them. Furthermore, the Company implemented a new functionality of the IP Center aiming at identify the staff's inscriptions to the various scientific congresses. This module allows to accurately track costs related to these conferences (registration, travel and stay expenses) but also to formalize the process of authorization of travel for these events. We also started working on a project for the implementation of a software

enabling to dematerialize and automatize the recording of the invoices received from the suppliers.

At year end, the Company also started to work to document the architecture of the IP Center "Clinic" module of, which will ensure continuity of service in the case of an extended leave of our provider.

In 2016, the Company developed a module for the IP Center to dematerialize and automate the entry, validation and booking of expenses reports. The module 'Purchases' had also been improved to automatically identify new suppliers designated as "critical" according to the criteria provided for in the procedure "Purchases".

2.4.3.9. Outlook

As part of its continuous improvement process, the Company aims to continue the work of convergence of the

system of management of quality and the systems of internal control and risk management.

2.4.3.10. Conclusions on the internal control and risk management processes

In the light of the arrangements presented in this report, the level of formalization of the internal control mechanism is deemed satisfactory.

The way the various management bodies are involved in internal control work provides a separation between the management activities of the Executive board and the Executive Committee and the control functions of the Supervisory board and its committees.

The quality system, the internal control system as well as the meetings of the Executive board and of the Executive Committee enable the Company to monitor and control its risks appropriately as they result from the macro risk map.

The Company is committed to continuing the use of the risk analysis methodology associating it with an integrated system of management of quality and internal control so it can become a proper tool for management and decision making.

Innate Pharma also intends to continue to comply with regulations and market recommendations and to review market practices in order to maintain an appropriate standard in this area.

2.5. STATUTORY AUDITORS' REPORT ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD OF INNATE PHARMA

" This is a free translation into English of the statutory auditors' report issued in French prepared in accordance with Article L.225-235 of the French Commercial Code on the report prepared by the Chairman of the Supervisory board on the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information issued in French and is provided solely for the convenience of English speaking users.

This report should be read in conjunction and construed in accordance with French law and the relevant professional standards applicable in France."

To the Shareholders,

In our capacity as Statutory Auditors of Innate Pharma and in accordance with Article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-68 of the French Commercial Code for the year ended 31 December 2016.

It is the Chairman's responsibility to prepare, and submit to the Supervisory board for approval, a report on the internal control and risk management procedures implemented by the Company and containing the other disclosures required by Article L. 225-68 of the French Commercial Code, particularly in terms of corporate governance.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information; and
- to attest that this report contains the other disclosures required by Article L. 225-68 of the French Commercial Code, it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information

Professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures mainly consisted in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

CHAPTER 2 - CORPORATE GOVERNANCE

2.5 STATUTORY AUDITORS' REPORT ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD OF INNATE PHARMA

On the basis of our work, we have nothing to report on the information in respect of the Company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Supervisory board in accordance with Article L. 225-68 of the French Commercial Code.

Other disclosures

We hereby attest that the report prepared by the Chairman of the Supervisory board includes the other disclosures required by Article L. 225-68 of the French Commercial Code.

Marseille, March 29, 2017

The Statutory Auditors

Audit Conseil Expertise SAS
Member of PKF International

Deloitte & Associés

Nicolas Lehnertz

Hugues Desgranges

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3.1. MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL SITUATION

Innate Pharma is a clinical-stage biotechnology company, specialized in immuno-oncology. The Company is discovering and developing first-in-class therapeutic antibodies that harness the innate immune system to improve cancer treatment and clinical outcomes for patients. Immuno-oncology is a new therapeutic field in the area of immunotherapy that is changing cancer treatment by mobilizing the power of the body's immune system to recognize and kill cancer cells

Innate Pharma's innovative approach has resulted in three first-in-class, clinical-stage antibodies, including two checkpoint inhibitors. These antibodies target natural killer cell receptors and may address a broad range of solid and hematological cancer indications. The most advanced, lirilumab, is currently tested in a Phase I and II clinical trials program in combination with other therapeutic agents and is licensed to Bristol-Myers Squibb. Monalizumab, developed in partnership with AstraZeneca is currently tested in Phase I and I/II clinical trials program. IPH4102 is fully developed in-house by Innate-Pharma and currently tested in Phase I in cutaneous T cell lymphomas. The Company has other proprietary programs that are currently in preclinical development as well as innovative proprietary technologies.

Over the short-term, the Company's potential clients are actors from the pharmaceutical industry, via license agreements. Over the long-term, the Company may be able to deliver its products to patients.

At December 31, 2016, Innate Pharma SA fully owns a 100% participation into Innate Pharma, Inc. In November

2015, the Company disposed of its remaining stake into Platine Pharma Services SAS.

Annual accounts of the Company prepared in accordance with generally accepted accounting principles in France (the "Annual accounts") for the fiscal year ended December 31, 2016 were approved by the Executive board on March 6, 2017 and can be found in section 3.3.3 of this Reference document. An analysis of the Annuals accounts of the Company prepared in accordance with generally accepted accounting principles in France for the years ended December 31, 2015 and 2016 is included in the management report ("Rapport de gestion") from the Executive board presented to the General meeting of shareholders on June 23, 2017 and an extract has been included in the appendix of this present Reference document.

The annual Consolidated accounts for the Company for the fiscal year ended December 31, 2016 were approved by the Executive board on March 6, 2017 and are presented in section 3.3 of this Reference document.

The analysis presented below is based on the Company's Consolidated accounts prepared under the IFRS GAAP as adopted by the European Union for the fiscal year ended December 31, 2016, and should be read in conjunction with these accounts given in section 3.3 of this Reference document.

3.1.1. Comparison of the last two fiscal years

3.1.1.1. Operating result

3.1.1.1.1. Revenue and other income

Revenue and other income result from government financing for research expenditure and collaboration and licensing agreements. The Company's revenue and other income were €25.1 million and €65.7 million for the fiscal years ended December 31, 2015 and 2016, from the following sources:

Year ended December 31 (in thousand euros)	2016	2015
Revenue from collaboration and licensing agreements	56,159	17,906
Government financing for research expenditures	9,561	7,235
Revenue and other income	65,721	25,141

Revenue from collaboration and licensing agreements

Revenue from collaboration and licensing agreements amounted to €17.9 and €56.2 million for the fiscal years ended December 31, 2015 and 2016, respectively. These revenues result from the agreements signed with Bristol-Myers Squibb in July 2011 and AstraZeneca in April 2015.

Bristol-Myers Squibb

Following the licensing agreement signed with Bristol-Myers Squibb for the development and commercialization of the drug candidate lirilumab (July 2011), the Company received an upfront payment of €24.9 million (\$35.3 million). This upfront payment, which is non-refundable and non-creditable, is recognized in turnover during the expected period of duration of the clinical program in course at the date of the contract. The amount recognized as revenue amounted to €0.9 million and €0.4 million for the fiscal years 2015 and 2016, respectively. This payment was entirely recognized in revenue as of June 30, 2016.

On October 3, 2015, the Company received a \$5.0 million (€4.5 million) milestone payment as part of this licensing agreement. This payment was triggered by the dosing of a first patient in a Phase II trial of lirilumab in combination with rituximab in patients with relapsed/refractory or high-risk untreated chronic lymphocytic leukemia. This payment was entirely recognized in revenue in 2015 since there is no related service to be rendered by the Company.

Following the presentation at the SITC annual meeting (November 2016) of encouraging preliminary activity

results from the cohort of patients with SCCHN of a Phase I/II trial, we have been eligible to a milestone payment of \$15.0 million (€13.8 million). We received the consideration in January 2017 but we recognized this milestone, as revenue, in its entirety, in 2016 since the trigger event occurred in 2016.

AstraZeneca

The Company entered into a global co-development and commercialization agreement with AstraZeneca for monalizumab in April 2015. The Company received an initial payment amounting to \$250 million on June 30, 2015. The recognition of this amount is based on the costs Innate Pharma is engaged to bear in the context of the agreement. The amount recognized for the fiscal year 2015 amounts to €12.1 million and €41.6 million for the fiscal year 2016. The percentage of completion has been determined on the basis of the costs recognized during the period compared to the total expected costs. At December 31, 2016, the amount not yet in revenue amounts to €167.3 million (€54.9 million as "Deferred revenue - Current portion" and €112.3 million as "Deferred revenue - Non-current portion").

Consequently, the rise of the turnover in 2016 mainly results from the revenue relating to the AstraZeneca agreement (€41.6 million) and the milestone payment received from Bristol-Myers Squibb (€13.8 million).

Government funding for research expenditures

The table below details government financing for research expenditure for the fiscal years ended December 31, 2015 and 2016:

Year ended December 31 (in thousand euros)	2016	2015
Research tax credit	9,082	7,045
French and foreign public grants	479	190
Government financing for research expenditures	9,561	7,235

The calculation of the research tax credit is based on 30% of the amount of eligible expenses for the fiscal year.

The table below shows the amount of R&D expenses (net of grants) eligible for the fiscal years ended December 31, 2015 and 2016:

Year ended December 31 (in thousand euros)	2016	2015
R&D expenses eligible for the research tax credit	30,203	24,248
Grants received, net	–	(799)
Net expenses eligible for the research tax credit	30,203	23,449

Net expenses eligible for the research tax credit increased by 25% compared to the fiscal year 2015 whilst the R&D

expenses increased by 63%. This results from the fact that, since the fiscal year 2015, the Company reached the cap of

the subcontracting expenses eligible to the calculation of the research tax credit. For the fiscal year 2016, the rise of the eligible expenses mainly results from the inclusion for the calculation of the research tax credit of the amortization expense relating to the anti-NKG2A intangible asset. This results from the decision of the Administrative appeal court of Bordeaux to include this kind of expenses (judgement date March 16, 2016).

The research tax credit is generally reimbursed by the French government four years after the fiscal year for which it is determined. However, since 2011, companies that meet the definition of small and medium sized enterprises ("SMEs") according to the European Union criterias are eligible for early reimbursement of their research tax credit receivable. The status of SME is lost when the criteria for eligibility are exceeded during two consecutive years. For

the fiscal year 2016, for the first time, the Company exceeded these criteria (including a turnover higher than €50 million). If the situation is the same for the fiscal year 2017, the Company will lose the status of SME and the corresponding benefits, especially the early reimbursement of the research tax credit. Innate Pharma qualifies for early reimbursement of the research tax credit and received the 2015 amount in August 2016.

During the fiscal year 2015, the income resulting from grants relates to an European grant in the context of the FP-7 Program. During the fiscal year 2016, the income resulting from grants relates to the above mentioned grant and a grant under the FEDER Program. These grants directly impact our income statement, as opposed to repayable loans which are recorded as debt and thus only impact our balance sheet.

3.1.1.1.2. Operating expenses by business function

The table below gives a breakdown of net operating expenses by business function for the fiscal years ended December 31, 2015 and 2016:

Year ended December 31 (in thousand euros)	2016	2015
Research and development expenses	(48,628)	(29,906)
General and administrative expenses	(9,522)	(6,008)
Net operating expenses	(58,150)	(35,914)

R&D expenses include the cost of employees assigned to research and development operations (including employees assigned to work under the collaboration and licensing agreements), product manufacturing costs, subcontracting costs as well as costs of materials (reagents and other consumables) and pharmaceutical products.

R&D expenses amounted to €29.9 million and €48.6 million for the fiscal years ended December 31, 2015 and 2016, respectively representing 83% and 84% of net operating expenses. The rise in R&D expenses between 2015 and 2016 mainly results from an increase of subcontracting costs relating to the progress in the

development of the preclinical and clinical programs and a staff growth.

General and administrative expenses include expenses for employees not directly working on R&D, as well as the expenses necessary for the management of the business and its development. General and administrative expenses were €6.0 and €9.5 million for the fiscal years ended December 31, 2015 and 2016, respectively representing 17% and 16% of the net operating expenses. This increase mainly results from the growth in lawyers and audit fees due to the Company's structuring in a context of strong expansion and in staff costs.

3.1.1.1.3. Operating expenses by nature

The table below gives a breakdown of net operating expenses by nature of expenses for the fiscal years ended December 31, 2015 and 2016:

Year ended December 31 (in thousand euros)	2016	2015
Cost of supplies and consumable materials	(2,852)	(2,607)
Intellectual property expenses	(1,235)	(1,216)
Other purchases and external expenses	(36,022)	(17,722)
Employee benefit other than share-based compensation	(12,796)	(10,142)
Share-based compensation	(1,032)	(1,011)
Depreciation and amortization	(3,263)	(2,655)
Other income and (expenses), net	(950)	(560)
Net operating expenses	(58,150)	(35,914)

Cost of supplies and consumable materials

The cost of supplies and consumable materials amounted to €2.6 million and €2.9 million for the fiscal years ended December 31, 2015 and 2016, respectively. The increase in

this line item results from the growth in purchases used in the Company's laboratories.

Intellectual property expenses

Intellectual property expenses amounted to €1.2 million for the fiscal years ended December 31, 2015 and 2016.

These expenses include the cost of filing and protecting patents (including patents that were acquired from third parties and where the agreements specified that Innate Pharma is responsible for the relevant costs) as well as the

costs for obtaining an option or license for intellectual property. In accordance with IAS 38, considering the degree of maturity of the Company and the uncertainty that exists as to the outcome of its research and development projects, intellectual property expenses are recorded in expenses.

Other purchases and external expenses

Other purchases and external expenses amounted to €17.7 million and €36.0 million during the fiscal years ended December 31, 2015 and 2016, respectively, broken down as follows:

Year ended December 31 (in thousand euros)	2016	2015
Sub-contracting	(28,329)	(12,705)
Non-scientific consultancy	(3,371)	(1,326)
Leases, maintenance and utility	(1,418)	(988)
Travel and conference costs	(1,223)	(1,111)
Scientific consultancy and services	(585)	(753)
Marketing, communication and public relations	(508)	(356)
Attendance fees	(200)	(187)
Insurance	(140)	(114)
Others	(248)	(176)
Other purchases and external expenses	(36,022)	(17,722)

Sub-contracting expenses involve discovery research costs (financing of research conducted externally, particularly academic research, antibody humanization technologies, manufacturing process development, etc.), preclinical development (pilot manufacturing, tolerance and pharmacology studies, etc.) and clinical costs (clinical trial management, etc.) outsourced to third parties. The increase in these costs mainly results from the growth and

progress of the portfolio of preclinical and clinical programs.

Non-scientific consultancy expenses are mostly fees paid to audit firms, to our certified public accountant for his assistance in accounting, tax and employee matters, to our lawyers, to business strategy or development consultants and recruitment fees. The increase in these expenses

between 2015 and 2016 mainly results from lawyers and audit fees due to the Company's structuring in a context of strong expansion.

Leases, maintenance and utility costs are mainly maintenance costs for laboratory equipment and the building.

Travel and conference costs mainly include expenses for employees travelling and attending conferences,

particularly scientific, medical, business development and financial conferences.

Scientific consultancy and services consist of costs related to external consultants assisting in the research and development of our products. It also covers fees paid to members of our Scientific Advisory Board.

Employee benefits other than share-based compensation

Employee benefit expenses other than share-based compensation came to €10.1 million and €12.8 million for the fiscal years ended December 31, 2015 and 2016, respectively.

This includes salaries and social benefit costs. On average, Innate Pharma had 109 employees during the fiscal year ended December 31, 2015 and 133 employees during the fiscal year ended December 31, 2016.

The proportion of total staff, excluding Executive committee members, allocated to R&D operations was 75% and 77% for the fiscal years ended December 31, 2015 and 2016 respectively.

The average amount of staff costs per employee was €93 and €96 thousand for fiscal years ended December 31, 2015 and 2016 respectively.

Share-based compensation

Share-based compensation amounted to €1.0 million for the fiscal years ended December 31, 2015 and 2016, respectively.

In accordance with IFRS 2, these costs correspond to the fair value of the equity instruments allocated to directors and employees. The costs recognized in 2015 result from the issuance during the fiscal year of warrants for shares (and free shares in 2015) not including a condition requiring presence. As a consequence, the fair value of

these instruments were not deferred but have been recognized as expenses in the income statement.

The cost recognized in 2016 results from the issuance during the fiscal year of free shares and free preferred shares including a condition requiring presence. As a consequence, the fair value of these instruments were deferred and recognized as expenses during the acquisition periods.

Depreciation and amortization

Depreciation and amortization amounted €2.7 and €3.3 million for the fiscal years ended December 31, 2015 and 2016, respectively. This variance mainly results from the amortization of the intangible asset relating to a price

complement to be paid to Novo Nordisk A/S following the agreement signed with AstraZeneca. The relating amortization expense amounts to €2.4 million for fiscal year 2016.

Other income and expenses, net

This item represented a net expense that amounted to €0.6 million and €1.0 million for the fiscal years ended December 31, 2015 and 2016, respectively. They mainly

included certain indirect taxes, as well as exceptional income and expenses. This increase is due to the following taxes C3S and CVAE (€0.3 million each).

3.1.1.1.4. Breakdown of net income (loss)

Year ended December 31 (in thousand euros)	2016	2015
Revenue and other income	65,721	25,141
Net operating expenses	(58,150)	(35,914)
Operating income (loss)	7,571	(10,772)
Financial income (expense), net	5,370	4,066
Net income (loss) before tax	12,941	(6,706)
Income tax expense	(301)	–
Net income (loss)	12,640	(6,706)
(in € per share)		
– basic	0.23	(0.13)
– diluted	0.23	(0.13)

3.1.1.1.5. Net financial income

The net financial income amounted respectively to €4.1 million and €5.4 million for the fiscal years ended December 31, 2015 and 2016, respectively.

The Company's cash investment policy favors the minimum risk and, whenever possible, seeks guaranteed minimum performance on capital. Therefore it is preferentially directed to instruments with an absence of risk on principal and, wherever possible, guaranteed minimum performance. Only a small fraction of its investment portfolio (2.5% at December 31, 2016) includes some financial instruments presenting a level of risk, which is considered as very low.

The balance of cash, cash equivalents and short term investments was €235.9 million and €197.7 million for the fiscal years ended December 31, 2015 and 2016, respectively. In addition, the Company held €37.8 million and €33.0 million of non-current financial assets at December 31, 2015 and 2016, respectively. This decrease in our cash position in 2016 resulted from the financing of our activities and especially our R&D expenses. During the fiscal year 2015, our cash position improved following the upfront payment collected in June 2015 in the context of the agreement signed with AstraZeneca (\$250 million or €223.5 million).

3.1.1.1.6. Income tax expense

For the first time, the taxable income of the Company is positive for the year ended December 31, 2016. The tax payable in respect of this exercise amounts to €301 thousand. According to the nature of its revenues, the Company is subject to the regime of capital gains income from intellectual property and therefore benefits

from the reduced 15% tax rate. No deferred tax asset has been recorded as there is a minimal likelihood of recovery.

In accordance with IFRS, the research tax credit is classified as an 'Other revenue' and not in the line 'Income tax expense'.

3.1.1.2. Net income/(loss) per share

The net loss per authorized and issued share came to a loss of €0.13 per share and a gain of €0.23 per share for

the fiscal years ended December 31, 2015 and 2016, respectively.

3.1.2. Exposure to variations in the exchange rate

The Company is exposed to foreign exchange risk inherent in certain subcontracting activities relating to its operations in the United States, which have been invoiced in U.S. dollars. The Company does not currently have recurring revenues in euros, dollars nor in any other currency. As the Company further increases its business, particularly in the United States, it is expected to face greater exposure to exchange rate risk.

In order to cover this risk, the Company kept in U.S. dollars a part of the \$250 million upfront payment received from AstraZeneca in June 2015.

Our policy does not include the use of hedging instruments.

3.1.3. Post balance sheet events

On February 6, 2017, the Company announced top-line results from the EffiKIR trial evaluating the efficacy of lirilumab as a single agent in elderly patients with acute myeloid leukemia. The trial did not meet the primary efficacy endpoint but confirms the tolerance profile of lirilumab as a monotherapy. This result does not call the potential of lirilumab into question which is currently being tested by Bristol-Myers Squibb in a broad and comprehensive combination program in multiple indications. As a consequence, this does not affect the continuity of the Company's operations.

In March 2017, the Company announced that its partner Bristol-Myers Squibb has amended the clinical trial protocol for the ongoing trial evaluating lirilumab in combination with nivolumab in patients with advanced solid tumors. Under the amended protocol, the study includes additional cohorts of nivolumab plus lirilumab in solid tumors, including a randomized cohort exploring nivolumab with or without lirilumab in platinum refractory recurrent or metastatic SCCHN, and initial testing of the triplet combination of nivolumab, ipilimumab and lirilumab in solid tumors.

3.2. CASH AND CASH EQUIVALENTS

3.2.1. Information on the Company's capital, cash and cash equivalents and sources of financing

Cash, cash equivalents and current financial assets amounted to €197.7 million at December 31, 2016, compared with €235.9 million at December 31, 2015. The cash assets held by the Company are composed of current accounts and fixed term accounts. Current financial assets are mainly composed of shares of mutual funds and bonds. Their purpose consists of financing our activities, including our research and development costs.

The Company also holds non-current financial assets (€32,975 thousand and €37,784 thousand at 31 December

2016 and 2015 respectively) which are investments intended to finance medium and long term activities.

Since its incorporation in 1999, the Company has been primarily financed by issuing new securities. The Company has also generated cash flow from its collaborations, from repayable financing and grants received from various French and foreign public organizations (including Oséo, become Bpifrance) and from research tax credit.

3.2.1.1. Capital financing

Excluding redeemable warrants, founder warrants and stock-options, the Company has received a total of €177.8 million (before deducting the costs associated with capital increases) from capital increases between 1999 and

2014. The table below summarizes the main capital increases, in value, between the Company's creation and December 31, 2016:

<u>Date</u>	<u>Amount raised</u>
April 2000	4.5 million euros
July 2002	20.0 million euros
March 2004	5.0 million euros
July 2004	10.0 million euros
March 2006	10.0 million euros
November 2006	33.7 million euros
December 2009	24.3 million euros
November 2013	20.3 million euros
June 2014	50.0 million euros
Total	177.8 million euros

3.2.1.2. Financing through loans

Bpifrance

In 2013 the Company obtained from Bpifrance a €1.5 million PTZI loan (Prêt à Taux Zéro Innovation – interest-free loan for innovation). This loan will be

repayable from September 2016 over a term of between one and five years.

Real estate lease-financing

For the acquisition of the Company's new headquarters and laboratories in Marseille, a lease-financing facility was obtained in 2008 for a twelve-year duration and for a total amount of €6,551 thousand (excluding VAT). The real estate lease-financing agreement comprises three different financial tranches:

- The acquisition of the real estate lot for €1,560 thousand (excluding VAT), including acquisition related costs. The amount of the financial liabilities amounted to €550 thousand at December 31, 2016, of which €150 thousand in short term liabilities and €400 thousand in long term liabilities.
- The financing of the renovation of the building, the total amount of which was initially set at €4,991 thousand excluding VAT. At December 31, 2016, the financial liabilities related to the future payments to Sogébail for the financing of these refurbishing works amounted to €1,762 thousand (excluding VAT), and were presented by the Company for respectively €486 thousand and

€1,276 thousand as current financial liabilities and non-current financial liabilities.

- A down-payment of €1,500 thousand was made by the Company to be used as collateral by Sogébail. Taking into account the contractual right of the Company on this down-payment as well as the principle of deduction from the repayments, the down-payment was deducted from the borrowings of the Company in the financial statements. The receivable on this down-payment amounted to €530 thousand at December 31, 2016, of which €144 thousand are repayable in the short term and €386 thousand are repayable in the long term.

During the fiscal year 2016, the Company signed an amendment with Sogébail in order to finance, by leasing, facilities within the building. With a duration of four years, the funding amounts to €846 thousand. The amount of the financial liability of this endorsement amounted to €789 thousand at December 31, 2016 which €226 thousand in the short term and €563 thousand in the long term.

The following table shows the simplified schedule of repayment for these financial liabilities (principal only) at December 31, 2016:

Schedule of repayment of financial liabilities	2017	2018	2019	2020	Total
Lease-financing – Real estate transaction 2008	636	665	695	316	2,312
Down-payment – Real estate transaction 2008	(144)	(152)	(160)	(74)	(530)
Lease-financing – Equipments 2016	226	229	231	103	789
Total	718	742	766	345	2,571

Other financial liabilities

During the fiscal year 2016, the Company also uses lease-financing and bank loans to finance the acquisition of laboratory equipment and to set up new laboratories.

3.2.1.3. Off-balance-sheet commitments

The Company's off-balance-sheet commitments are described in Note 17 to its 2016 Consolidated Accounts.

3.2.2. Cash flows

See the cash flow tables in 3.3 of this reference document.

3.2.2.1. Cash flows from operating activities

The net cash flow used in operations for the fiscal year 2016 amounts to €36.9 million, to be compared to a net cash flow generated for the fiscal year 2015 amounting to €201.6 million. This downgrading of our cash position in 2016 resulted from the financing of our activities and

especially our R&D expenses. During the fiscal year 2015, our cash position improved following the upfront payment collected in June 2015 in the context of the agreement signed with AstraZeneca (\$250 million or €223.5 million).

3.2.2.2. Cash flows from investment activities

The Company's operations generally require little investment in tangible assets because it outsources most of the manufacturing and validation activities to third parties. In 2008, the Company acquired its headquarters and its main laboratories (see section 3.2.1.2 of this Reference document) for a total gross investment amounting to €6.8 million.

The Company's investments in other tangible assets, mainly laboratory equipment, came to €0.9 and €1.6 million for the fiscal years ended December 31, 2015 and 2016, respectively. The Company renews some of its existing laboratory equipment and acquires new equipment every year.

In 2015 and 2016, capital expenditures were mostly renewal of laboratory equipment.

The Company leases some of its computer equipments under operating-lease contracts. The Company's payments for these items are accounted as operating expenses in the income statement.

In February 2014, Innate Pharma acquired the rights of monalizumab, anti-NKG2A antibody. Recognized as an intangible asset for an amount of €7.0 million, this acquisition was paid partly in cash (€2.0 million) and partly in share (€5.0 million).

In January 2016, the company acquired the rights to an anti-CD39 antibody (currently IPH52). The initial payment as well as the first upfront paid in December 2016 was recognized as intangible asset.

The acquisitions of current financial instruments are purchases of current financial instruments that do not meet the conditions under IAS 7 to be considered as cash equivalents (see Note 4) to the Company's 2016 Consolidated accounts that are in section 3.3). The acquisitions and sales of current financial instruments have no impact on the total amount of cash on hand and current financial instruments.

3.2.2.3. Cash flows from financing activities

The variance of the financial liabilities between the fiscal years ended December 31, 2015 and 2016 mainly results from the reimbursement of the lease-financing transactions relating to real estate and equipment. During

the fiscal year 2016, the Company collected a total amount of €0.2 million following the issue and exercise of equity instruments.

3.2.3. Information on borrowing terms and financing structure

See Note 9 to the Company's 2016 Consolidated accounts, section 3.3 in this Reference document.

3.2.4. Restrictions on use of capital

In the context of the real estate transaction described in section 3.2.1.2 of this Reference document and for which a lease-financing facility was obtained, the Company has made a €1.5 million down-payment to Sogébaïl, the lessor. This down-payment, carrying interest, will be deducted

from the lease-finance repayments over the duration of the lease-finance, or twelve years.

The Company has not taken out any contracts comprising financial covenants.

3.2.5. Sources of financing needed for the future

The development of the Company's products and its progress towards marketing them should lead to increases in its expenses over the upcoming fiscal years. The Company's total cash on hand and current financial

instruments will not be enough to finance its development requirements until its first products are commercialized. For more detail, please see Note 9 to the Company's 2016 Consolidated accounts, section 3.3.

3.2.5.1. Expenses and investments

The Company expects having to repay between 2017 and 2021 a total of €1.3 million in repayable loans Bpifrance.

3.2.5.2. Financial resources

In addition to cash, cash equivalents and current financial assets at December 31, 2016, amounting to €197.7 million, the Company expects to continue relying on government loans or PTZI loans notably from France

and Europe, as well as on the research tax credit, to finance its operations. Furthermore, the Company also has non-current financial instruments amounting to €32,975 thousand (see Note 4).

3.3. INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

In application of Article 28 of Commission Regulation (EC) No. 809/2004, the following information is included by way of reference in this Reference document:

- Consolidated accounts for the fiscal year ended December 31, 2015 with corresponding reports from the statutory auditors, including in sections 3.3.1 and 3.3.2 of the Reference document D.16-0397 registered with the AMF on April 25, 2016.
- Consolidated accounts for the fiscal year ended December 31, 2014 with corresponding reports from the statutory auditors, including in sections 19.1 and 19.2 of the Reference document D.15-0129 registered with the AMF on March 12, 2015.
- Chapters 9 and section 3.1 (Management Discussion and analysis of the financial situation) and chapter 10 and section 3.2 (Cash and cash equivalents) of the Reference documents registered with the AMF on March 12, 2015 (D.14-0129) and April 25, 2016 D.16-0397.

3.3.1. Consolidated financial statements prepared under International Financial Reporting Standards as of December 31, 2016

International Financial Reporting Standards

Statement of financial position (in thousand euros)

	Note	As of December 31,	
		2016	2015
Assets			
Cash and cash equivalents	4	175,906	152,870
Short term investments	4	21,782	83,040
Current receivables	5	32,390	16,216
Total current assets		230,078	252,126
Intangible assets	6	9,075	9,732
Tangible assets	7	9,094	6,304
Non-current financial assets	4	32,975	37,784
Other non-current assets		355	10
Total non-current assets		51,499	53,830
Total assets		281,577	305,956
Liabilities			
Trade payables	8	20,265	18,631
Financial liabilities – current portion	9	1,264	622
Deferred revenue – current portion	13	54,912	40,910
Total current liabilities		76,441	60,163
Financial liabilities – non-current portion	9	4,063	3,132
Defined benefit obligations	10	2,418	1,740
Deferred revenue – non-current portion	13	112,348	168,854
Provisions	17	136	–
Total non-current liabilities		118,965	173,726
Share capital	11	2,696	2,692
Share premium		187,571	186,337
Retained earnings		(116,235)	(109,525)
Net income (loss)		12,640	(6,706)
Other reserves		(503)	(730)
Total shareholders' equity attributable to equity holders of the Company		86,169	72,067
Total liabilities and equity		281,577	305,956

Statement of income (loss)
(in thousand euros)

	Note	Year ended December 31,	
		2016	2015
Revenue from collaboration and licensing agreements	13	56,159	17,906
Government financing for research expenditures	13	9,561	7,235
Revenue and other income		65 721	25,141
Research and development	14	(48,628)	(29,906)
General and administrative	14	(9,522)	(6,008)
Net operating expenses		(58,150)	(35,914)
Operating income (loss)		7,571	(10,772)
Financial income	15	7,327	6,755
Financial expenses	15	(1,957)	(2,689)
Net income (loss) before tax		12,941	(6,706)
Income tax expense	16	(301)	–
Net income (loss)		12,640	(6,706)
Net income (loss) per share attributable to equity holders of the Company:			
Weighted average number of shares (in thousand):		53,869	53,400
(in € per share)			
– Basic loss per share	19	0.23	(0.13)
– Diluted loss per share	19	0.23	(0.13)

Statement of comprehensive income (loss)
(in thousand euros)

In thousand euros	Note	Year ended December 31,	
		2016	2015
Net loss for the period		12,640	(6,706)
<i>Elements which will be recycled in the consolidated statement of income (loss):</i>			
Change in fair value of current financial instruments	4	315	(165)
Foreign currency translation gain / (loss)		(18)	(63)
<i>Elements which will not be recycled in the consolidated statement of income (loss):</i>			
Actuarial gains and (losses) related to employee benefits	10	(69)	(260)
Other comprehensive income (loss)		228	(488)
Comprehensive income (loss)		12,868	(7,194)

Statement of cash flows
(in thousand euros)

		Year ended December 31,	
	Notes	2016	2015
Net income (loss)		12,640	(6,706)
Depreciation and amortization	6, 7	3,263	2,655
Provisions for defined benefit obligations	10	609	386
Provisions for charges	14	136	–
Share-based compensation expense	14	1,031	1,011
Change in valuation allowance on financial assets		(826)	–
Gains (losses) on financial assets		(834)	–
Change in valuation allowance on financial instruments		(183)	(163)
Gains on assets and other financial assets	15	(1,699)	(972)
Interest paid	15	124	139
Others		(324)	(91)
Operating cash flow before change in working capital		13,937	(3,578)
Change in working capital ⁽¹⁾		(50,788)	205,166
Net cash generated from / (used in) operating activities		(36,851)	201,588
Acquisition of property and equipment		(1,350)	(1,072)
Acquisition of intangible assets ⁽¹⁾		(8,043)	–
Purchase of current financial instruments	4	(16,629)	(84,075)
Purchase of non-current financial instruments	4	(1,525)	(37,792)
Disposal of current financial instruments		78,565	–
Disposal of non-current financial instruments	4	7,793	5,995
Gains on assets and other financial assets	15	1,699	972
Net cash generated from / (used in) investing activities		60,510	(115,972)
Proceeds from the exercise / subscription of equity instrument	11	193	3,497
Repayment of financial liabilities	9	(685)	(452)
Interest paid	15	(124)	(139)
Purchase/sale of treasury shares		14	125
Net cash generated from / (used in) financing activities		(602)	3,032
Effect of the exchange rate changes		(23)	(63)
Net increase / (decrease) in cash and cash equivalents		23,036	88,584
Cash and cash equivalents at the beginning of the year	4	152,870	64,286
Cash and cash equivalents at the end of the year	4	175,906	152,870

(1) The presentation of the out-flows relating to the purchases of tangible assets was modified in the comparative column in order to take into consideration the payment in 2016 of the additional consideration to Novo Nordisk A/S (see Note 6).

CHAPTER 3 - FINANCIAL INFORMATION

3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

International Financial Reporting Standards

Change in working capital	Note	2016	2015	Variance
Current receivables and prepayments	5	32,390	16,216	(16,174)
Deferred revenue	13	(167,261)	(209,764)	(42,503)
Trade payables	8	(20,195)	(12,306)	7,889
Change in working capital		(155,066)	(205,854)	(50,788)

Change in working capital	Note	2015	2014	Variance
Current receivables and prepayments	5	16,216	10,075	(6,141)
Deferred revenue	13	(209,764)	(1,326)	208,438
Trade payables	8	(12,306)	(9,437)	2,869
Change in working capital		(205,854)	(688)	205,166

Statement of changes in shareholders' equity
(in thousand euros)

	Note	Number of shares (in thousand)	Share capital	Share premium	Consolidated reserves	Net loss	Other comprehensive income	Total attributable to equity holders of the Company
Balance as of December 31, 2014		52,970	2,648	181,746	(89,881)	(19,647)	(241)	74,626
Net loss for the year ended December 31, 2015		-	-	-	-	(6,706)	-	(6,706)
Change in fair value of marketable securities available for sale	4	-	-	-	-	-	(165)	(165)
Actuarial gains and (losses) on defined benefit obligations	10	-	-	-	-	-	(260)	(260)
Foreign currency exchange variation		-	-	-	-	-	(63)	(63)
Total comprehensive income for the year		-	-	-	-	(6,706)	(488)	(7,194)
Net loss appropriation for the year ended December 31, 2014		-	-	-	(19,647)	19,647	-	-
Exercise and subscription of equity instruments	11	864	43	3,453	-	-	-	3,496
Share-based payment	15	-	-	1,011	-	-	-	1,011
Treasury shares subject to the liquidity agreement		-	-	125	-	-	-	125
Others		-	-	-	2	-	-	2
Total contributions by and distributions to owners of the Company, recognized directly in equity		864	43	4,590	(19,644)	19,647	-	4,635
Balance as of December 31, 2015		53,834	2,692	186,337	(109,525)	(6,706)	(730)	72,067
Net income for the year ended December 31, 2016		-	-	-	-	12,640	-	12,640
Change in fair value of marketable securities available for sale	4	-	-	-	-	-	315	315
Actuarial gains and (losses) on defined benefit obligations	10	-	-	-	-	-	(69)	(69)
Foreign currency exchange variation		-	-	-	-	-	(18)	(18)
Total comprehensive income for the year		-	-	-	-	12,640	228	12,868
Net loss appropriation for the year ended December 31, 2015		-	-	-	(6,706)	6,706	-	-
Exercise and subscription of equity instruments		87	4	189	-	-	-	193
Share-based payment	11	-	-	1,032	-	-	-	1,032
Treasury shares subject to the liquidity agreement	15	-	-	14	-	-	-	14
Others		-	-	-	(4)	-	-	(4)
Total contributions by and distributions to owners of the Company, recognized directly in equity		87	4	1,234	(6,710)	6,706	-	1,234
Balance as of December 31, 2016		53,921	2,696	187,571	(116,235)	12,640	(503)	86,169

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1. The Company

Innate Pharma is a clinical-stage biotechnology company, specialized in immuno-oncology. The Company is discovering and developing first-in-class therapeutic antibodies that harness the innate immune system to improve cancer treatment and clinical outcomes for patients. Immuno-oncology is a new therapeutic field in the area of immunotherapy, that is changing cancer treatment by mobilizing the power of the body's immune system to recognize and kill cancer cells.

Innate Pharma's innovative approach has resulted in three first-in-class, clinical-stage antibodies, including two checkpoint inhibitors. These antibodies target natural killer cell receptors and may address a broad range of solid and hematological cancer indications. The most advanced, lirilumab, is currently tested in a program of Phase I and II clinical trials in combination with other therapeutic agents and is licensed to Bristol-Myers Squibb. Monalizumab, developed in partnership with AstraZeneca is currently tested in Phase I and I/II clinical trials program. IPH4102 is fully developed in-house by Innate-Pharma and currently tested in Phase I in cutaneous T cell lymphomas. The Company has other proprietary programs that are currently in preclinical development as well as innovative proprietary technologies.

In the long term, the Company intends to become a fully-integrated biopharmaceutical company, selling its products directly or through commercial partners.

From its inception to the fiscal year end December 31, 2015, the Company has incurred losses. The fiscal year end December 31, 2016 is the first period which the Company generates a net profit (€12.6 million). As of December 31, 2016, the shareholders' equity amounted to €86.2 million. Subject to perceive new milestone payments related to the Bristol-Myers Squibb agreement, the Company anticipates

incurring additional losses until such time, if ever, that it can generate significant revenue from its product candidates in development. Substantial additional financing will be needed by the Company to fund its operations and to commercially develop its drug candidates.

The Company's future operations are highly dependent on a combination of factors, including: (i) the success of its research and development; (ii) regulatory approval and market acceptance of the Company's proposed future products; (iii) the timely and successful completion of additional financing; and (iv) the development of competitive therapies by other biotechnology and pharmaceutical companies. As a result, the Company is and should continue, in the short to mid-term, to be financed through partnership agreements for the development and commercialization of its drug candidates and through the issuance of new equity instruments.

The Company's activity is not subject to seasonal fluctuations.

As of December 31, 2016, the Company had a fully owned subsidiary, called Innate Pharma, Inc., created in 2009 and registered in the Delaware, United States. The corporate purpose of this company consists of managing the business development activities in the United States. Innate Pharma, Inc. is dormant since January 1, 2011 and is fully consolidated.

The Executive board approved these consolidated financial statements on March 6, 2017. They will be submitted for approval at the Shareholders' General Meeting scheduled on June 23, 2017, which has the ability to amend them.

Key events of the fiscal year ended December 31, 2016

- On January 10, 2016, Innate Pharma and Orega Biotech announced that they have entered into an exclusive licensing agreement by which Orega Biotech grants Innate Pharma full worldwide rights to its program of first-in-class anti-CD39 checkpoint inhibitors. This license agreement arose from a fruitful research collaboration between the two companies initiated in 2014. The undisclosed upfront payment and an additional payment was paid by the Company to Orega Biotech and will be recognized as an intangible asset in the consolidated financial statements for the year ended

December 31, 2016. The accounting treatment of this operation is detailed in Note 6.

- On January 11, 2016, Sanofi and Innate Pharma announced that they have entered into a research collaboration and licensing agreement to apply Innate Pharma's new proprietary technology to the development of innovative bispecific antibody formats engaging NK cells to kill tumor cells through the activating receptor NKp46. Innate Pharma is eligible to up to €400 million in development and commercial milestone payments as well as royalties on net sales. This agreement has no impact in the

annual accounts consolidated to December 31, 2016.

- On November 10, 2016, the company became eligible to a \$15 million milestone owed by Bristol-Myers Squibb regarding to lirilumab license. This

payment which was received in 2017, was fully recognized in income of as per the terms of the collaboration and license agreement in 2016 as it creates no future service obligation (refer to Note 13).

Key events of the fiscal year ended December 31, 2015

- On April 24, 2015, Innate Pharma signed a co-development and commercialization agreement with AstraZeneca, along with MedImmune, to accelerate and broaden the development of its proprietary anti-NKG2A antibody, monalizumab (previously acquired from Novo Nordisk A/S), including in combination with durvalumab, an anti-PD-L1 immune checkpoint inhibitor proprietary of AstraZeneca. The financial terms of the signed agreement include cash payments of up to \$1.275 billion (including a non-refundable and non-creditable \$250 million initial payment) as well as double digit royalties on sales. The agreement includes co-promotion rights in Europe for 50% of the profits in this territory for Innate Pharma. According to this co-development agreement, Innate Pharma will carry out several Phase II trials. The accounting treatment of this agreement is described in Note 13.
- Following the AstraZeneca agreement, Novo Nordisk A/S is entitled to an additional consideration related to the acquisition of the anti- NKG2A rights (the agreement was signed on February, 2014). As of December 31, 2015, the Company accrued for a €6.3 million provision, the counterpart of it being recognized as an intangible asset. The final amount of this additional consideration amounted to €6.5 million.
- On October 3, 2015, the Company received a \$5 million milestone payment from Bristol-Myers Squibb as part of the lirilumab licensing agreement. This payment was entirely recognized in revenue in 2015 since there is no related service to be rendered by the Company. The accounting treatment is described in Note 13.

2. Accounting policies

a) Basis of preparation

Due to the listing of ordinary shares of Innate Pharma on Euronext Paris and in accordance with the European Union's regulation No. 1606/2002 of July 19, 2002, the consolidated financial statements of the Company for the year ended December 31, 2016 (the "Consolidated Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") and approved by the European Union ("EU") as of December 31, 2016.

Comparative figures are presented for December 31, 2015.

IFRS includes International Financial Reporting Standards ("IFRS"), International Accounting Standards ("the IAS"), as well as the interpretations issued by the Standing Interpretations Committee ("the SIC"), and the International Financial Reporting Interpretations Committee ("IFRIC"). The main accounting methods used to prepare the Consolidated Financial Statements are described below. These methods were used for the two years presented.

The Consolidated Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of marketable securities available for sale.

The assumption of going concern was used given the Company's financial position and liquidity to meet its financing needs for the next 12 months following the reporting date.

The preparation of financial statements in concordance with IFRS requires the Company to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates are used for, but not limited to, accounting of operational revenue, share-based compensation, provisions for risks as well as evaluation of current financial instruments. Actual results could differ from these estimates.

b) Recently issued accounting standards and interpretations

The standards and interpretations recently issued whose application is mandatory at December 31, 2016 are the following:

- Annual IFRS improvements (2012–2014)
- Amendments to IAS 1 “Presentation of Financial Statements – Disclosure initiative”
- Amendments to IAS 16 “Tangible assets” and IAS 38 “Intangible assets – Acceptable Methods of Depreciation and Amortisation”
- Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”
- Amendments to IAS 19 “Defined Benefit Plans – Employee Contributions”
- Amendments to IAS 27 “Equity Method in Separate Financial Statements”
- Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”
- Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”

None of these amendments and interpretations has had an impact on the Consolidated Financial Statements as of December 31, 2016.

At the date of the present consolidated accounts, the following standards and interpretations were adopted by the European Union with an early application.

- On July 24, 2014, the IASB issued the final version of IFRS 9 Financial Instruments (2014) which replaces IAS 39 Financial instruments: recognition and measurement, bringing together the classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is still in the process of assessing whether there will be a material change to its financial statements upon adoption of this new standard. The analysis is to reconsider, according to IFRS 9, the accounting treatment of the financial instruments held by the Company.
- On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative and relevant disclosures. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and a number of revenue-

related interpretations. This standard is effective for annual periods beginning on or after January 1, 2017. The Company is still in the process of assessing whether there will be a material change to its financial statements upon adoption of this new standard. The analysis is to reconsider, according to IFRS 15, the accounting treatment of the main license and collaboration contracts of the Company signed with Bristol-Myers Squibb in 2011 and AstraZeneca in 2015. This work will be done during the first half of the year 2017.

Opinions recently issued that could concern Companies but that have not been adopted by the European Union yet are the following:

- Annual improvements of the cycle 2014–2016.
- On January 1, 2014, the IASB issued IFRS 14 *Regulatory Deferral Accounts*. The European Union doesn't have initiated the approval process.
- On January 13, 2016, the IASB issued IFRS 16 *Leases: Implementation*, which replaces IAS 17 and the interpretations IFRIC 4, SIC 15 and SIC 27), has a mandatory effective date of January 1, 2019. The Company is still in the process of assessing whether there will be a material change to its financial statements upon adoption of this new standard.
- On June 20, 2016, the IASB issued amendments to IFRS 2 *Share-based payment* which is effective for annual periods beginning on or after January 1, 2018. The adoption of these new amendments will not have a material impact on the financial statements of the Company.
- On January 29, 2016, the IASB issued amendments to IAS 7 *Statement of Cash-Flows* which is effective for annual periods beginning on or after January 1, 2017. The adoption of these new amendments will not have a material impact on the financial statements of the Company.
- On January 19, 2016, the IASB issued amendments to IAS 12 *Income Taxes* with the objective to clarify the recognition of deferred tax assets related to unrealized losses, which is effective for annual periods beginning on or after January 1, 2017. The adoption of these new amendments will not have a material impact on the financial statements of the Company.
- Amendments to IFRS 4 related to the interactions between IFRS 4 and IFRS 9.

- Amendments to IAS 40 to clarify transfers of property to, or from, investment property.
- IFRIC 22 "Foreign currency transactions and advance consideration"

The Company has not early adopted the new accounting standards, amendments and interpretations.

Accounting policies and assessment principles adopted for the December 31, 2016 financial statements are identical to those adopted for the comparative year.

c) Change in accounting policies

There has been no change in accounting policies for any of the years presented.

d) Property and equipment

Property and equipment are carried at acquisition cost. Major renewals and improvements are capitalized while repairs and maintenance are expensed as incurred.

Depreciation is computed over the estimated useful lives of assets using the straight-line depreciation method. Leasehold improvements are depreciated over the life of the improvement or the remaining lease term, whichever is shorter.

The headquarters of the Company was split into several components (foundations, structure, electricity, heating and ventilation systems...) which are depreciated over different useful lives according to the anticipated useful life of these elements.

Depreciation periods are as follows:

Buildings and improvements on buildings	20 to 40 years
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Installations	5 to 20 years
Technical installations and equipment	8 years
Equipment and office furniture	5 years
Computers and IT equipment	3 years

Tangible assets are subject to an impairment test if there is any indication of impairment. When the net book value of an asset is higher than its recoverable value, an impairment is recognized to bring the net book value down to the recoverable value.

Any gain or loss at the disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognized in operating income (loss) of the period.

e) Intangible assets

Developments costs

In accordance with IAS 38 *Intangible assets* ("IAS 38"), expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Company's development activities is recognized only if all of the following conditions are met:

- Technically feasible to complete the intangible asset so that it will be available for use or sale;
- The Company has the intention to complete the intangible assets and use or sell it;
- The Company has the ability to use or sell the intangible assets;
- The intangible asset will generate probable future economic benefits, or indicate the existence of a market;

- Adequate technical, financial and other resources to complete the development are available;
- The Company is able to measure reliably the expenditure attributable to the intangible asset during its development.

Because of the risks and uncertainties related to regulatory authorizations, research and development ("R&D") process and future availability of technical, financial and human resources necessary to complete the development phases of its drug candidates, the Company believes that the six criteria stipulated by IAS 38 have not been fulfilled to date and the application of this principle has resulted in all development costs to be expensed as incurred in all periods presented.

f) Intangible assets acquired separately

Intangible assets acquired separately with a limited duration use are valued at their cost less the cumulated amortizations and depreciations. The amortization is linear according to the anticipated duration use. The estimated duration and the amortization method are reviewed during

each closing. The intangible assets acquired separately with an undefined duration use are valued to their cost less depreciation. An impairment test is realized during each closing.

g) Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise the cash that is held at the bank and petty cash as well as the short-term fixed deposits for which the recommended maturity is less than three months and the interest rate risk is very limited.

For the purpose of establishing the statement of cash flows, cash and cash equivalents include cash in hand,

sight deposits and short fixed-term deposits with banks and short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts. In the statement of financial position, bank overdrafts are included in financial liabilities.

Cash and cash equivalents are initially recognized at their purchase costs on the transaction date, and are subsequently measured at fair value. Changes in fair value are recognized in profit or loss.

h) Financial instrumentsClassification of financial instruments

Categories of financial assets	Definition	Valuation
Financial assets at fair value through profit or loss (e.g. primarily cash and cash equivalents)	Financial assets held for trading or designated on initial recognition to be measured at fair value.	Assets are valued at fair value and the variance between two periods is recognized in profit and loss
Held-to-maturity investments	Non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity	Assets are valued at amortized cost
Loans and receivables (e.g. accounts receivables)	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market	Assets are valued at amortized cost
Available-for-sale financial assets (e.g. short-term investments and non-current financial assets)	Non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified in another category	Assets are valued at fair value and the variance between two periods is recognized in equity

The presentation of financial assets by categories with fair value measurements is provided in Note 4.

In accordance with the amendments to IFRS 7 *Financial Instruments: Disclosures*, financial instruments are presented in three categories based on a hierarchical method used to determine their fair value:

- level 1: fair value calculated using quoted prices in an active market for identical assets and liabilities;
- level 2: fair value calculated using valuation techniques based on observable market data such as prices of similar assets and liabilities or parameters quoted in an active market;
- level 3: fair value calculated using valuation techniques based wholly or partly on unobservable

inputs such as prices in an inactive market or a

valuation based on multiples for unlisted securities.

Cash, cash equivalents, short term investments and non-current financial assets

Cash, cash equivalents and financial assets are composed of several types of instruments (see Note 5). Except for shares of mutual funds, all these instruments are designated as financial instruments measured at fair value through profit and loss according to the policy of the Company and in compliance with IAS 39.

Shares of mutual funds are considered as assets available for sale and are therefore measured at fair value through other comprehensive income.

The securities held by the company are non-representative titles of a share of capital, which is a transitional cash investment or permanent, not speculative. The company aims to obtain a minimum profitability measured in general with reference to the EONIA, by the perception of an income (interest or dividends) and/or the realization of added value on resale.

Trade receivables

Trade receivables represent short-term receivables valued at the amount of the original invoice. The book value corresponds to a reasonable approximation of the fair value.

A receivable is impaired if its book value is greater than its recoverable amount. The impairment is recognized in the statement of income (loss).

Financial liabilities

Financial liabilities are initially recognized on the transaction date, which is the date that the Company becomes a party to the contractual provisions of the instrument. They are derecognized when the Company's contractual obligations are discharged, cancelled or expire.

Financial liabilities comprise deferred revenue, loans and trade and other payables.

Financial liabilities are valued at amortized cost. The amount of interest recognized in financial expenses is calculated by applying the financial liability's effective interest rate to its carrying amount.

i) Income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Main temporary differences are generally associated with the depreciation of property and equipment, provisions for pension benefits and tax losses carried forward. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Due to the Company's present stage of development, which does not allow it to establish reliable estimations concerning future taxable income, the Company has not accounted for net deferred tax assets.

j) Research tax credit and subsidies

Research tax credit

The research tax credit (*Crédit d'Impôt Recherche*, the "Research Tax Credit" or "CIR") is provided by the French tax authorities in order to encourage them to conduct technical and scientific research. Companies that can justify that these expenses meet the required criteria receive such grants in the form of a tax credit that can be used for the payment of taxes due for the period in which the expense was incurred and for the next three years. These grants are presented in revenues on the line 'public funding of

research expenses', as soon as these eligible expenses were conducted.

The Company has benefited from a Research Tax Credit since its inception.

The Company received the reimbursement of the Research Tax Credit for the year 2015 during the year 2016. It has requested the reimbursement of the 2016 Research Tax Credit in 2017 under the European Community tax rules

for small and medium firms in compliance with the applicable regulations in effect.

From 2011, only companies that meet the definition of small and medium sized enterprises according to European Union criteria are eligible for early reimbursement of their Research Tax Credit receivable. Management ensured that

Subsidies

Government grants are recognized when there is a reasonable assurance that:

- The Company will comply with the conditions attached to the grants; and that
- The grants will be received.

Operating grants that offset expenses incurred by the group are booked in linear as income on the government financing for research expenditures' line according to the progress of the costs incurred on the related research programs.

A government grant that becomes receivable as compensation for expenses or losses already incurred, or

the Company is a SME according to European Union criteria and can therefore benefit from this early reimbursement.

The CIR is presented under other income in the statement of income (loss) as it meets the definition of government grant as defined in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* ("IAS 20").

for the purpose of providing immediate financial support to the Company with no future related costs, is recognized as other income of the period in which it becomes receivable.

Government grants to subsidize capital expenditures are presented in the statement of financial position as deferred income and are recognized as income on a straight line basis over the useful life of those assets that have been financed through the grants.

A non-repayable loan from the government is treated as a government grant when there is a reasonable assurance that the Company will meet the terms for non-repayment of the loan. When there is no such assurance, the loan is recorded as a liability under borrowings.

k) Employee benefits other than share-based compensation

Long term benefits

Company employees are entitled to pension benefits required by French law:

- Pension benefit, paid by the Company upon retirement ("Defined Benefit Plan"); and
- Pension payments from social security bodies, financed by contributions from businesses and employees ("Defined Contribution Plan").

In addition, the Company has implemented an additional, non-mandatory, pension plan ("Article 83"), initially for the benefit of executives only. This plan was extended to the non-executive employees starting on January 1, 2014. This other Defined Contribution Plan is financed through a contribution that corresponds to 2.0% of the annual employee's wage, with the Company paying 1.2% and the employee paying 0.8%.

For the Defined Benefit Plan, the costs of the obligations are estimated using the "projected unit credit" method. According to this method, the retirement cost is accounted for in the income statement, using an approach that divides

the cost equally over the length of time that the employee has worked for the Company in compliance with the advice given by a qualified actuary during the annual review of the valuation of this plan. Such pension benefits are valued using the actual present value of estimated future payments, adopting the rate of interest of long-term bonds in the private sector (i.e. Euro zone AA or higher rated corporate bonds + 10 years). Actuarial differences are recognized in the period in which they occur in the statement of comprehensive income. The Company's commitments under Defined Benefit Plan are not covered by any plan assets.

Payments made by the Company for Defined Contribution Plans are accounted for as expenses in the income statement in the period in which they are incurred.

The Company also pays seniority bonuses to employees reaching 10, 15 and 20 years of seniority. These bonuses represent long term benefits within the meaning of IAS 19R and therefore a provision was booked.

Short term benefits

A liability is recognized for the amount the Company expects to expense relating to the bonuses paid in cash on a short term basis if the Company has an actual legal or

implicit obligation to make to these payments in relation to services rendered and the obligation can be reliably estimated.

l) LeasesFinance leases

Leases of property and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Property and equipment acquired under finance-leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is divided between principal

repayment and interest expense so as to achieve a constant rate on the outstanding amount due. The corresponding rental obligations, net of interest expenses, are included in borrowings. The interest expense is charged to the income statement over the lease period. Property and equipment acquired under finance leases are depreciated over the useful life of the asset.

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating-leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

When a lease contract plan rent-free periods or when the paid rents are not equal on the contract duration, the minimum payments are deferred on a straight-line basis over the leasing period.

m) Trade payables

Trade payables are classified as current liabilities. They are initially recognized at cost. According to the delay between

the recognition and the payment, the value of these liabilities is generally equal to the nominal value.

n) Provisions

In the course of its business, the Company could be exposed to certain risks, notably in relation to contractual arrangements. Management of the Company estimates the probability and the expected amount of a cash outflow associated with risks, together with the other information to be provided on possible liabilities. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is

probable that the Company is subject to a release of outflow representatives of economic benefits to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is certain.

o) Revenue and other incomeRevenue from collaboration and license agreements

To date, the Company's revenue results primarily from payments received in relation to research, collaboration and licensing agreements signed with pharmaceutical companies. These contracts generally provide for components such as upfront payments, milestone payments upon reaching certain predetermined development objectives, or technology access fee, R&D funding, as well as payment of royalties on future sales of products.

Non-refundable upfront payments are deferred and recognized as revenue over the period the Company is engaged to deliver services to the third-party. The spreading of the revenue over this period can be done on a

straight-line basis or on the basis of the recognition of the related costs.

Milestone payments represent amounts received from the Company's collaborators, the receipt of which is dependent upon the achievement of certain scientific, regulatory, or commercial milestones. The Company recognizes milestone payments when the triggering event has occurred, there are no further contingencies or services to be provided with respect to that event, and the counterparty has no right to refund of the payment. The triggering event may be scientific results achieved by us or another party to the arrangement, regulatory approvals, or the marketing of products developed under the arrangement.

In addition, under the agreement with Bristol-Myers Squibb, the Company is reimbursed for some of its internal clinical costs, such as personnel costs associated with the management of clinical trials, or personnel involved in the production of batches necessary for the Company's ongoing clinical trials. These invoiced internal costs are

classified as "revenue" in the consolidated statement of income (loss).

The accounting impacts of our research, collaboration and licensing agreements are presented in Note 13.

Other income

Other income comprises the Research Tax Credit as well as subsidies received by the Company as disclosed above.

p) Share-based compensation

The Company has issued various equity instruments since its inception. For share-based compensation granted to employees, the Company uses the Black-Scholes option pricing model to determine the fair value of the share-based compensation. For other individuals providing similar services, as the Company cannot estimate reliably the fair value of the goods or services received, it measures the value of share-based compensation and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted also using the Black-Scholes option pricing model. The fair value of free shares included in the model is determined using the value of the shares at the time of their distribution.

In calculating the amount of share-based compensation, the Company also considers the vesting period mechanism and, the employee turnover weighted average probability as described in Note 14. The fair value of the share-based compensation and free shares are recognized as personnel expenses over the period in which the rights are acquired. Other assumptions used are also detailed in Note 14.

The equity instruments granted are not subject to any market conditions.

q) Other comprehensive income

Items of income and expenses for the period that are recognized directly in equity are presented under "other comprehensive income". For the periods presented, this line item notably includes the potential gains and losses on

available-for-sale financial assets until the date of their disposal, foreign exchange changes relating to the U.S. subsidiary's equity and the changes of actuarial assumptions relating to the defined benefit obligations.

r) Segment information

For internal reporting purposes, and in order to comply with IFRS 8 Operating Segments, the Company performed an analysis of operating segments. Following this analysis, the Company considers that it operates within a single operating segment being the R&D of pharmaceutical products in order to market them in the future. All R&D

activities of the Company are located in France. Key decision makers (the Executive Committee of the Company) monitor the Company's performance based on the cash consumption of its activities. For these reasons, the Management of the Group considers not appropriate to set up a separate business segments in its internal reporting.

s) Capital

Ordinary shares are classified in shareholders' equity. Costs associated with the issuance of new shares are directly accounted for in shareholders' equity in diminution of issuance premium.

The Company's own shares bought in the context of a brokering/liquidity agreement are presented as a reduction in shareholders' equity until their cancellation, their reissuance or their disposal.

t) Critical accounting estimates and assumptions

The preparation of the consolidated financial statements under IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. The Company bases estimates and assumptions on historical experience when available and on various factors that it believes to be reasonable under the circumstances. The Company's actual results may differ from these estimates under different assumptions or conditions. The only significant change of estimates over the periods presented related to the amortization plan of the anti-NKG2A intangible asset, which varies according to the expected completion date of the Phase II trials.

These estimates and judgments involve mainly:

- the accounting for collaboration and licensing agreements: when the Company is committed to perform R&D after the signing of an agreement, revenue is deferred on the basis of the estimated duration of its involvement. The determination of this duration depends on estimates. The durations are regularly updated to take into account the progress of developments and the remaining services to be rendered.
- the measurement of the accruals relating to the Company's clinical trial costs: the expense accruals for clinical trials are based on estimates of the fees associated with services provided by clinical trial investigational sites and Clinical Research Organizations. Payments under some of the Company's contracts with such parties depend on factors such as successful enrollment of patients, site initiation and the completion of clinical trial milestones. In accruing service fees, the Company estimates the time period over which services will be performed and the level of effort to be expended in each period. If possible, the Company obtains information regarding unbilled services directly from these service providers. However, we may be

required to estimate these services based on other information available to us. If we underestimate or overestimate the activity or fees associated with a study or service at a given point in time, adjustments to research and development expenses may be necessary in future periods. Historically, estimated accrued expenses have approximated actual expense incurred. Subsequent changes in estimates may result in a material change in accruals.

- the measurement of the fair value of share options, warrants and free shares granted to employees and non-employee members of the board of directors, scientific consultants and to service providers, performed on the basis of actuarial models; these models require the use by the Company of certain calculation assumptions such as the expected volatility of the share price (see Note 14).
- the measurement of our employee benefits obligations: the Company has recognized a defined benefit obligation of €2,082 thousand and a seniority award accrual of €336 thousand as of December 31, 2016 which are measured according to actuarial valuations. Inherent in these valuations are key actuarial assumptions such as the discount rate, mortality tables and rates of turnover in employee personnel. These assumptions are provided in Note 10 and a change in these actuarial assumptions could have a material impact on the financial statements.
- The measurement of contingencies and loss provision: As part of its activities, the Company may be exposed to some risks, in particular those related to contractual commitments. It is required that the Management of the Company to exercise its judgment to estimate the probability of cash outflow and, if applicable, the amount of this cash outflow and the information to provide on the contingent liabilities.

3. Management of financial risks and fair value

The principal financial instruments held by the Company are cash, cash equivalents and marketable securities. The purpose of holding these instruments is to finance the ongoing business activities of the Company. It is not the Company's policy to invest in financial instruments for speculative purposes. The Company does not utilize derivatives.

The principal risks to which the Company is exposed are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk.

Liquidity risk

Cash management of the Company is performed by the Finance department, in charge of monitoring the day-to-day financing and the short-term forecast and enables the Company to face its financial commitments by maintaining an amount of available cash consistent with the maturities of its liabilities. As of December 31, 2016, cash and cash

equivalents amounted to €175.9 million, which represents more than a year of cash consumption.

The main characteristics of the financial instruments owned by the Company (including liquidity) are presented in Note 4.

Foreign currency exchange risk

The Company is exposed to foreign exchange risk inherent in certain subcontracting activities relating to its operations in the United States, which have been invoiced in U.S. dollars. The Company does not currently have recurring revenues in euros, dollars or in any other currency. As the Company further increases its business, particularly in the United States, it is expected to face greater exposure to exchange rate risk.

In order to cover this risk, the Company kept in U.S. dollars a part of the \$250 million upfront payment received from AstraZeneca in June 2015 (see "Key events of the fiscal year ended December 31, 2015").

The Company's foreign exchange policy does not include the use of hedging instruments.

Interest rate risk

The Company has very low exposure to interest rate risk. Such exposure primarily involves money market funds and time deposit accounts. Changes in interest rates have a direct impact on the rate of return on these investments

and the cash flows generated. The Company has no credit facilities. The repayment flows of the advances from Bpifrance are not subject to interest rate risk.

Credit risk

The credit risk related to the Company's cash equivalents, short term investments and non-current financial assets is not significant in light of the quality of the issuers. The Company deemed that a non-significant portion representing 2.5% of portfolio is exposed to credit risk. More precisely, the Company holds €1.9 million of debt

instruments (*Titres de Créances Négociables*) as of December 31, 2016 which have a BB- rating. The Company has evaluated the credit risk of the related issuer of such debt instruments and concluded that there was no impairment to be recognized.

Fair value

The fair value of financial instruments traded on an active market is based on the market rate as of December 31, 2016. The market prices used for the financial assets owned by the Company are the bid prices in effect on the market as of the valuation date.

The nominal value, less the provisions for depreciation, of the accounts receivable and current liabilities, is presumed to approximate the fair value.

4. Cash, cash equivalents and financial assets

(in thousand euros)

As of December 31,

	2016	2015
Cash and cash equivalents	175,906	152,870
Short-term investments	21,782	83,040
<i>Cash and cash equivalents and short-term investments</i>	<i>197,688</i>	<i>235,910</i>
Non-current financial assets	32,975	37,784
Cash, cash equivalents and financial assets	230,664	273,704

CHAPTER 3 - FINANCIAL INFORMATION

3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

International Financial Reporting Standards

Cash and cash equivalents

Cash and cash equivalents are mainly composed of current bank accounts, interest-bearing accounts and fixed-term accounts.

(in thousand euros)	As of December 31,	
	2016	2015
Current accounts	65,516	11,887
Interest-bearing accounts	54,656	62,981
Fixed-term accounts	55,735	74,976
Others	–	3,026
Cash and cash equivalents	175,906	152,870

Fixed-term accounts meet the criteria to be considered as cash equivalents. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short

maturity of three months or less from the date of acquisition.

Assets classified as "Others" also meet these criteria.

Short term investments

(in thousand euros)	As of December 31,	
	2016	2015
Commercial papers	5,810	23,459
Medium-term notes (<i>Bons à moyen terme négociables</i>)	–	32,515
Mutual funds ("OPCVM")	15,972	23,892
Bond portfolio	–	882
Others	–	2,292
Short term investments	21,782	83,040

Maturity of the commercial papers is comprised between July and September 2017. These instruments are defined by the Company as financial assets at fair value through profit or loss.

Medium-term notes ("Bons à Moyen Terme Négociable" or "BMTN") classified as current financial assets are available on a quarterly or semi-annual basis. Capital is guaranteed and easily convertible in a well-known amount of cash. These instruments are defined by the Company as financial assets at fair value through profit or loss. This type of financial assets was disposed of during the fiscal year 2016 in the context of the cash strategy of the Company.

Parts of mutual funds are defined by the Company as assets available for sale measured at fair value through other comprehensive income. The Company only invests in funds with a very low level of risk. As of December 31, 2016, the Company owns shares of a mutual fund which risk profile according to the financial institution is rated 1 out of 7 (1 being the lowest risk profile). The maturity of the parts of mutual funds classified as current financial instruments is one year or shorter.

Non-current financial assets

(in thousand euros)	As of December 31,	
	2016	2015
Mutual funds ("OPCVM")	10,085	17,884
Other non-current financial instruments	16,608	15,359
Medium-term notes	4,748	4,541
Other non-current financial assets	1,534	–
Non-current financial assets	32,975	37,784

Medium-term notes classified as non-current financial assets are available before their maturity date, but with a risk on the capital invested. Capital is guaranteed and easily convertible in a well-known amount of cash at the maturity date. These instruments are defined by the Company as financial assets at fair value through profit or loss.

Parts of mutual funds are defined by the Company as assets available for sale measured at "Fair value through other comprehensive income". The Company only invests into funds with a very low level of risk. As of December 31, 2016, the Company owns shares of three mutual funds.

The risk profiles of these funds are rated 2 and 3 out of 7 by the financial institution who manages and commercializes these funds (1 being the lowest risk profile). The maturity of the parts of mutual funds classified as non-current financial instruments is longer than one year.

Other non-current financial assets generally include a guarantee of capital at the maturity date (which is always longer than one year). These instruments are defined by the Company as financial assets at fair value through profit or loss and classified as non-current due to their maturity.

Cash, cash equivalents and financial assets per currency

(in thousand euros)	As of December 31, 2016			As of December 31, 2015		
	€	\$	Total	€	\$	Total
Cash and cash equivalents	133,707	42,199	175,906	130,657	22,213	152,870
Short term investments and other non-current financial	19,623	35,134	54,757	65,572	55,262	120,834
Total	153,330	77,333	230,664	196,229	77,475	273,704

The portion of the financial assets held and denominated in U.S. dollars will be used by the Company to pay for services provided in the United States, which will be invoiced in U.S. dollars during the next few years.

Variance in fair value of financial instruments

(in thousand euros)	As of December 31,	
	2016	2015
Change in fair value through profit or loss ⁽¹⁾	824	(1,276)
Change in fair value through other comprehensive income ⁽²⁾	315	(165)

(1) See Note 15 – this amount is an offset of €919 thousand of unrealized gains and €95 thousand of unrealized losses, which are recognized in financial income and financial expense, respectively.

(2) Financial instruments for which the change in fair value is recognized through other comprehensive income are only composed of mutual funds.

5. Receivables and other current assets

Receivables and other current assets are analyzed as follows:

(in thousand euros)	As of December 31,	
	2016	2015
Research Tax Credit and other tax credits (e.g. CICE) ⁽¹⁾	8,925	7,151
Prepaid expenses	6,323	5,990
VAT refund	2,087	1,604
Trade account receivables	14,230	505
Prepayments made to suppliers	513	278
Brokering/liquidity agreement – cash	–	358
Other	312	330
Receivables and other current assets	32,390	16,216

(1) CICE (Crédit d'Impôt pour la Compétitivité et l'Emploi) is a tax credit to aid competitiveness and promote employment.

CHAPTER 3 - FINANCIAL INFORMATION

3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

International Financial Reporting Standards

The Company received the reimbursement of the Research Tax Credit for the year 2015 during the year 2016. It has requested the reimbursement of the 2016 Research Tax Credit in 2017 under the European Community tax rules for small and medium firms in compliance with the applicable regulation. The amount recognized as of December 31, 2016 in the statement of financial position primarily relates to the 2016 Research Tax Credit.

Changes in the Research Tax Credit over the last two periods are presented as follows (in thousand euros):

As of January 1, 2015	6,471
Other operating income	7,044
Payment received	(6,480)
As of December 31, 2015	7,035
Other operating income	9,061
Payment received	(7,035)
As of December 31, 2016	9,061

The net book value of the receivables is considered to be a reasonable approximation of their estimated fair value. "Trade account receivables" relate to Bristol-Myers Squibb (December 2016) and AstraZeneca (December 2015).

All receivables and other current assets have payment terms of less than one year. No valuation allowance was recognized on accounts receivable as there is no past due receivable.

6. Intangible assets

The Company's assets can be broken down as follows (in thousand euros):

	Purchased licenses	Other intangible assets	In Progress	Total
Year ended December 31, 2015				
Net opening balance	5,362	–	–	5,362
Reclassification	–	–	–	–
Acquisitions	6,325	–	17	6,342
Disposals	–	–	–	–
Depreciation	(1,955)	–	–	(1,955)
Net closing balance	9,732	–	–	9,732
Year ended December 31, 2016				
Net opening balance	9,732	–	–	9,732
Reclassification	31	–	–	31
Acquisitions	1,665	44	9	1,718
Disposals	–	–	–	–
Transfers	–	–	–	–
Depreciation	(2,406)	–	–	(2,406)
Net closing balance	9,022	44	9	9,075

Rights acquired from Novo Nordisk A/S

The Company signed a strategic collaboration with Novo Nordisk A/S in 2006. On February 5, 2014, Innate Pharma announced the acquisition from Novo Nordisk A/S of the full development and commercialization rights to the anti-NKG2A antibody, a first-in-class immune checkpoint inhibitor. Novo Nordisk A/S collected €2 million and 600,000 Innate Pharma's shares and is eligible to a total of €20 million as soon as the product is registered and royalties based on future sales. The financial contribution of €7 million was recognized as intangible assets representing the acquired rights to Novo Nordisk A/S.

This asset is amortized on a straight-line basis over the anticipated residual duration of the Phase II trials planned by the Company.

The agreement with Novo Nordisk A/S mentioned previously included a price supplement in case of out-licensing agreement signed between the Company and a third-party including an upfront payment. Consequently, following the agreement signed with AstraZeneca in April 2015, Novo Nordisk A/S is entitled to a price supplement on which the parties agreed subsequently. As of December 31, 2015, the best estimate of this additional consideration amounts to €6.3 million and has been added to the carrying amount of the asset. This amount has not been paid. This amount was booked as intangible asset and amortized following the same amortization plan as the €7.0 million initial payment. The final cost of this additional consideration amounted to €6.5 million (paid on April 2016).

Rights acquired from Orega Biotech

On January 10, 2016, Innate Pharma and Orega Biotech announced that they have entered into an exclusive licensing agreement by which Orega Biotech grants Innate Pharma full worldwide rights to its program of first-in-class anti-CD39 checkpoint inhibitors. The undisclosed upfront payment paid by the Company to Orega Biotech has been recognized as an intangible asset in the consolidated financial statements for

the year ended December 31, 2016. Besides, the criteria relating to the first development milestone were reached on December 9, 2016. Consequently, the amount of this milestone paid to Orega Biotech was recognized as an intangible asset in addition to the initial payment. This asset is not amortized and is part of an annual impairment test.

7. Tangible assets

	Land and buildings ⁽¹⁾	Laboratory equipments and other tangible assets	In Progress	Total
Year ended December 31, 2015				
Net opening balance	4,496	1,437	–	5,933
Acquisitions	–	906	166	1,072
Disposals	–	(2)	–	(2)
Depreciation	(298)	(402)	–	(700)
Net closing balance	4,197	1,940	166	6,304
Year ended December 31, 2016				
Net opening balance	4,197	1,940	166	6,304
Reclassification	–	(14)	(17)	(31)
Acquisitions ⁽²⁾	–	3,649	30	3,679
Disposals	–	(2)	–	(2)
Transfer	–	149	(149)	–
Depreciation	(297)	(560)	–	(857)
Net closing balance	3,900	5,164	30	9,094

(1) Gross value of the land €772 thousand is included in the caption and not amortized.

(2) Of which €2,258 thousand financed through finance-lease agreements.

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The table above includes the following tangible assets purchased through finance-lease agreements (in thousand euros):

	As of December 31,	
	2016	2015
Cost of land and building	6,633	6,633
Accumulated depreciation	(2,761)	(2,471)
Net book value of land and building	3,872	4,162
Cost of the equipment	3,675	1,417
Accumulated depreciation	(1,507)	(1,406)
Net book value of the equipment	2,168	11

8. Trade payables

This line item is analyzed as follows

	As of December 31,	
In thousand euros	2016	2015
Suppliers (except asset suppliers)	15,599	8,618
Tax and social liabilities	4,391	3,434
Other payables	205	254
<i>Operating trade payables</i>	<i>20,195</i>	<i>12,306</i>
Property, Plant and Equipment suppliers	70	6,325
Trade payables	20,265	18,631

The book value of trade payables is considered to be a reasonable approximation of their fair value.

As of December 31, 2015, the line item "Suppliers" includes an amount of €6.3 million relating to the additional consideration due to Novo Nordisk A/S (see Note 6).

9. Financial liabilities

This line item was broken down per maturity and is analyzed as follows:

	As of December 31,	
In thousand euros	2016	2015
Bpifrance PTZI IPH41	375	150
Lease finance obligations – Real estate property	718	472
Lease finance obligations – Equipments	171	–
Total – Current financial liabilities	1,264	622
Bpifrance PTZI IPH41	1,050	1,350
Lease finance obligations – Real estate transaction	1,853	1,782
Lease finance obligations – Equipments	1,160	–
Total – Non-current financial liabilities	4,063	3,132
Total financial liabilities	5,327	3,754

In 2013, the Company was granted an interest-free loan for innovation (PTZI) relating to the program IPH4102 for an amount of €1.5 million, the repayment schedule being detailed in the below table.

Finance lease obligations relate primarily to real estate property in relation to the acquisition by the Company of its headquarters and main laboratories and are presented in the above table net of the cash collateral paid to

Sogebail, the lessor. In the context of this operation, the Company paid a guarantee in the form of a down-payment. This down-payment amounts to €530 thousand as of December 31, 2016 (€667 thousand as of December 31, 2015).

In the table above, financial liabilities related to the lease finance obligations – real estate property realized in 2008 are net of the down payment granted to Sogébail.

The table below shows the schedule for repayment of financial liabilities (principal only, in thousand euros):

Repayment schedule	<1 year	2 to 5 years included	> 5 years	Total
Bpifrance	375	1,050	–	1,425
Lease finance obligations – Real estate property	862	2,239	–	3,101
Lease finance obligations – Equipments	171	697	464	1,331
Down payment in relation to finance lease	(144)	(386)	–	(530)
Total	1,264	3,600	464	5,327

The table below shows the schedule for the contractual flows (being principal and interest payments, in thousand euros):

Repayment schedule	<1 year	2 to 5 years included	>5 years	Total
Bpifrance PTZI IPH41	375	1,050	–	1,425
Lease finance obligations – Real estate property	956	2,331	–	3,287
Lease finance obligations – Equipments	179	718	469	1,366
Down payment in relation to finance lease	(167)	(408)	–	(575)
Total	1,343	3,691	469	5,503

Fair value of financial liabilities

The fair value of financial liabilities, calculated on the basis of discounted future cash flow, was €5,020 thousand and

€3,523 thousand as of December 31, 2016 and 2015, respectively, using level 3 fair value measurements.

10. Defined benefit obligations

Defined benefit obligations	As of December 31,	
	2016	2015
Allowance for retirement defined benefit	2,082	1,740
Allowance for seniority awards	336	–
Total – Defined benefit obligations	2,418	1,740

Defined benefit obligations are related to retirement costs. In France, pension funds are generally financed by employer and employee contributions and are accounted for as defined contribution plans with the employer contributions recognized as expense as incurred. There are no actuarial liabilities in connection with these plans.

Expenses recorded in the years ended December 31, 2015 and 2016 amounted to €667 thousand and €785 thousand respectively.

French law also requires payment of a lump sum retirement indemnity to employees based on years of service and

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annual compensation at retirement. Benefits do not vest prior to retirement. The Company pays for this defined benefit plan. It is calculated as the present value of estimated future benefits to be paid, applying the projected unit credit method whereby each period of service is seen as giving rise to an additional unit of benefit entitlement, each unit being measured separately to build up the final.

On March 24, 2016, the Company entered into an internal labor agreement with the employees representatives whereby the Company is committed to paying a seniority award after 15 years and 20 years of employment. This

award is paid on the anniversary date. A similar award existed for employees having a seniority of 10 years but was not booked due to its insignificant amount. As such, in 2016 the Company recorded a provision for seniority awards and a corresponding charge included in "Staff costs other than share-based payments" (see Note 14) other than payments in action. These awards are akin other long term benefits according to IAS 19. This provision is determined by an external actuary firm and amounts to €336 thousand as of December 31, 2016.

The main actuarial assumptions used to evaluate retirement benefits are the following:

	As of December 31,	
	2016	2015
<i>Economic assumptions</i>		
Discount rate (iBoxx Corporate AA) for retirement	1,50%	2.00%
Annual rate of increase in wages	3.00%	3.00%
<i>Demographical assumptions</i>		
Type of retirement	At the initiative of the employee	At the initiative of the employee
Rate of tax and social charges	49%	49%
Age at retirement		
– Executives	64 years	64 years
– Non-executives	62 years	62 years
Mortality table	TH-TF 00-02	INSEE TD/TV 2011-2013
Annual mobility	All personnel	All personnel
16-24 years	4%	6%
25-29 years	2.5%	4%
30-34 years	2%	2%
34-39 years	1.5%	1.5%
40-44 years	1%	1%
45-49 years	0.5%	0.5%
+ 50 years	0%	0%

Amounts recognized in the statement of financial position are determined as follows (in thousand euros):

As of December 31, 2014	1,094
Service cost	364
Net actuarial cost recognized during the period	22
Finance costs	–
Actuarial (gain) / loss	260
As of December 31, 2015	1,740
Service cost	336
Net actuarial cost recognized during the period	240
Actualization costs	33
Finance costs	–
Actuarial (gain) / loss	69
As of December 31, 2016	2,418

There is no asset covering the defined benefit obligations.

In accordance with IAS 19, the impact of the change in the actuarial assumptions was recognized for the years ended December 31, 2016 and 2015 in other comprehensive income for an amount of €69 thousand and €260 thousand in 2016 and 2015, respectively. An increase/decrease of +/- 50 basis points in the discount rate would result in a decrease/increase of the total benefit obligation of €224 thousand.

The main actuarial assumptions used to evaluate seniority awards as of December 31, 2016 are the following:

- Discount rate: 0.95%
- Rate of annual increase in wages: 3%
- Rate of contributions: 49%
- Rate of wage costs: 23.61%
- Age of retirement: 64 years for executives, 62 for non frames
- Mortality Table: TH – TF 00–02
- Annual mobility rate: 1.6% on average

11. Share capital

As of December 31, 2016 and 2015 the breakdown of share capital can be analyzed as follows (number of shares with a par value of €0.05).

In thousand of shares	As of December 31,	
	2016	2015
Common shares, opening	53,834	52,970
Share capital increase resulting from the exercise of securities giving access to the share capital	87	864
Share capital increase resulting from a fundraising	–	–
Common shares, closing	53,921	53,834

Details of changes in share capital over the two last fiscal years:

On February 5th, 2015 subsequent to the exercise of BSAAR 2011, BSAAR 2012 and Stock-options, the Executive board minuted a capital increase of €3,075 (61,500 new shares), bringing the share capital to €2,651,594.60.

On March 4th, 2015 subsequent to subscription of shares through employee saving plan and subsequent to the

exercise of Stock-options, the Executive board minuted a capital increase of €2,668.60 (53,372 new shares), bringing the share capital to €2,654,263.20.

On April 14th, 2015 subsequent to the exercise of BSAAR 2010, BSAAR 2012 and Stock-options, the Executive board

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minuted a capital increase of €4,425 (88,500 new shares), bringing the share capital to €2,658,688.20.

On July 1st, 2015 subsequent to the exercise of BSA 2008, BSA2011-1, BSA2011-2, BSA 2013, BSAAR 2010, BSAAR 2011, BSAAR 2012 and Stock-options, the Executive board minuted a capital increase of €17,529.30 (350,586 new shares), bringing the share capital to €2,676,217.50.

On July 8th, 2015 subsequent to the exercise of BSAAR 2010, BSAAR 2012 and Stock-options, the Executive board minuted a capital increase of €3,812.50 (76,250 new shares), bringing the share capital to €2,680,030.

On December 9th, 2015 subsequent to the exercise of BSA 2011-1, BSA 2011-2, BSA 2013, BSA 2013-1, BSA 2014, BSAAR 2010 and BSAAR 2012, the Executive board minuted a capital increase of €11,670.70 (233,414 new shares), bringing the share capital to €2,691,700.70.

On January 6th, 2016, subsequent to the exercise of BSAAR 2012, the Executive board minuted an increase in capital of a nominal amount of €135 (2,700 new shares), bringing the capital to €2,691,835.70.

On May 30th, 2016, subsequent to the exercise of BSA 2013, BSAAR 2011, 2012 and 2015, the Executive board minuted an increase in capital of a nominal amount of €2,947 (58,940 shares), bringing the capital to €2,694,782.70.

On November 3rd, 2016, subsequent to the exercise of BSAAR 2011 and BSAAR 2012, the Executive board minuted an increase in capital amount nominal of €1,282.50 (25,620 shares), bringing the capital to €2,696,065.20.

Securities giving access to the capital

Operations securities giving access to the capital during the last three fiscal years were as follows:

	BSA	Stock Options	BSAAR	AGAP Management	AGAP Employees	AGA Management	AGA Employees
Balance as of December 31, 2014	685,800	6,075	761,750				
Cancelled warrants and options – 2015							
Exercised warrants and options – 2015	(309,300)	(121,500)	(380,950)				
BSA attributed on April 27, 2015	70,000						
BSA attributed on July 1st, 2015	14,200						
BSAAR attributed on July 1st, 2015			1,050,382				
Balance as of December 31, 2015	460,700		1,431,182				
Cancelled warrants and options – 2016			2,720				
Exercised warrants and options – 2016	(25,000)		(62,290)				
AGAP Management attributed on October 21, 2016				2,000 ⁽³⁾			
AGAP Employees attributed on October 21, 2016					2,486 ⁽⁴⁾		
AGA Management attributed on October 21, 2016						50,000 ⁽¹⁾	
AGA Employees attributed on October 21, 2016							99,932 ⁽²⁾
AGAP Management attributed on December 30, 2016				3,000 ⁽⁶⁾			
AGA Management attributed on December 30, 2016						250,000 ⁽⁵⁾	
AGA Employees attributed on December 30, 2016							149,943 ⁽⁷⁾
Balance as of December 31, 2016	435,700		1,366,172	5,000	2,486	300,000	249,875

(1) Distribution of 50,000 AGA Management 2016-1, definitely attributed at the end of a three-year acquisition period, starting on October 21, 2016;

- (2) Distribution of 99,932 AGA Employees 2016-1, definitely attributed at the end of a one-year acquisition period, starting on October 21, 2016, followed by a two-year retention period, starting on October 21, 2017;
- (3) Distribution of 2,000 AGAP Management 2016-1, definitely attributed at the end of a one-year acquisition period, starting on October 21, 2016, followed by a two-year retention period, starting on October 21, 2017, giving right, in case of conversion, to a maximum of 400,000 ordinary shares;
- (4) Distribution of 2,486 AGAP Employees 2016-1, definitely attributed at the end of a one-year a one-year acquisition period, starting on October 21, 2016, followed by a two-year retention period, starting on October 21, 2017, giving right, in case of conversion, to a maximum of 497,200 ordinary shares;
- (5) Distribution of 250,000 AGA Management 2016-2, definitely attributed at the end of a three-year acquisition period, starting on December 30, 2016;
- (6) Distribution of 3,000 AGAP Management 2016-2, definitely attributed at the end of a one-year acquisition period, starting on December 30, 2016, followed by a two-year retention period, starting on December 30, 2017, giving right, in case of conversion, to a maximum of 600,000 ordinary shares;
- (7) Distribution of 149,943 AGA Employees 2016-1, definitely attributed at the end of a one-year acquisition period, starting on December 30, 2016, followed by a two-year retention period, starting on December, 2017.

- Circulating securities as of December 31, 2016

The circulating BSA as of December 31, 2016, give right to subscribe 435,700 new ordinary shares with a nominal value of €0.05 per share.

The circulating BSAAR as of December 31, 2016, give right to subscribe 1,366,172 new ordinary shares with a nominal value of €0.05 per share.

The circulating AGA as of December 31, 2016, will give right to the attribution, at the end of the attribution period mentioned above, to 549,875 new ordinary shares with a nominal value of €0.05 per share.

The circulating AGAP as of December 31, 2016, will give right, at the end of the attribution period mentioned above, to the subscription, in case of achievement of the performance criteria, to the conversion into a maximum of 1,497,200 new ordinary shares with a nominal value of €0.05 per share.

As of December 31, 2016, the BSA, BSAAR, AGA and AGAP, gave right, in case of maximum conversion of the AGAP, to the subscription of a maximum of 3,848,947 new ordinary shares, with a nominal value of €0.05 per share, representing 7% of the share capital.

- History of distributions

On March 27, 2014, the General Meeting of shareholders authorized the creation of 150,000 BSA ("BSA 2014") giving right to subscribe to 150,000 new shares. The Executive board, meeting on July 16, 2014, upon authorization of the Supervisory board, attributed 150,000 BSA ("BSA 2014") to consultants.

On April 27, 2015, the General Meeting of shareholders authorized the creation of 150,000 BSA ("BSA 2015") giving right to subscribe to 150,000 new shares. The Executive board, meeting on April 27, 2015, upon authorization of

the Supervisory board, attributed 80,000 BSA ("BSA 2015-1") to independent Supervisory board members and to members of Scientific Advisory Board and 70,000 of which have been subscribed by the beneficiaries, as minuted by the Executive board of September 25, 2015

The Executive board, using the same General Meeting's authorization than above, meeting on July 1st, 2015, upon authorization of the Supervisory board, attributed 25,000 BSA ("BSA 2015-2") to a new independent Supervisory board member and 14,200 of which have been subscribed by the beneficiary, as minuted by the Executive board of December 7th, 2015.

On April 27, 2015, the General Meeting of shareholders authorized the creation of 1,500,000 BSAAR ("BSAAR 2015") giving right to subscribe to 1,500,000 new shares. The Executive board, meeting on July 1st, 2015, upon authorization of the Supervisory board, attributed 1,499,207 BSAAR ("BSAAR 2015") to employees and members of Executive board and 1,050,382 of which have been subscribed by the beneficiary, as minuted by the Executive board of December 7, 2015.

On June 2, 2016, the General Meeting of shareholders authorized the free attribution of 7,500 preferred shares (AGAP) each convertible into a maximum of 200 ordinary shares, subject to the achievement of performance criteria.

On June 2, 2016, the General Meeting of shareholders authorized the free attribution of 600,000 free shares (AGA).

The Executive board, meeting on October 21, 2016, upon authorization of the Supervisory board, attributed 2,000 AGAP Management and 50,000 AGA Management to corporate officers and 2,486 AGAP Employees and 99,932 AGA Employees to employees.

The Executive board, meeting on December 30, 2016, upon authorization of the Supervisory board, attributed 3,000 AGAP Management and 250,000 AGA Management to a corporate officer and 149,943 AGA Employees to employees.

Holding by the Company of its own shares

From August 31, 2012, the Company has mandated Gilbert Dupont to manage the liquidity agreement. This liquidity contract has been ended at May 16, 2016. As a result of the termination of the liquidity contract, the Company held on December 31, 2016, 18,575 shares.

12. Financial instruments recognized in the statement of financial position and related effect on the income statement

The following tables show the carrying amounts and fair values of financial assets and financial liabilities. The tables do not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

As of December 31, 2016	Book value on the statement of financial position	Fair value through profit and loss ⁽¹⁾	Fair value through comprehensive income ⁽²⁾	Receivables ⁽³⁾	Fair value
Financial assets					
Other non-current assets	32,975	21,356	10,085	1,534	32,975
Current receivables	32,390	—	—	32,390	33,390
Short-term investments	21,782	5,810	15,972	—	21,782
Cash and cash equivalents	175,906	175,906	—	—	175,906
Total financial assets	263,053	203,072	26,057	33,924	263,053

Financial liabilities					
Other non-current liabilities ..	136	—	—	136	136
Non-current financial liabilities	4,063	—	—	4,063	4,063
Current financial liabilities	1,264	—	—	1,264	1,264
Trade payables	20,265	—	—	20,265	20,265
Total financial liabilities	25,729	—	—	25,729	25,729

As of December 31, 2015	Book value on the statement of financial position	Fair value through profit and loss ⁽¹⁾	Fair value through comprehensive income ⁽²⁾	Receivables ⁽³⁾	Fair value
Financial assets					
Other non current assets	37,784	19,900	17,784	—	37,784
Current receivables	16,216	—	—	16,216	16,216
Short-term investments	83,040	59,148	23,892	—	83,040
Cash and cash equivalents	152,870	152,870	—	—	152,870
Total financial assets	289,910	231,918	41,776	16,216	289,910

Financial liabilities					
Non current financial liabilities	3,132	—	—	3,132	3,132
Current financial liabilities	622	—	—	622	622
Trade payables	18,631	—	—	18,631	18,631
Total financial liabilities	22,385	—	—	22,385	22,385

- (1) The fair value of financial assets classified as fair value through profit and loss corresponds to the market value of the assets, which are primarily determined using level 2 measurements.
- (2) The fair value of financial assets classified as fair value through comprehensive income corresponds to the market value of the assets, which are primarily determined using level 1 measurements.
- (3) The book amount of financial assets and liabilities measured at amortized cost was deemed to be a reasonable estimation of fair value.

In accordance with the amendments to IFRS 7 "Financial Instruments: disclosures", financial instruments are presented in three categories based on a hierarchy of methods used to determine fair value:

Level 1: fair value determined based on quoted prices in active markets for assets or liabilities;

Level 2: fair value determined on the observable database for the asset or liability concerned either directly or indirectly;

Level 3: fair value determined on the basis of evaluation techniques based in whole or in part on unobservable data.

13. Revenue and other income

Revenue from collaboration and licensing agreements

The Company's revenue from collaboration and licensing agreements amounts to €56,159 thousand and €17,906 thousand for the year ended December 31, 2016 and 2015 respectively and is mainly composed of revenue from collaboration and licensing agreements signed with Bristol-Myers Squibb ("BMS") in 2011 and AstraZeneca ("AZ") in 2015 which are described below:

(in thousand euros)	Year ended December 31,	
	2016	2015
AZ: recognition of the initial payment collected in 2015	41,577	12,069
BMS: recognition of the initial payment collected in 2011	442	882
BMS: development milestone	13,768	4,453
BMS: invoicing of FTEs	485	484
Others	(112)	18
Revenue from collaboration and licensing agreements.....	56,159	17,906

The following table presents the evolution of the deferred revenue:

(in thousand euros)	AZ initial payment	BMS initial payment	BMS FTEs	Others	Total
As of December 31, 2014	-	1,324	-	2	1,326
BMS - Invoicing of FTEs	-	-	969	-	969
AZ - Invoicing of the initial payment	220,907	-	-	-	220,907
Recognition in P&L	(12,069)	(882)	(484)	(2)	(13,437)
As of December 31, 2015	208,838	442	485	-	209,764
Recognition in P&L	(41,577)	(442)	(485)	-	(42,504)
As of December 31, 2016⁽¹⁾	167,261	-	-	-	167,261

(1) Including €54,912 thousand classified as current liabilities and €112,348 thousand classified as non-current liabilities

- *Agreement with BMS relating to lirilumab:* the Company granted exclusive worldwide rights to BMS to develop, manufacture and commercialize lirilumab and related compounds that block KIR receptors. BMS funds the development of lirilumab and we are eligible to receive payments over the entire duration of the project if it proves to be successful, including payments upon achievement of development milestones and royalties on sales. In addition to an initial payment of \$35.3 million received in 2011, the agreement calls for additional payments of up to \$430 million based on the achievement of pre-specified milestones during the development and commercialization period, as well as pre-specified tiered double-digit royalty payments on worldwide net sales.

An upfront payment has been received in July 2011 following the agreement with BMS for an amount of €24.9 million (\$35.3 million). The non-refundable and non-creditable amount of the upfront payment was recognized in revenue during the expected period of duration of the clinical program in progress at the date of the contract. The amount recognized in revenue amounted to €0.4 and €0.9 million for the years ended December 31, 2016 and 2015, respectively.

On October 3, 2015, the Company received a \$5 million (€4.5 million) milestone payment as part of this licensing agreement. This payment was triggered by the dosing of a first patient in a Phase II trial of lirilumab in combination with rituximab in patients with relapsed/refractory or high-risk untreated Chronic Lymphocytic Leukemia. This payment was entirely recognized in revenue in 2015 since there is no related service to be rendered by the Company.

On November 10, 2016, Bristol-Myers Squibb informed the Company of its eligibility to a \$15 million (€13.8 million) milestone payment as part of this licensing agreement. This payment was triggered by the presentation at the SITC annual meeting (November 2016) of encouraging preliminary activity results from the cohort of patients with SCCN of a Phase I/II trial. This payment was entirely recognized in revenue in 2016 since there is no related service to be rendered by the Company. The payment occurred in January 2017.

- *Agreement with AZ relating to monalizumab:* the Company entered into a global co-development and commercialization agreement with AstraZeneca for monalizumab in April 2015. The Company is eligible to receive cash payments of up to \$1.275 billion as well as double-digit royalties and received an initial payment of \$250 million on June 30, 2015. In addition, the agreement calls for AZ to pay the Company an additional \$100 million prior to initiation of Phase III development, as well as additional regulatory and sales-related milestones of up to \$925 million. AZ will pay double-digit royalties on net sales to the Company. The arrangement provides the Company with the right to co-promote in Europe for a 50% profit share in the territory.

As a result, the Company has recognized the upfront payment over the period during which the Company is committed to complete the studies and based on actual expenses incurred, for an amount of €41.6 million for the year ended December 31, 2016. The measurement of progress has been based on actual expenses incurred compared to the total estimated amount of expenses to be incurred for these studies.

Government financing for research expenditures

The Company receives grants from the European Commission and French government and state organizations in several different forms:

- Investment and operating grants; and
- Research Tax Credits.

The total amount for government financing for research expenditures recorded as other income in the income statement can be analyzed as follows (in thousand):

(in thousand euros)	Year ended December 31,	
	2016	2015
Research Tax Credit	9,082	7,045
Grant	479	190
Government financing for research expenditures	9,561	7,235

14. Operating expenses by nature

(in thousand euros)

Year ended December 31,

	2016			2015		
	G&A*	R&D**	Total	G&A	R&D	Total
Other purchases and external expenses	(4,809)	(31,213)	(36,022)	(2,079)	(15,643)	(17,722)
Employee benefits other than share-based compensation	(3,829)	(8,967)	(12,796)	(3,251)	(6,891)	(10,142)
Depreciation and amortization	(193)	(3,070)	(3,263)	(130)	(2,525)	(2,655)
Employee benefits – Share-based	(396)	(636)	(1,032)	(443)	(569)	(1,011)
Cost of supplies and consumable materials	–	(2,852)	(2,852)	–	(2,607)	(2,607)
Intellectual property expenses	–	(1,235)	(1,235)	–	(1,216)	(1,216)
Other income and (expenses), net	(295)	(655)	(950)	(105)	(455)	(560)
Total net operating expenses	(9,522)	(48,628)	(58,150)	(6,008)	(29,906)	(35,914)

* G&A : General and administrative

** R&D : Research and development

Other purchases and external expenses

(in thousand euros)

Year ended December 31,

	2016			2015		
	G&A	R&D	Total	G&A	R&D	Total
Subcontracting ⁽¹⁾	–	(28,329)	(28,329)	–	(12,705)	(12,705)
Travel expenses and congress attendance	(337)	(886)	(1,223)	(226)	(885)	(1,111)
Non-scientific advisory and consulting ⁽²⁾	(3,238)	(133)	(3,371)	(970)	(355)	(1,325)
Leasing and maintenance	(404)	(1,014)	(1,418)	(193)	(794)	(987)
Scientific advisory and consulting ⁽³⁾	–	(585)	(585)	–	(753)	(753)
Marketing, communication and public relations	(450)	(58)	(508)	(288)	(68)	(356)
Attendance fees	(200)	–	(200)	(187)	–	(187)
Insurance	(90)	(50)	(140)	(96)	(18)	(114)
Others, net	(90)	(158)	(248)	(119)	(65)	(184)
Other purchases and external expenses	(4,809)	(31,213)	(36,022)	(2,079)	(15,643)	(17,722)

(1) The Company subcontracts a significant part of its preclinical (pharmaceutical development, tolerance studies and other model experiments, etc.) and clinical operations (coordination of trials, hospital costs, etc.) to third parties. Associated costs are recorded in subcontracting on the basis of the level of completion of the clinical trials. The increase between 2015 and 2016 is essentially due to the progress of the preclinical and clinical programs.

(2) Non-scientific advisory and consulting are services performed to support the selling, general and administration activities of the Company, such as legal, accounting and audit fees as well as business development support. The increase between 2015 and 2016 results from advisory fees in relation with the Company's structuring in a context of strong growth. The table below details the audit fees per Audit Firm:

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(in euros)

Year ended December 31,

	2016			2015		
	Audit Conseil Expertise – PKF	Deloitte & Associés	Total	Audit Conseil Expertise – PKF	Deloitte & Associés	Total
Audit fees	(98,745)	(565,482)	(664,227)	(74,003)	(79,203)	(153,206)
Non-audit fees	(13,518)	(487,327)	(500,845)	–	(4,000)	(4,000)
Total net	(112,263)	(1,052,809)	(1,165,072)	(74,003)	(83,203)	(157,206)

(3) Scientific advisory and consulting expenses relate to consulting services performed by third parties to support the R&D activities of the Company.

Employee benefits other than share-based compensation

The line item amounted to €12,796 thousand and €10,142 thousand for the years ended December 31, 2016 and 2015 respectively. The Company had 154 employees as of December 31, 2016, compared to 118 as of December 31, 2015.

The Company benefited from the “competitiveness and employment tax credit” (CICE) for an amount of €154 thousand for the fiscal year 2016 (€116 thousand for 2015). This tax credit will be mainly used to reinforce the research teams. It is deducted from the line item “Employee benefits other than share-based compensation”.

Depreciation and amortization

The line item is mainly composed of the amortization of the anti-NKG2A intangible asset (see Note 6).

Cost of suppliers and consumable materials

Cost of supplies and consumable materials consists mainly of the cost of procurement of the Company's drug substance and/or drug product that is manufactured by

third-parties. This line item amounts to €2,852 thousand and €2,607 thousand for the years ended December 31, 2016 and 2015, respectively.

Intellectual property expenses

Intellectual property expenses amounted to €1,235 thousand and €1,216 thousand for the fiscal years ended December 31, 2016 and 2015, respectively.

For the acquisition of intellectual property rights from third parties, excluding the acquisitions of patents by way of assignation, the Company has three different types of agreements:

- exclusive option agreements, which correspond to an exclusive period during which the Company evaluates the opportunity to acquire the licensing rights of the intellectual property subject to the option agreement. The Company generally pays an option fee and bears the past and/or present intellectual property expenses related to the invention subject to the option agreement;
- exclusive licensing agreements of which the duration varies according to contractual conditions but which

is generally the same as the life of the underlying intellectual property. The Company pays the past and/or present expenses related to the intellectual property and also costs related to access to technology, milestone payments when they are achieved and in the case of marketing of the products/technologies covered by the intellectual property, royalties on sales; and

- exclusive collaboration and licensing agreements including some exclusive collaboration on a specific work program or for a specific area of which the duration is limited in time, and an exclusive license of a varying duration according to contractual conditions but which generally coincides with the life of the underlying intellectual property. The Company agrees to bear research and development expenses for the exclusive collaboration part, and, for the exclusive license part, pays fees to access

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technology, intellectual property expenses, milestone payments when they are achieved and in the case of marketing of the products/technologies

covered by the intellectual property, royalties on sales.

Employee benefits – Share-based compensation

The share-based compensation expenses are broken down as follows (in thousand euros):

	Year ended December 31,	
	2016	2015
BSA ("Bons de souscription d'actions")	–	628
Free shares	210	383
Free preferred shares	822	–
Share-based compensation	1,032	1,011

BSAAR ("Bons de souscription et/ou d'acquisition d'actions remboursables")

During the year 2015, the Company granted BSAAR to its employees. The valuation of these BSAAR has been measured according to a Black-Scholes methodology. A reduction was then applied to the fair value in order to take into consideration the clauses of non-transferability and non-exercisability. The main assumptions used in the Black-Scholes pricing model were as follows:

BSAAR 2015	
Beneficiaries	Employees
Subscription date	December 2015
Authorized number	1,500,000
Subscribed number	1,050,382
Subscription price in euros	1.15
Expiration date	December 2025
Acquisition period	24 months
Underlying asset market price in euros	€13.77
Exercise price in euros	€7.20
Return on dividend	None
Volatility	41.00%
Free risk interest	1.218%
Expected maturity	10 years
Estimated fair value in euros	1.15

The subscription price paid by employees is equal to the fair value determined by the calculation. Accordingly, the amount to recognize for the shares payments is nil.

Share-based compensation

For calculation of the BSA, the main assumptions used in the Black-Scholes option pricing model were as follows:

	BSA 2015-1	BSA 2015-2
Beneficiaries	Supervisory board and Scientific Board members	Executive board member
Subscription date	September 2015	December 2015
Authorized number	80,000	25,000
Subscribed number	70,000	14,200
Subscription price in euros	0.96	1.41
Expiration date	April 2025	June 2025
Acquisition period	None	None
Underlying asset market price in euros	€13.65	€13.64
Exercise price in euros	€10.22	€14.01
Return on dividend	None	None
Volatility	54.08%	47.83%
Free risk interest	0.25%	0.25%
Expected maturity	5.5 years	5.5 years
Estimated fair value in euros	6.59	4.73

Free shares

The expenses relating to the free shares granted in 2015 was calculated using the closing price of the Innate Pharma share at grant date. In the absence of acquisition period, the expense was entirely recognized during the 2015 fiscal year.

Contrary to the free shares granted in 2015, the shares granted in 2016 include either a one year acquisition period followed by a two years non-transferability period or

a three years acquisition period. The expense relating to these free shares was calculated using the closing price of the Innate Pharma share at grant date, reduced when necessary of an estimated turn-over rate and a discount for non-transferability. The recognition of this expense is recognized on a straight-line basis over the acquisition period. As of December 31, 2016, the expenses related to free shares amounted to €210 thousand.

Free preferred shares

The free preferred shares granted in 2016 are subject to internal and external objectives measured over a three-year period, such as the amount of revenue recognized or the number of trials going into phase III or obtaining approval for commercialization as well as the evolution of the stock price. The valuation of the free preferred shares was performed by an external party. We recognized employee share-based compensation expense relating to the free preferred shares over a one-year vesting period on a straight-line basis. The corresponding expense for the fiscal year 2016 amounted to €822 thousand.

The valuation of free preferred shares is a 3 step process:

- The appreciation of the internal condition, which implies the modelisation of the turnover resulting from existing or future collaboration or license agreements or the reaching of Phase III or market authorizations between mid-2016 and mid-2019;
- The evaluation of the expected gains associated to the internal condition and the stock-market condition, performed on the basis of a CAPM modelisation of the stock price using a Monte-Carlo approach;

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- The results are adjusted by the expected turnover rate, which takes into consideration the categories of the beneficiaries of the plan, the historical rate and the non-transferability of the shares.

The main assumptions used for the calculation of the free preferred shares are the following:

	AGAP 2016-1	AGAP 2016-2
Beneficiaries	Executive Committee members and employees	Executive Committee member
Grant date	October 2016	December 2016
Number of AGAP granted	4,486	3,000
Acquisition date	October 2017	December 2017
Non transferability period	2 years after acquisition date	2 years after acquisition date
Return on dividend	None	None
Reference stock price	€10.87	€12.73
Volatility (excluding "Alpha")	40%	40%
Turn-over rate (yearly basis)	5%	9%
Non transferability discount (yearly basis)	5.72%	5.72%
Estimated fair value in euros	€911	€956

As of December 31, 2016, an employer's contribution accrual related to the free shares and free preferred shares was booked for an amount of €136 thousand.

15. Financial income / (expense)

Financial income and (expense) can be analyzed as follows (in thousand euros):

(in thousand euros)	Year ended December 31,	
	2016	2015
Gains on financial assets	1,882	1,018
Foreign exchange gains	4,582	4,747
Other financial income	863	990
Financial income	7,327	6,755
Unrealized losses on financial assets	(81)	(1,322)
Interest on financial liabilities	(124)	(139)
Foreign exchange losses	(1,699)	(265)
Other financial expenses	(53)	(963)
Financial expenses	(1,957)	(2,689)
Financial income, net	5,370	4,066

For the fiscal year 2016, the foreign exchange gains and losses mainly result from the strong variance of the exchange rate between the Euro and the U.S. dollar.

For the fiscal year 2015, the foreign exchanges gain mainly results from an exchange gain relating to the collection of the AstraZeneca upfront payment (€2.5 million) and the

exchange differences as of December 31, 2015 relating to the financial instruments (€1.4 million).

Unrealized losses on financial assets relate to unquoted instruments, the fair value of which is determined using level 2 measurements.

16. Income Tax

Taking into account its stage of development, which prevents management from making sufficiently reliable taxable income forecast, the Company does not recognize deferred tax assets. Temporary differences mainly results from finance leases, provision for defined benefit obligation and tax losses carryforwards. As of December 31, 2016, the net amount of deferred tax asset excluding tax losses carryforwards was €184 thousand (€185 thousand of deferred tax liability as of December 31, 2015).

As of December 31, 2016, the amount of accumulated tax loss carryforwards since inception was €163 million with no expiration date (€167 million as of December 31, 2015).

The income tax payable, in respect of the fiscal year ended 31 December 2016, amounts to €0.3 million. As part of the nature of its revenues, the Company is subject to the regime of capital gains income from intellectual property and therefore benefits from the reduced 15% tax rate.

Tax rate reconciliation

(in thousand euros)

	Year ended December 31,	
	2016	2015
Income before taxes	12,941	(6,706)
Statutory tax rate	33.33%	33.33%
Tax benefit / (loss) calculated at statutory tax rate	(4,313)	2,235
Increase/decrease in tax expense arising from:		
Research Tax Credit	3,020	2,348
Provision for defined benefit obligations	(226)	(215)
Share-based compensation	(344)	(337)
Non-recognition of deferred tax assets related to tax losses and temporary differences	1,003	(4,135)
15% discount tax rate from intellectual property revenues	368	-
Other differences	191	105
Effective tax expense	(301)	-
Effective tax rate	2.3%	0%

17. Commitments, contingencies and litigations

Commitments

Financial leasing – Real estate

Due to the increase of employees, the Company signed at February 1, 2016 a lease to rent a new building. The lease covers a period of two years with possibility of extension

for an additional year. As of December 31, 2016, the commitment related to the rent for the remaining period of 2 years amounts to €211 thousand.

Consumable purchases

As part of a supply of scientific equipment, the Company was committed towards a supplier to minimum annual purchases of consumables. At December 31, 2016, the

overall commitment was amounting to €648 thousand for the period from December 2016 to June 2020.

Rentals of copiers and company cars

The Company signed leases for its copiers and its company cars. As of December 31, 2016, all these commitments totaled €95 thousand.

Contingencies and litigations

On April 4, 2012, Platine Pharma Services SAS, our former subsidiary, received a tax notice suggesting that it should pay a tax on salaries of €91 thousand. The management of Platine Pharma Services does not agree with this position on the ground that the status of Platine Pharma Services is exempt from such tax as it is a commercial company. The period subject to the tax audit was prior to the acquisition by Transgene of an equity interest in Platine Pharma Services which was at the time a wholly-owned subsidiary of Innate Pharma. Therefore, in accordance with the liabilities guarantee clause, the contingent liability resulting from this adjustment would be borne by the former parent company. Based on an assessment of the technical merits

of this position, the Company believes that it is not probable that an outflow of resources embodying economic benefits will be required to settle the contingency and, as a result, has not recognized a provision in the consolidated financial statements.

Innate Pharma is exposed to contingent liabilities relating to legal actions before the labor court happening in the ordinary course of its activities. Each known litigation or procedure in course the Company is involved in was analyzed at the closing date after consultation of advisors.

18. Related party transactionsMembers of the Executive board and Executive Committee

For each of the period presented, the following compensation was granted to the eight members of the executive committee of the Company and were recognized as expense (in thousand euros):

	Year ended December 31,	
	2016	2015
Salaries and other short-term employee benefits	1,836	1,491
Extra pension benefits	8	7
Advisory fees	460	542
Share-based compensation	419	-
Executive Committee members compensation	2,723	2,040

Out of the eight members of the Executive Committee, four of them are also members of the Executive board.

Salaries and other short-term employee benefits correspond to amounts effectively paid during the calendar year to which they relate.

As of December 30, 2016, Mr. Mondher Mahjoubi replaced Mr. Hervé Brailly as Chairman of the Executive board.

Calculation of share-based compensation is detailed in Note 14.

Members of the Supervisory board

The Company recognized a provision of €200 thousand for attendance fees (*jetons de présence*) relating to the fiscal year ended December 31, 2016 which should be paid in 2017.

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Related parties

The Company is linked to Novo Nordisk A/S by two licensing agreements related to the drug-candidates lirilumab and monalizumab. Under the terms of the agreement, Novo Nordisk A/S is eligible to receive milestone payments as well as royalties on future sales.

As mentioned in Note 9, Bpifrance granted the Company a €1.5 million interest free loan (Prêt à Taux Zéro Innovation, or "PTZI"). This loan will be reimbursed starting in September 2016 over a 5 year period.

Subsidiaries

The business relationships between the Company and its subsidiary are governed by intra-group agreements, concluded at standard conditions on an arm's length basis.

Participations

None.

Miscellaneous

As of December 31, 2016 and 2015, the Company did not identify any management and/or equity relationship between the major suppliers used in 2016 and 2015 and

the members of its Supervisory board, its Executive board or its Executive Committee.

19. Loss per share

Basic loss per share

Basic loss per share are calculated by dividing the net loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Year ended December 31,	
	2016	2015
Net income (loss)	12,640	(6,706)
Weighted average number of ordinary shares in circulation (in thousands)	53,869	53,400
Basic loss per share (€ per share)	0.23	(0.13)

Diluted loss per share

Diluted loss per share are calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of December 31, 2015, because of the losses generated by the Company, warrants, stock-options and free shares allocated but not yet acquired do not have any dilutive impact.

	Year ended December 31,	
	2016	2015
Net income (loss)	12,640	(6,706)
Weighted average number of ordinary shares in circulation (in thousands)	54,592	53,400
Adjustments for warrant and share options	905	-
Diluted loss per share (€ per share)	0.23	(0.13)

20. Events after the reporting date

On February 6, 2017, the Company announced top-line results from the EffiKIR trial evaluating the efficacy of lirilumab as a single agent in elderly patients with acute myeloid leukemia. The trial did not meet the primary efficacy endpoint but confirms the tolerance profile of lirilumab as a monotherapy. This result does not call the potential of lirilumab into question which is currently being tested by Bristol-Myers Squibb in a broad and comprehensive combination programs in multiple indications. As a consequence, this does not affect the continuity of the Company's operations.

In March 2017, the Company announced that its partner Bristol-Myers Squibb has amended the clinical trial protocol for its ongoing Phase I/II trial evaluating the safety and tolerability of lirilumab in combination with nivolumab in patients with advanced refractory solid tumors. Under the amended protocol, the study includes additional cohorts of nivolumab plus lirilumab in solid tumors, including a randomized cohort exploring nivolumab with or without lirilumab in platinum refractory recurrent or metastatic SCCHN, and initial testing of the triplet combination of nivolumab, ipilimumab and lirilumab in solid tumors.

3.3.2. Statutory auditors' report on the consolidated financial statements For the year ended December 31, 2016

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in the French language and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes explanatory paragraphs discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report should be read in conjunction and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In accordance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying consolidated financial statements of Innate Pharma;
- the justification of our assessments;
- the specific verification required by law.

The consolidated financial statements have been approved by the Executive board. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group and of the results of its operations for the year then ended in accordance with IFRSs as adopted by the European Union.

II. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (Code de Commerce) relating to the justification of our assessments, we bring to your attention the following matters:

Accounting principles:

Note 2e to the consolidated financial statements describes the accounting treatment applied to intangible assets and research and development expenses incurred by your Company.

Note 2o to the consolidated financial statements outlines the accounting policies relating to revenue and particularly revenue generated by licensing agreements and research and development services.

As part of our assessment of the accounting policies adopted by your Company, we verified the appropriateness of the aforementioned accounting methods and the disclosures in the notes to the consolidated financial statements and verified their correct application.

Accounting estimates:

Note 2t to the consolidated financial statements states that management estimates the length of your Company's involvement in future research and development commitments. Our work consisted in assessing the data and assumptions used and verifying the mathematical accuracy of the calculations performed by your Company to determine the amount of revenue from cooperation and licensing agreements.

Note 2t to the consolidated financial statements states that management estimates the stage of completion of research and development work when accounting for relevant subcontracting costs. Our work consisted in assessing the data and assumptions used and verifying the mathematical accuracy of the calculations performed by your Company to determine the percentage of completion and apply it to the total cost of the contract.

Note 2t to the consolidated financial statements states that management measures the fair value of equity instruments granted to employees or service providers using mathematical models which require the adoption of certain calculation assumptions. Our work consisted in assessing the reasonableness of the data and assumptions underlying these estimates, and verifying the mathematical accuracy of the calculations performed by your Company.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verification

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Marseille, March 29, 2017
The Statutory Auditors

Audit Conseil Expertise SAS
Member of PKF International

Deloitte & Associés

Nicolas Lehnertz

Hugues Desgranges

3.3.3. Financial statements Prepared under Generally Accepted Accounting Principles in France as of December 31, 2016

Accounting principles in France

Balance Sheet (in thousand euros)

	Note	As of December 31,	
		2016	2015
Assets			
Non-current assets			
Intangible assets	3	9,075	9,745
Buildings	4	29	36
Property and equipment	4	2,845	1,712
Other tangible fixed assets	4	186	376
Financial assets	5	33,072	38,345
Total non-current assets		45,207	50,214
Current assets			
Trade accounts receivables	6	14,230	525
Other receivables	7	12,691	10,010
Short term investments	8	21,652	82,998
Cash and cash equivalent	8	175,893	152,843
Total current assets		224,466	246,376
Adjustment accounts			
Prepaid expenses	9	6,323	5,990
Total adjustment accounts		6,323	5,990
Total assets		275,996	302,581

Balance Sheet
(in thousand euros)

	Note	As of December 31	
		2016	2015
Liabilities			
Shareholders' equity			
Share capital	10	2,696	2,692
Share premium	10	178,734	178,545
Retained earnings		(111,018)	(104,185)
Net income (loss)		13,071	(6,833)
Tax regulated provisions	12	551	396
Total shareholders' equity		84,034	70,615
Provisions			
Provisions for contingencies and losses	12	136	–
Pensions and similar obligations	12	2,418	1,740
Total provisions		2,554	1,740
Liabilities			
Borrowings	13	1,425	1,500
Trade notes payable	14	15,669	14,938
Tax and social liabilities	15	4,391	3,769
Other liabilities		662	253
Deferred income	16	167,260	209,764
Total liabilities		189,408	230,225
Total liabilities		275,996	302,581

Income Statement
(In thousand euros)

	Note	Year ended December 31,	
		2016	2015
Revenue	17	56,159	17,909
Operating grants	12	479	187
Reversal of provisions, transfer of charges		80	91
Other income		–	2
Total operating income		56,718	18,189
Purchases of raw materials and other supplies	18	(2,852)	(2,607)
Other purchases and external expenses	19	(37,836)	(19,387)
Taxes		(570)	(523)
Salaries	20	(8,200)	(6,851)
Social charges	20	(4,041)	(3,353)
Depreciation and amortization expense	21	(2,872)	(2,364)
Change in provisions for contingencies and liabilities	12	(723)	(646)
Other expenses		(309)	(293)
Total operating expenses		(57,403)	(36,024)
Operating income (loss)		(685)	(17,836)
Financial income / (expense), net	22	5,131	4,111
Result before tax and exceptional items		4,446	(13,725)
Exceptional income / (expense), net	23	(155)	(153)
Research tax credit	24	9,082	7,045
Income tax	24	(301)	–
Net income (loss)		13,071	(6,833)

Statement of cash flows
(In thousand euros)

	Note	Year ended December 31	
		2016	2015
Cash flow from operating activities			
Net income (loss)		13,071	(6,833)
<i>Adjustments to reconcile net loss to net cash from operating activities:</i>			
Depreciation and amortization on fixed assets	21	2,872	2,364
Increase / (reversal) of provision and excess of tax depreciation	12	969	714
Depreciation on financial non-current assets	5, 12	(1,624)	–
Gain / (loss) on the disposal of assets		(213)	86
Interests on assets and other financial assets	22	(1,655)	(972)
Gross cash flow		13,420	(4,641)
Net change in working capital related to activities ⁽¹⁾		(51,205)	205,750
Net cash from / (used in) operating activities		(37,785)	201,109
Cash flow from investing activities			
Acquisition of tangible and intangible assets ⁽¹⁾	3, 4	(9,395)	(1,072)
Variance of financial assets	5	7,111	(37,816)
Interests on assets and other financial assets	22	1,655	972
Net cash from / (used in) investing activities		(629)	(37,916)
Cash flow from financing activities			
Proceeds from the exercise / subscription of equity instruments	10	193	3,496
Repayment of financial liabilities	13	(75)	–
Shares buy-back	5	–	(20)
Net cash from / (used in) financing activities		118	3,476
Variance of treasury		(38,296)	166,669
Opening treasury		235,841	69,172
Closing treasury		197,545	235,841
Including:			
Cash and cash equivalent		175,893	152,843
Marketable securities		21,652	82,998
Total of closing treasury		197,545	235,841

(1) The presentation of the out-flows relating to the purchases of tangible assets was modified in the comparative column in order to take into consideration the payment in 2016 of the additional consideration to Novo Nordisk A/S (see Note 6).

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Accounting principles in France

Change in working capital	Note	2016	2015	Variance
Trade accounts receivables and prepaid expenses	6, 7, 9	33,244	16,525	(16,719)
Deferred revenue	16	(167,260)	(209,764)	(42,504)
Operational liabilities (excluding payables relating to capex)	14, 15	(20,654)	(12,636)	8,018
Change in working capital		(154,670)	(205,875)	(51,205)

Change in working capital	Note	2015	2014	Variance
Trade accounts receivables and prepaid expenses	6, 7, 9	16,525	10,634	(5,891)
Deferred revenue	16	(209,764)	(1,326)	208,438
Operational liabilities (excluding payables relating to capex)	14, 15	(12,636)	(9,433)	3,203
Change in working capital		(205,875)	(125)	205,750

3

Statement of changes in Shareholders' Equity
(In thousand euros)

	Number of shares	Share capital	Share premium	Retained earnings	Net loss	Tax regulated provisions	Total shareholders' equity
Balance as of December 31,	52,970	2,649	175,092	(84,416)	(19,769)	328	73,885
Net loss appropriation 2014	-	-	-	(19,769)	19,769	-	-
Net loss 2015	-	-	-	-	(6,833)	-	(6,833)
Exercise and subscription of equity instruments	864	43	3,453	-	-	-	3,496
Excess of tax depreciation,	-	-	-	-	-	68	68
Balance as of December 31,	53,834	2,692	178,545	(104,185)	(6,833)	396	70,615
Net loss appropriation 2015	-	-	-	(6,833)	6,833	-	-
Net gain 2016	-	-	-	-	13,071	-	13,071
Exercise and subscription of	87	4	189	-	-	-	193
Excess of tax depreciation,	-	-	-	-	-	156	156
Balance as of December 31,	53,921	2,696	178,734	(111,018)	13,071	551	84,035

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1. Events with a financial impact in the year

- On January 10, 2016, Innate Pharma and Orega Biotech announced that they have entered into an exclusive licensing agreement by which Orega Biotech grants Innate Pharma full worldwide rights to its program of first-in-class anti-CD39 checkpoint inhibitors. This license agreement arose from a fruitful research collaboration between the two companies initiated in 2014. The undisclosed upfront payment paid by the Company to Orega Biotech has been recognized as an intangible asset in the consolidated financial statements for the year ended December 31, 2016. This asset is not amortized and is the part of an annual impairment test. The accounting treatment of this transaction is detailed in Note 3.
- On January 11, 2016, Sanofi and Innate Pharma announced that they have entered into a research

collaboration and licensing agreement to apply Innate Pharma's new proprietary technology to the development of innovative bispecific antibody formats engaging NK cells to kill tumor cells through the activating receptor NKp46. Innate Pharma is eligible to up to €400 million in development and commercial milestone payments as well as royalties on net sales. This agreement has no impact in the annual accounts consolidated to December 31, 2016.

- On November 10, 2016, the Company is eligible for a payment of \$15 million on behalf of Bristol-Myers Squibb regarding to lirilumab license. This payment (whose collection was held in 2017) was fully recognized in income of as agreement of collaboration and license in 2016 as it creates no obligation services (see Note 17).

2. Accounting policies

a) Basis of preparation

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in France following the principles of conservatism, cut-off and going concern.

The financial statements have been prepared under the historical cost convention.

The accounting principles comply with the rules of the French « Code of Commerce », and the ANC regulation n°2014-03 dated June 5, 2014 relating to the revised French accounting framework (Plan Comptable general - "PCG") abrogating the regulation CRC n°99-03 relating to the annual financial statements.

b) Changes in accounting principle and policies

No changes in accounting principles and policies were applied in the year ended December 31, 2016.

c) Accounting for consumed materials

The Company has determined that the application of the new French accounting regulation on assets, which conformed the definition of inventory with that of IAS 2 whereby only the assets held for sale or in the process of production for such sale can be recorded as "Inventory",

excludes products consumed in research and development activities from its scope. However the non-consumed part of these elements at the closing date is to be reported as prepaid expenses as prescribed by the PCG.

d) Property and equipment

Property and equipment are carried at cost. Major renewals and improvements are capitalized while repairs and maintenance are expensed as incurred.

d1) Depreciation

Depreciation is computed over the estimated useful lives of assets using the straight-line depreciation method. Improvements to assets under lease are depreciated over the shorter of the life of the improvement and the remaining lease term.

The depreciation periods are the following:

Installations	5 to 20 years
Laboratory equipment	8 years
Equipment and office furniture	5 years
Computer equipment	3 years

d2) Tax related depreciation

A tax depreciation is recorded for equipment used for research activities.

In accordance with French accounting principles, the tax benefit calculated as the excess of the tax depreciation

over the economic depreciation, is recorded as excess tax depreciation over normal depreciation, which is presented in the balance sheet in shareholders' equity under the line item "tax regulated provisions".

e) Intangible assets

An intangible asset is recognized when and only when:

- It is likely that the future economic benefits that are attributable to the asset will flow to the Company; and
- The cost of the asset can be measured reliably.

The management of the Company uses judgment to assess the degree of certainty attached to the flow of future

economic benefits that are attributable to the use of the asset based on the evidence available at the time of the initial recognition.

In accordance with this principle, intellectual property costs are recognized as expenses.

e1) Research and development expenses

In accordance with Article 2-6 of the regulation CRC n° 2004-06, the research works are accounted for as expenses when expensed as incurred. This method is identical to the accounting treatment adopted by the Company prior to the change in accounting policy.

The Company subcontracts a major part of its R&D activities to external partners. This expense is recorded

based on the completion stage of each project. The degree of completion is determined based on the information provided by the external partners, and then corroborated via internal analyses. The determination of this degree of completion is dependent on estimates.

e2) Other intangible assets

Patents, concessions and other intangible assets are valued at their acquisition cost, excluding acquisition expenses. These elements items are amortized over their estimated useful life, by applying the following annual coefficients as follows:

Patents	5 years
Software	2 years

In the context of the acquisition from Novo Nordisk A/S of the full development and commercialization rights to the anti-NKG2A antibody, the financial counterpart, paid by the Company in 2014, was recognized as an intangible asset. This asset is amortized on a straight-line basis over the

anticipated residual length of the Phase II trials planned by the Company.

The additional consideration recognized as of December 31, 2015 following the agreement with AstraZeneca has also been recognized as an intangible asset. This additional consideration amounts to €6.5 million and was paid on April 2016. It also has been amortized over the anticipated residual length of the Phase II trials planned by the Company.

As part of the acquisition from Orega Biotech rights to develop and market the anti-CD39, the financial consideration paid by Innate Pharma in 2016 was recorded

in intangible assets. This asset is not amortized and is the subject of an annual impairment test.

f) Financial assets

Financial assets are mainly composed of the shares in of the subsidiaries, the owned treasury shares, deposits and

other financial instruments acquired in the context of the cash strategy.

g) Cash, cash equivalents and current financial assets

Cash includes petty cash and any assets that, which by nature can be immediately converted into cash at their nominal value.

Current financial assets held by the Company are those other than equity securities, acquired as a transitory temporary or permanent, and non-speculative, investments. The Company's objective is to obtain a minimum yield close to the EONIA as reference, in the form of revenue (dividends or interest) and/or gain on resale. At each closing date the Company compares the cost of these securities with their fair market value at the balance sheet

date (for money market mutual funds: their settlement value), for each category of securities.

At each closing date, the Company compares the acquisition cost of the marketable securities to their fair value.

The net income for the period is affected only when the value of securities has decreased. A provision for impairment loss is then recorded. Any increase in value of these securities is not accounted for, but nevertheless liable to current income taxes.

h) Income tax and research tax credit

Only current income tax is accounted for. Under this principle, the tax expense for the fiscal year is the amount due to the government, the tax benefit for the fiscal year is the tax credit provided by the government, and deferred tax is not accounted for the future effect of temporary differences and tax losses carried forward.

The Company has benefited from a research tax credit since its first fiscal year. Since December 31, 2009, taking into consideration the ability given by the 2010 finance law

(Loi de Finances) to ask for an anticipated reimbursement of the research tax credit, the debt related to this tax credit for the fiscal year 2016 is classified in current receivables.

Since the fiscal year 2011, only the companies considered as SME are eligible to this anticipated reimbursement of the debt related to the research tax credit. Management ensured that the Company meets the criteria to be considered as SME.

i) Conditional grants and other types of government assistance

The Company benefits from several government grants, in the form of either outright grants or conditional grants.

Government grants are recognized when there is a reasonable assurance that:

- The Company will comply with the conditions attached to the grants; and
- The grants will be received.

A government grant that becomes receivable as compensation for expenses or losses already incurred, or for the purpose of providing immediate financial support to the Company with no future related costs, is recognized as income for the period during which it becomes receivable.

Investment grants are accounted for in exceptional income for the period of the grant.

j) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the Company expects a provision to be reimbursed, for example under an insurance contract, the

reimbursement is acknowledged as a separate asset but only when the reimbursement is virtually certain.

k) Revenue recognition

To date, the Company's revenue results from payments generated by development and licensing agreements concluded with pharmaceutical companies (see Note 17). These contracts generally provide for components such as upfront payments, milestone payments upon reaching certain predetermined development objectives, certain lump-sum payments for the financing of R&D expenses, as well as the payment of royalties on future sales of products.

Milestone payments are recognized as revenue after final acceptance of the completion of the relevant development

objectives by the other contracting party. Lump-sum payments for the financing of R&D are initially deferred under prepaid income and recognized in the income statement over the period of the Company's continuing involvement under the research arrangement, the estimate of which is revised periodically.

The Company records a provision for impairment in the case where the recoverability of the invoiced amounts appears uncertain.

l) Recognition of the provision for defined benefits

A provision for defined benefits (including seniority awards) is calculated at each closing date. The total amount of this provision is recognized in the balance sheet. The variance

between two periods is recognized in the income statement (see Note 12).

3. Intangible assets

Intangible assets can be analyzed as follows (in thousand euros):

	Software	Patents	Goodwill	Total
Year ended December 31, 2016				
Net opening balance	13	9,732	17	9,762
Acquisitions	44	1,665	9	1,718
Disposals	–	–	–	–
Transfers	17	–	(17)	–
Amortization and impairment	(30)	(2,375)	–	(2,405)
Net closing balance	44	9,022	9	9,075

Rights acquired from Novo Nordisk A/S

On February 5, 2014, the Company announced the acquisition of the full development and commercialization rights to monalizumab, the anti-NKG2A antibody, a first-in-class immune checkpoint inhibitor ready for Phase II development in oncology from Novo Nordisk A/S. The €7.0 million financial consideration (€2.0 million in cash and 600,000 shares issued at the unit price of €8.33) has been recognized as an intangible asset. This asset is amortized on a straight-line basis over the anticipated residual length of the Phase II trials planned by the Company.

According to the agreement, Novo Nordisk A/S is entitled to an additional consideration in the condition that Innate Pharma signs a licensing agreement including an upfront payment. As of December 31, 2015, the best estimate of this additional consideration amounted to €6.3 million (this amount was not paid at December 31, 2015). This additional amount has been recognized as an intangible asset and amortized according to the same amortization plan as the initial upfront payment recognized as an intangible asset. In 2016, the amount of the additional consideration was set to €6.5 million.

Anti-CD39 rights acquired from Orega Biotech

Following the license agreement signed with Orega Biotech to acquire the anti-CD39, the Company recognized it as intangible assets for an amount of €1.5 million corresponding to the initial payment paid in 2016 and to a

first milestone paid in December 2016. This amount relating to the right's acquisition cost is not amortized and has been part of an impairment test at December 31, 2016.

4. Tangible assets

Tangible assets can be broken down as follows (in thousand euros):

	Buildings ⁽¹⁾	Laboratory equipments	Other tangible assets	In progress	Total
Year ended December 31, 2016					
Net opening balance	36	1,712	210	145	2,107
Acquisitions	–	1,349	64	9	1,422
Disposals	–	(2)	–		(2)
Transfers	–	127		(127)	–
Depreciation	(7)	(371)	(88)	–	(466)
Net closing balance	29	2,815	186	30	3,060

The acquisitions of the year mainly relate to laboratory equipments.

5. Financial assets

	Capitalization contract	Deposits	Own shares	Other financial assets	Total
Year ended December 31, 2016					
Net opening balance	–	10	286	38,049	38,345
Acquisitions	1,535	23	–	733	2,290
Disposals	–	–	(61)	(8,351)	(8,412)
Net depreciations	–	–	–	848	848
Net closing balance	1,535	33	225	31,279	33,072

As of December 31, 2016, financial assets are composed of the following elements: other financial assets acquired in the context of our cash strategy (€31,279 thousand), and the contract of capitalization in the context of management of retirement benefits (€1,535 thousand), own shares (€225 thousand). In November 2015, the Company

disposed of its remaining stake into Platine Pharma Services SAS.

Excepting the own shares and the cash on the current account of the liquidity contract, all the financial assets have a maturity higher than one year.

6. Trade accounts receivables

As of December 31, 2016, the item line is only composed of receivables due from Bristol-Myers Squibb corresponding to the billing of the payment step

corresponding to the launch of the Phase II in solid tumor under the license agreement signed in 2011 (see Note 17).

7. Other receivables

Other receivables are analyzed as follows:

As of December 31,		
In thousand euros	2016	2015
Other receivables – short term	11,981	9,480
Other receivables – long term	710	530
Total	12,691	10,010

The components of the short-term receivables are analyzed as follows

As of December 31,		
In thousand euros	2016	2015
2016 Research tax credit	8,925	7,035
VAT refund	1,080	905
Deductible VAT	1,007	699
Grants	73	32
Down-payment to Sogébail	144	137
Advances and down-payments to suppliers	709	333
Other receivables	43	339
Other receivables – short term	11,981	9,480

At the beginning of 2017, the Company has asked for immediate refund payment of its research tax credit balance receivable for 2016. It has therefore been presented as under current receivables.

As of December 31, 2015, other current assets included a VAT credit for an amount of €373 thousand relating to the fourth quarter of 2013.

In the first quarter of 2015, the government refunded €49 thousand. 324 thousands of euros remaining repayment is still a contentious procedure in the administrative court. The Company is confident in its ability to collect on that debt.

As of December 31, 2016, this receivable has been reclassified in other non-current assets.

The components of the other long-term receivables are analyzed as follows

As of December 31,		
In thousand euros	2016	2015
Down-payment to Sogébail	386	530
VAT receivables	325	–
Other receivables – long terms	710	530

The down-payment is a guarantee relating to the finance lease of the headquarters of the Company.

8. Cash, cash equivalents and short term investments

As of December 31, 2016, the item line is composed of current accounts, remunerated interest-bearing accounts, fixed-term accounts, commercial papers, money market funds ("SICAV") and bonds subscribed towards with several banks.

In thousand euros	As of December 31,	
	2016	2015
Current bank accounts	120,158	74,848
Fixed term accounts	55,735	74,976
BMTN	–	3,019
<i>Cash and cash equivalents</i>	<i>175,893</i>	<i>152,843</i>
BMTN	–	32,503
Commercial papers	5,810	23,459
Money market funds	15,842	24,740
Others	–	2,296
<i>Short term investments</i>	<i>21,652</i>	<i>82,998</i>
Total cash, cash equivalents and marketable securities	197,545	235,841

The difference between the valuation of the assets in currency at their subscription date and the valuation as of December 31, 2016 amounts to €548 thousand for the

parts of mutual funds, €530 thousand for the fixed-term accounts.

9. Prepaid expenses

Prepaid expenses can be analyzed as follows:

In thousand euros	As of December 31,	
	2016	2015
Prepaid research materials and consumables not yet used in research	5,828	5,405
Other prepaid expenses	495	585
Total prepaid expenses	6,323	5,990

10. Share capital

As of December 31, 2016 and 2015 the breakdown of share capital can be analyzed as follows (number of shares with a par value of €0.05).

In thousand of shares	As of December 31,	
	2016	2015
Common shares, opening	53,834	52,970
Share capital increase resulting from the exercise of securities giving access to the share capital	87	864
Share capital increase resulting from a fundraising	–	–
Common shares, closing	53,921	53,834

Details of changes in share capital over the two last fiscal years:

On February 5th, 2015 subsequent to the exercise of BSAAR 2011, BSAAR 2012 and Stock-options, the Executive board minuted a capital increase of €3,075 (61,500 new shares), bringing the share capital to €2,651,594.60.

On March 4th, 2015 subsequent to subscription of shares through employee saving plan and subsequent to the exercise of Stock-options, the Executive board minuted a capital increase of €2,668.60 (53,372 new shares), bringing the share capital to €2,654,263.20.

On April 14th, 2015 subsequent to the exercise of BSAAR 2010, BSAAR 2012 and Stock-options, the Executive board minuted a capital increase of €4,425 (88,500 new shares), bringing the share capital to €2,658,688.20.

On July 1st, 2015 subsequent to the exercise of BSA 2008, BSA2011-1, BSA2011-2, BSA 2013, BSAAR 2010, BSAAR 2011, BSAAR 2012 and Stock-options, the Executive board minuted a capital increase of €17,529.30 (350,586 new shares), bringing the share capital to €2,676,217.50.

On July 8th, 2015 subsequent to the exercise of BSAAR 2010, BSAAR 2012 and Stock-options, the Executive board minuted a capital increase of €3,812.50 (76,250 new shares), bringing the share capital to €2,680,030.

On December 9th, 2015 subsequent to the exercise of BSA 2011-1, BSA 2011-2, BSA 2013, BSA 2013-1, BSA 2014, BSAAR 2010 and BSAAR 2012, the Executive board minuted

a capital increase of €11,670.70 (233,414 new shares), bringing the share capital to €2,691,700.70.

On January 6th, 2016, subsequent to the exercise of BSAAR 2012, the Executive board minuted an increase in capital of a nominal amount of €135 (2,700 new shares), bringing the capital to €2,691,835.70.

On May 30th, 2016, subsequent to the exercise of BSA 2013, BSAAR 2011, 2012 and 2015, the Executive board minuted an increase in capital of a nominal amount of €2,947 (58,940 shares), bringing the capital to €2,694,782.70.

On November 3rd, 2016, subsequent to the exercise of BSAAR 2011 and 2012, the Executive board minuted an increase in capital amount nominal de €1,282.50 (25,620 shares), bringing the capital to €2,696,065.20.

Securities giving access to the capital

Operations securities giving access to the capital during the last three fiscal years were as follows:

	BSA	Stock Options	BSAAR	AGAP Management	AGAP Employees	AGA Management	AGA Employees
Balance as of December 31, 2014	685,800	6,075	761,750				
Cancelled warrants and options – 2015							
Exercised warrants and options – 2015	(309,300)	(121,500)	(380,950)				
BSA attributed on April 27, 2015	70,000						
BSA attributed on July 1st, 2015	14,200						
BSAAR attributed on July 1st, 2015			1,050,382				
Balance as of December 31, 2015	460,700		1,431,182				
Cancelled warrants and options – 2016			2,720				
Exercised warrants and options – 2016	(25,000)		(62,290)				
AGAP Management attributed on October 21, 2016				2,000 ⁽³⁾			
AGAP Employees attributed on October 21, 2016					2,486 ⁽⁴⁾		
AGA Management attributed on October 21, 2016						50,000 ⁽¹⁾	
AGA Employees attributed on October 21, 2016							99,932 ⁽²⁾
AGAP Management attributed on December 30, 2016				3,000 ⁽⁶⁾			
AGA Management attributed on December 30, 2016						250,000 ⁽⁵⁾	
AGA Employees attributed on December 30, 2016							149,943 ⁽⁷⁾
Balance as of December 31, 2016	435,700		1,366,172	5,000	2,486	300,000	249,875

(1) Distribution of 50,000 AGA Management 2016-1, definitely attributed at the end of a three-year acquisition period, starting on October 21, 2016;

(2) Distribution of 99,932 AGA Employees 2016-1, definitely attributed at the end of a one-year acquisition period, starting on October 21, 2016, followed by a two-year retention period, starting on October 21, 2017;

(3) Distribution of 2,000 AGAP Management 2016-1, definitely attributed at the end of a one-year acquisition period, starting on October 21, 2016, followed by a two-year retention period, starting on October 21, 2017, giving right, in case of conversion, to a maximum of 400,000 ordinary shares;

(4) Distribution of 2,486 AGAP Employees 2016-1, definitely attributed at the end of a one-year a one-year acquisition period, starting on October 21, 2016, followed by a two-year retention period, starting on October 21, 2017, giving right, in case of conversion, to a maximum of 497,200 ordinary shares;

(5) Distribution of 250,000 AGA Management 2016-2, definitely attributed at the end of a three-year acquisition period, starting on December 30, 2016;

(6) Distribution of 3,000 AGAP Management 2016-2, definitely attributed at the end of a one-year acquisition period, starting on December 30, 2016, followed by a two-year retention period, starting on December 30, 2017, giving right, in case of conversion, to a maximum of 600,000 ordinary shares;

(7) Distribution of 149,943 AGA Employees 2016-1, definitely attributed at the end of a one-year acquisition period, starting on December 30, 2016, followed by a two-year retention period, starting on December, 2017.

- Circulating securities as of December 31, 2016

The circulating BSA as of December 31, 2016, give right to subscribe 435,700 new ordinary shares with a nominal value of €0.05 per share.

The circulating BSAAR as of December 31, 2016, give right to subscribe 1,366,172 new ordinary shares with a nominal value of €0.05 per share.

The circulating AGA as of December 31, 2016, will give right to the attribution, at the end of the attribution period mentioned above, to 549,875 new ordinary shares with a nominal value of €0.05 per share.

The circulating AGAP as of December 31, 2016, will give right, at the end of the attribution period mentioned above, to the subscription, in case of achievement of the performance criteria, to the conversion into a maximum of 1,497,200 new ordinary shares with a nominal value of €0.05 per share.

As of December 31, 2016, the BSA, BSAAR, AGA and AGAP, gave right, in case of maximum conversion of the AGAP, to the subscription of a maximum of 3,848,947 new ordinary shares, with a nominal value of €0.05 per share, representing 7% of the share capital.

- History of distributions

On March 27, 2014, the General Meeting of shareholders authorized the creation of 150,000 BSA ("BSA 2014") giving right to subscribe to 150,000 new shares. The Executive board, meeting on July 16, 2014, upon authorization of the Supervisory board, attributed 150,000 BSA ("BSA 2014") to consultants.

On April 27, 2015, the General Meeting of shareholders authorized the creation of 150,000 BSA ("BSA 2015") giving right to subscribe to 150,000 new shares. The Executive board, meeting on April 27, 2015, upon authorization of

the Supervisory board, attributed 80,000 BSA ("BSA 2015-1") to independent Supervisory board members and to members of Scientific Advisory Board and 70,000 of which have been subscribed by the beneficiaries, as minuted by the Executive board of September 25, 2015

The Executive board, using the same General Meeting's authorization than above, meeting on July 1st, 2015, upon authorization of the Supervisory board, attributed 25,000 BSA ("BSA 2015-2") to a new independent Supervisory board member and 14,200 of which have been subscribed by the beneficiary, as minuted by the Executive board of December 7th, 2015.

On April 27, 2015, the General Meeting of shareholders authorized the creation of 1,500,000 BSAAR ("BSAAR 2015") giving right to subscribe to 1,500,000 new shares. The Executive board, meeting on July 1st, 2015, upon authorization of the Supervisory board, attributed 1,499,207 BSAAR ("BSAAR 2015") to employees and members of Executive board and 1,050,382 of which have been subscribed by the beneficiary, as minuted by the Executive board of December 7, 2015.

On June 2, 2016, the General Meeting of shareholders authorized the free attribution of 7,500 preferred shares (AGAP) each convertible into a maximim of 200 ordinary shares, subject to the achievement of performance criteria.

On June 2, 2016, the General Meeting of shareholders authorized the free attribution of 600,000 free shares (AGA).

The Executive board, meeting on October 21, 2016, upon authorization of the Supervisory board, attributed 2,000 AGAP Management and 50,000 AGA Management to corporate officers and 2,486 AGAP Employees and 99,932 AGA Employees to employees.

The Executive board, meeting on December 30, 2016, upon authorization of the Supervisory board, attributed 3,000 AGAP Management and 250,000 AGA Management

to a corporate officer and 149,943 AGA Employees to employees.

11. Grants and government financing

The Company receives grants from the French Government, the European Union and French local public authorities under different forms:

- Operational grants and,
- Research tax credits.

Grants received from local public authorities

Since its inception, due to its innovative nature, the Company receives a number of aid or grants from the Government or public authorities to finance its operations or specific recruitments.

The company has insurance to comply with conditions attached to these grants and these grants are non-refundable. These grants are booked in the income statement at the related expenses period.

In contrast to repayable down-payment:

Research tax credit

The research tax credits are detailed in Note 24.

12. Provisions

Provisions and the variation in provisions can be analyzed as follows (in thousand euros):

Tax regulated provisions	Balance as of January 1, 2016	Increase	Reversal used	Reversal unused	Balance as of December 31, 2016
Excess of tax depreciation	396	205	(49)	–	551
Total	396	205	(49)	–	551

Provisions for contingencies and losses	Balance as of January 1, 2016	Increase	Reversal used	Reversal unused	Balance as of December 31, 2016
Pensions and similar obligations	1,740	678	–	–	2,418
Other provisions	–	136	–	–	136
Total	1,740	814	–	–	2,554

Provisions for contingencies and losses	Balance as of January 1, 2016	Increase	Reversal used	Reversal unused	Balance as of December 31, 2016
Depreciation of financial assets	1,966	–	(863)	–	1,103
Total	1,966	–	(863)	–	1,103
Grand total	4,102	1,019	(912)	–	4,208

Presented within:

Operating result	814	–	–
Financial result	–	(863)	–
Exceptional result	205	(49)	–

Accounting principles in France

Excess tax depreciation over normal depreciation

Excess of tax depreciation over normal depreciation is accounted for in accordance with the principles described in Note 2 d) 2.

Provision for other liabilities and charges

Provisions for other liabilities and charges amounts to €136 thousand as of December 31, 2016 (nil as of December 31, 2015). They consist essentially of a provision

Pensions and similar obligations

The lump sum indemnities paid to employees upon retirement are the only defined benefit obligation of the Company. The corresponding obligations are recorded as provisions.

According to an agreement with the representatives of the staff as at March 24, 2016, the Company is committed to pay a bonus to personnel justifying a seniority of 15 years and 20 years. This bonus is paid on the anniversary date. A similar bonus already existed for justifying staff of a seniority of 10 years but it was not the subject of accounting expenses because of the insignificant amount that commitment represented. According to this new agreement signed on the first semester 2016, the Company recorded, for the first time on 2016, a provision for seniority awards in counterpart of a charge included in "Staff costs" (see Note 14) other than payments in action. These bonuses can be indeed, included as "other long term benefits" according to IAS 19. The amount of this provision,

relating to the employer contribution which will be due at the end of periods of acquisition of the free shares and free preferred shares.

also calculated by an external actuary firm, rises to €336 thousand as of December 31, 2016.

The main actuarial assumptions used to evaluate seniority awards are the following:

- Discount rate: 0.95%
- Rate of annual increase in wages: 3%
- Rate of contributions: 49%
- Rate of wage costs: 23.61%
- Age of retirement: 64 years for executives, 62 for non-executives
- Mortality Table: TH – TF 00-02
- Annual mobility rate: 1.6% on average

The main actuarial assumptions used to evaluate retirement obligations are the following:

	As of December 31,	
	2016	2015
<i>Economic assumptions</i>		
Discount rate (iBoxx Corporate AA)	1.50%	2.00%
Annual rate of increase in wages	3.00%	3.00%
<i>Demographical assumptions</i>		
Type of retirement	At the initiative of the employee	At the initiative of the employee
Rate of tax and social charges	49%	49%
Age at retirement		
– Executives	64 years	64 years
– Non-executives	62 years	62 years
Mortality table	TH-TF 00-02	INSEE TD/TV 2011-2013
Annual mobility	All personnel	All personnel
16-24 years	4%	6%
25-29 years	2.5%	4%
30-34 years	2%	2%
34-39 years	1.5%	1.5%
40-44 years	1%	1%
45-49 years	0.5%	0.5%
+50 years	0%	0%

Amounts recognized in the balance sheet are determined in the following manner:

	As of December 31,	
In thousand euros	2016	2015
Discounted value of the funded obligation	–	–
Fair value of assets in the plan	–	–
Discounted value of the unfunded obligations	2,418	1,740
Unrecognized actuarial losses	–	–
Cost of unrecognized past services	–	–
Provision in the balance sheet	2,418	1,740

The table below shows the amounts recognized in the income statement:

	As of December 31,	
In thousand euros	2016	2015
First booking of the provision for seniority awards	336	–
Cost of services rendered	240	364
Net actuarial loss recognized during the period	32	22
Finance cost	70	260
Total	678	646

13. Borrowings

This line item was broken down per maturity and is analyzed as follows:

In thousand euros	As of December 31,	
	2016	2015
Bpifrance PTZI IPH41	375	150
Total – current	375	150
Bpifrance PTZI IPH41 *	1,050	1,350
Total – non current	1,050	1,350
Total borrowings	1,425	1,500

* Fully due between 2 and 5 years.

14. Trade notes payable

This line item was broken down as follows:

In thousand euros	As of December 31,	
	2016	2015
Trade payables	2,863	2,846
Accruals	12,806	12,092
Trade notes payable	15,669	14,938

As of December 31, 2015, the accruals include the additional consideration due to Novo Nordisk A/S for an amount of €6.3 million.

15. Tax and social liabilities

Tax and social liabilities were broken down as follows:

In thousand euros	As of December 31,	
	2016	2015
Social liabilities	3,937	2,893
Tax liabilities	454	876
Tax and social liabilities	4,391	3,769

The accrued social and tax expenses as of December 31, 2016 amounts to €3,848 thousand (€2,816 thousand as of December 31, 2015).

16. Deferred income

As of December 31 (in thousand euros)	2016	2015
Revenue relating to the BMS agreement to be recognized under one year	–	442
Revenue relating to the AZ agreement to be recognized under one year	54,912	39,984
Other deferred revenue under one year	–	484
<i>Deferred revenue under one year</i>	<i>54,912</i>	<i>40,910</i>
Revenue relating to the BMS agreement to be recognized over one year	–	–
Revenue relating to the AZ agreement to be recognized over one year	112,348	168,854
<i>Deferred revenue over one year</i>	<i>112,348</i>	<i>168,854</i>
Deferred revenue	167,260	209,764

17. Revenue

Revenue mainly results from the agreements signed with Bristol-Myers Squibb and AstraZeneca and is composed of the following items:

- Spreading over of the upfront payment received from AstraZeneca in April 2015 (€41.6 million for the fiscal year 2016 compared to €12.1 million for the fiscal year 2015). The Company received a non-refundable and non-creditable upfront payment amounting to \$250 million (or €223.5 million) collected in June 2015. The recognition of this upfront payment is spread over the basis of the costs Innate Pharma is engaged to bear in the context of the agreement.
- Spreading over of the upfront payment received from Bristol-Myers Squibb in July 2011 (€0.4 million for the fiscal year 2016 compared to €0.9 million for the fiscal year 2015). The Company received a non-refundable and non-creditable upfront payment amounting to \$35.3 million (or €24.9 million) collected in July 2011. The recognition of this upfront payment is spread over the expected length of the clinical program initiated at the time of the agreement.
- In December 2016, Bristol-Myers Squibb informed the Company that of its eligibility to a \$15 million milestone payment as part of this licensing agreement (€13.8 million). This payment was triggered by the presentation at the SITC annual meeting (November 2016) of encouraging preliminary activity results from the cohort of patients with SCCHN of a Phase I/II trial. This payment was entirely recognized in revenue in 2016 since there is no related service to be rendered by the Company. The payment occurred in January 2017.
- Milestone payment amounting to \$5 million (or €4.5 million) relating to the Bristol-Myers Squibb agreement. This payment was triggered by the dosing of a first patient in a Phase II trial of lirilumab in combination with rituximab in patients with relapsed/refractory or high-risk untreated chronic lymphocytic leukemia. This payment was entirely recognized in revenue in 2015 since there is no related service to be rendered by the Company.

18. Purchases of raw materials and other supplies

Since the Company has no manufacturing capacity, the purchase of raw materials and other supplies include the costs of purchasing the Company's products manufactured

by third parties. These costs also include the cost of materials bought from third parties and used in the Company's R&D activities.

19. Other purchases and external expenses

Other purchases and external expenses are analyzed as follows:

In thousand euros	Year ended December 31,	
	2016	2015
Subcontracting ⁽¹⁾	(28,330)	(12,705)
Leasing, maintenance and utility ⁽²⁾	(2,288)	(1,709)
Non-scientific advisory and consulting ⁽³⁾	(3,362)	(1,318)
Travel expenses and congress attendance	(1,224)	(1,111)
Intellectual property expenses ⁽⁴⁾	(1,146)	(1,109)
Scientific advisory and consulting ⁽⁵⁾	(585)	(753)
Marketing, communication and public relations ⁽⁶⁾	(541)	(389)
Insurance	(140)	(114)
Others ⁽⁷⁾	(220)	(179)
Other purchases and external expenses	(37,836)	(19,387)

(1) Sub-contracting expenses include discovery research costs (financing research conducted externally, particularly academic research, antibody humanization technologies, manufacturing process development, etc.), preclinical development (pilot manufacturing, tolerance and pharmacology studies, etc.) and clinical costs (clinical trial management, etc.) outsourced to third parties. The increase in 2016 compared to 2015 is mainly explained by the rise of the sub-contracting costs relating to the preclinical and clinical programs.

(2) The Company rents its premises (through lease-financing agreements – see Note 25) and uses third parties for procurement of utilities as well as for maintenance of its laboratory and office premises. The Company also rents some of its computer equipments.

(3) Non-scientific advisory and consulting are services performed to support the selling, general and administration activities of the Company, such as legal, accounting and audit fees as well as business development support. The increase in these expenses between 2015 and 2016 mainly results from lawyers and audit fees due to the Company's structuring in a context of strong expansion.

(4) Intellectual property expenses include, on the one hand, the expenses related to patents and patent applications relating to the Company's inventions and also for third party inventions and on the other hand, the costs related to licenses and options for licenses for third parties inventions.

(5) Scientific advisory and consulting expenses relate to consulting services performed by third parties to support the research and development activities of the Company.

(6) Marketing, communication and public relations services are mainly outsourced.

(7) As of December 31, 2015 and 2016 under the line item "Others, net" were mostly mainly consisted of expenses relating to telecommunication costs, bank fees and staff training.

20. Personnel costs

The item line respectively amounts to €10,204 and €12,241 thousand for the fiscal years ended December 31, 2015 and 2016. The Company had 118 employees as of December 31, 2015 versus 154 as of December, 31, 2016.

The Company benefited from the "competitiveness and employment tax credit" (CICE) for an amount of €154 thousand for the year 2016 (€116 thousand for 2015). This tax credit will be mainly used to reinforce the research teams.

21. Depreciation expense and impairment of fixed assets

The depreciation expense and impairment loss on fixed assets can be analyzed as follows:

In thousand euros	Year ended December 31,	
	2016	2015
Depreciation and amortization	(2,872)	(2,364)
Depreciation expense and impairment of fixed assets	(2,872)	(2,364)

The increase of the line item mainly results from the amortization of the anti-NKG2A intangible assets.

22. Financial incomes / (expense)

The financial income and expense can be analyzed as follows:

In thousand euros	Year ended December 31,	
	2016	2015
Gain on financial assets	1,898	972
Foreign exchange gains / (losses)	2,421	4,482
Depreciation of financial assets	889	(1,525)
Financial expense on brokering/liquidity contract	(53)	145
Other financial income / (expenses)	(24)	37
Financial income / (expense), net	5,131	4,111

The foreign exchange (loss) / gain represent the exchange difference on the US dollar bank account. The Company uses this bank account to pay its US dollar denominated

invoices. The gain and loss booked are unrealized. Foreign exchange loss and gain are also observed on dollar financial instruments hold by the Company.

23. Exceptional income and expense, net

The exceptional income and expense are analyzed as follows:

In thousand euros	Year ended December 31,	
	2016	2015
Exceptional income		
Selling price of assets sold	2	-
Reversal of excess of tax depreciation	49	27
Reverse of provision of participation and related accounts*	-	1,049
Exceptional expenses		
Disposal of participation and related accounts*	-	(1,125)
Net book value of fixed assets disposed of	(2)	(10)
Excess of tax depreciation	(205)	(94)
Exceptional income / (expense), net	(155)	(153)

* These exceptional items results from the disposal in November 2015 of our residual stake into Platine Pharma Services SAS.

24. Income tax

The tax expense for the fiscal year 2016 corresponds to the corporate income tax of the Company Innate Pharma SA (net of imputed tax credits). Royalty products benefit from the reduced rate in accordance with the article "39 terdecies" of the General Tax Code (15%).

Expenses considered in 2016 as extravagant spendings (article 39.4 of the General Tax Code) and non-deductible

for corporate tax base amounted to €0.1 million and essentially corresponds to the deductible part of the attendance fees.

CHAPTER 3 - FINANCIAL INFORMATION

3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

Accounting principles in France

Breakdown of the income tax for the year ended December 31, 2016:

Year ended December 31, 2016 (in thousand euros)	Prior income tax	Income tax (15%)	After income tax
Operating income/(loss)	13,528	(301)	13,227
Exceptional income/(loss)	(155)	–	(155)
Net income/(loss)	13,373	(301)	13,071

*The "competitiveness and employment tax credit" (CICE) amounting to €0.2 million is deducted from staff costs and not booked as tax.

Net income without non-derogatory tax

The net charge of derogatory amortization amounts to €0.2 million for the year ended 31, 2016.

Net income without non-derogatory tax

The taxable income for the year ended December 31, 2016 includes elements that will generate future tax savings. It is mainly the allowance for retirement and seniority bonuses

(base of €2.4 million that will bring the Company to generate a tax saving of €0.8 million).

Tax losses carried forward

Taking into account the tax regulations in force, the Company has tax losses to be carried forward with no time limit in therefore a total amount of €163.9 million as of

December 31, 2016 (€167 million as of December 31, 2015).

Research tax credit

The Company benefits from the provisions of Articles 244 quarter B and 49 septies of the Tax Code relating to research tax credit. In accordance with the principle

described in Note 2e1, research tax credit is recorded during the year in which the research expenses are eligible.

The following table presents the evolution of research tax credits recognized over the last two years:

In thousand euros	Year ended December 31,	
	2016	2015
2014 Research tax credit	–	10
2015 Research tax credit	–	7,035
2016 Research tax credit	9,082	–
Research tax credit	9,082	7,045

25. Commitments and litigations

Rentals of copiers and company cars

The Company signed leases for its copiers and its company cars. As of December 31, 2016, all these commitments totaled €95 thousand.

Financial leasing – Real Estate

In 2008, the Company contracted with Sogébaïl, subsidiary of Société Générale's real estate leasing, a leasing contract to finance the acquisition and refurbishment of its

headquarters and its main laboratories. For a period of 12 years, the financing amounts to €6,551 thousand excluding tax. The amount of future fees in respect of the

contract with Sogebail, including deadlines for the down-payment, amounted to €1,905 thousand as at December 31, 2016. The table below excludes them.

During the fiscal year 2016, the Company signed an amendment with Sogebail in order to finance by leasing facilities within the building. For a period of four years, the funding amounts to €846 thousand. The amount of future fees related to this endorsement amounted to €789 thousand as of December 31, 2016.

Due to the increase of employees, the Company signed at February 1, 2016 a lease to rent a new building. The lease covers a period of two years with possibility of extension for an additional year. As of December 31, 2016, the commitment related to the rent for the remaining period of years amounts to €211 thousand.

Categories (in thousand of euros)	Land	Buildings	Total
Original Value	1,560	4,991	6,551
Amortizations:			
– Previous years	315	2,143	2,458
– Amortization of the year	42	247	289
Total			
Payments:			
– Previous years	1,309	3,827	5,136
– 2016	173	548	721
Total	1,482	4,375	5,857
Residual value:			
– less than one year	173	548	721
– between one and five years	423	1,336	1,759
– more than five years	–	–	–
Total	596	1,884	2,480

Consumable purchases

As part of a supply of scientific equipment, the Company was committed towards a supplier to minimum annual purchases of consumables. At December 31, 2016, the

overall commitment was amounting to €648 thousand for the period from December 2016 to June 2020.

Litigations

On April 4, 2012, Platine Pharma Services SAS received notification of a proposed adjustment following a tax audit. The adjustment amounts to €91 thousand. The management of Platine Pharma Services is contesting this adjustment. The period subject to the tax audit was prior to the acquisition of an equity interest in Platine Pharma Services by Transgene. Therefore, in accordance with the liabilities guarantee clause, the contingent liability resulting

from this adjustment would only concern Innate Pharma SA.

Innate Pharma is exposed to contingent liabilities relating to legal actions before the labor court happening in the ordinary course of its activities. Each known litigation or procedure in course the Company is involved in was analyzed at the closing date after consultation of advisors.

26. Post balance sheet events

On February 6, 2017, the Company announced top-line results from the EffiKIR trial evaluating the efficacy of

lirilumab as a single agent in elderly patients with acute myeloid leukemia. The trial did not meet the primary

CHAPTER 3 - FINANCIAL INFORMATION

3.3 INFORMATION REGARDING THE COMPANY'S ASSETS, FINANCIAL SITUATION AND RESULTS

Accounting principles in France

efficacy endpoint but confirms the tolerance profile of lirilumab as a monotherapy. This result does not call the potential of lirilumab into question which is currently being tested by Bristol-Myers Squibb in a broad and comprehensive combination program in multiple indications. As a consequence, this does not affect the continuity of the Company's operations.

In March 2017, the Company announced that its partner Bristol-Myers Squibb has amended the clinical trial protocol

for its ongoing Phase I/II trial evaluating the safety and tolerability of lirilumab in combination with nivolumab in patients with advanced refractory solid tumors. Under the amended protocol, the study includes additional cohorts of nivolumab plus lirilumab in solid tumors, including a randomized cohort exploring nivolumab with or without lirilumab in platinum refractory recurrent or metastatic SCCN, and initial testing of the triplet combination of nivolumab, ipilimumab and lirilumab in solid tumors.

27. Table of subsidiaries and participations

Subsidiaries / participations	Company	Equity (in thousand euros)	Capital ownership	Net result of the last fiscal year (in thousand euros)
Subsidiary	Innate Pharma Inc.	(560)	100%	14

28. Related parties

Member of the Executive board and Executive:

	2016	2015
Salaries and other short-term employee benefits	1,836	1,491
Extra pension benefits	8	7
Advisory fees	460	542
Executive Committee members compensation	2,304	2,040

Members of the Supervisory board

The Company recognized a provision of €200 thousand for attendance fees (jetons de présence) relating to the fiscal year ended December 31, 2016 which should be paid in 2017.

As mentioned in Note 13, Bpifrance granted the Company a €1.5 million interest free loan (Prêt à Taux Zéro Innovation, or "PTZI"). This loan will be reimbursed from September 2016 over a 5 year periods.

Miscellaneous

As of December 31, 2016 and 2015, the Company did not identify any management and/or equity relationship between its major suppliers used in 2016 and 2015 and

the members of its Supervisory board, its Executive board or its Executive Committee.

29. Fees paid to the legal auditors

The fees related to the legal auditors respectively amounted to €150 thousand and €1,165 thousand for the

fiscal years ended December 31, 2015 and 2016, respectively.

3.3.4. Statutory Auditors' Reports on the financial statements for the Year Ended December 31, 2016

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the Company financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the Company financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the Company financial statements. This report should be read in conjunction and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In accordance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you for the year ended 31 December 2016 on:

- the audit of the accompanying financial statements of Innate Pharma;
- the justification of our assessments,
- the specific verifications and disclosures required by law.

The financial statements have been approved by the Executive board. Our role is to express an opinion on these financial statements, based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position and the assets and liabilities of the Company and the results of its operations for the year then ended in accordance with accounting principles generally accepted in France.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we hereby bring the following matters to your attention:

Accounting policies:

Notes 2e, 2e1 and 2e2 to the financial statements describe the accounting treatment applied to intangible assets and research and development expenses incurred by your Company.

Note 2k outlines the accounting policies relating to revenue and particularly revenue generated by licensing agreements and research and development services.

As part of our assessment of the accounting policies adopted by your Company, we verified the appropriateness of the aforementioned accounting methods and the disclosures in the notes to the financial statements and verified their correct application.

Accounting principles in France

Accounting estimates:

Note 2k to the financial statements states that management estimates the length of your Company's involvement in future research and development commitments. Our work consisted in assessing the data and assumptions used and verifying the mathematical accuracy of the calculations performed by your Company to determine the percentage of completion and apply it to the total cost of the contract.

Note 2e1 to the financial statements states that management estimates the stage of completion of research and development work when accounting for relevant subcontracting costs. Our work consisted in assessing the reasonableness of the data and assumptions underlying these estimates, and verifying the mathematical accuracy of the calculations performed by your Company to determine the percentage of completion and apply it to the total cost of the contract.

These assessments were performed as part of our audit approach for the financial statements taken as a whole and contributed to the expression of the opinion in the first part of this report.

III. Specific verifications and disclosures

We have also performed the specific verifications required by law in accordance with professional practice standards applicable in France.

We have no matters to report regarding the fair presentation and the consistency with the financial statements of the information provided in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information presented in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on these procedures, we attest to the accuracy of this information.

Pursuant to the law, we have verified that the management report contains the appropriate disclosures as to the identity of and share capital and voting rights held by shareholders.

Marseille, March 29, 2017
The Statutory Auditors

Audit Conseil Expertise SAS
Member of PKF International

Nicolas Lehnertz

Deloitte & Associés

Hugues Desgranges

3.3.5. Date of the latest financial information

December 31th, 2016.

3.3.6. Interim financial information and other

None.

3.3.7. Dividend distribution policy

Since the creation of the Company, it has not made any profits and has not therefore distributed any dividends.

Distribution policy

The Company predicts that it will continue to experience substantial losses over the next few years as its research

and development activities continue. Therefore, it will not be in a position to distribute dividends in the near future.

Legal deadline

By law, dividends unclaimed five years after they have been authorized for payment will be given to the French State.

3.3.8. Judicial and arbitration procedures

Our subsidiary Platine Pharma Services (see Note 26 of the consolidated financial statements) has received a re-assessment proposal following the audit of its accounts performed on April 4, 2012. The notified recovery amounts to €91 thousand. This notification is being contested by Platine Pharma Services. As the audit concerned a period prior to the equity investment made by Transgene in Platine Pharma Services, the possible liability arising from this recovery would only concern Innate Pharma SA due to the liability guarantee.

With the exception of these points, the Company is not involved in any governmental, judicial or arbitration proceedings, including any suspended or threatened proceedings of which the Company is aware, which had or could have had over the last 12 months a significant effect on its business, financial situation, prospects, results or development.

3.3.9. Significant changes in the commercial or financial situation of the Company

Since December 31, 2016 and up to the date of this Reference document, there has been no significant change in the commercial or financial situation of the Company.

3.4. PROFIT FORECASTS OR ESTIMATES

None.

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4.1. SHARE CAPITAL

4.1.1. Amount of share capital (Article 6 of the By-laws)

At the date of February 10, 2017, the share capital amounted to 2,700,537.7 euros. It is divided into 54,010,754 common shares with a par value of 0.05 euros. Shares in the Company are fully subscribed and paid in full.

The evolution of the share capital and of the number of shares outstanding fiscal year is described in Section 3.3.1 and 4.1.8 of this Reference document (table of change in shareholders equity) as well as in Note 10 (share capital) of the Consolidated accounts.

4.1.2. Securities not representing capital

None.

4.1.3. Acquisition by the Company of its own shares

The General Meeting of shareholders held on June 2, 2016 gave the Executive board the authorization to implement a buy-back program for the Company's shares, within the framework of Article L. 225-209 of the French Code of Commerce and in accordance with the General Regulations of the AMF. For this buy-back program, the maximum purchase price per share was set at 20 euros per share and the maximum amount of funds to be invested in this program was capped at 1 million euros. It was also decided that the Company cannot, under any circumstances, hold either directly or indirectly, more than 10% of its share capital. This authorization was granted for a period of 18 months with effect from the General Meeting of shareholders held on June 2, 2016.

In accordance with the Article L. 225-211 of the French Code of Commerce, the Company hereby indicates how this authorization was used during the previous fiscal year.

In 2015, this authorization has been used exclusively in the context of a liquidity contract purpose of which is to animate the secondary market or to provide the appropriate liquidity of the Company's shares on the market through an investment service provider. Such liquidity contract was terminated on May 13, 2016.

Following the termination of the liquidity contract, the Company held, as of December 31, 2016, 18,575 treasury shares.

4.1.4. Other securities giving access to the Company's capital

4.1.4.1. Share warrants (BSA)

On June 27, 2008, the Extraordinary General Meeting authorized the issuing of 240,000 share warrants (BSA 2008) reserved to any natural or legal person, member of the Supervisory board or Company consultant capable of proving a contractual relationship with the Company at the time of the assembly General Meeting (BSA 2008). The Executive board granted 35,000 BSA 2008 to Philippe Pouletty on January 19, 2009, who fully subscribed to them. All of the BSA 2008 were exercised by its beneficiary during the fiscal year.

On June 29, 2011, the Extraordinary General Meeting authorized the issuing of 350,000 share warrants opening the right to subscribe to 350,000 new shares. A total of 325,000 BSA – including 100,000 BSA 2011-1 and 225,000 BSA 2011-2 were granted to independent members of the Supervisory board, to consultants and to members of the Scientific Advisory Board by the Executive board on July 29, 2011. As of February 10, 2017, all the BSA 2011-1 were exercised and it remains 104,440 BSA

2011-2, which represent a total of 104,440 common shares.

On June 28, 2013, the Extraordinary General Meeting authorized the issuing of 300,000 share warrants opening the right to subscribe to 300,000 new shares. The Executive board met on July 17, 2013, and after having received authorization from the Supervisory board, it granted 237,500 BSA (BSA 2013), which were shared between a new independent member of the Supervisory board, consultants and members of the Scientific Advisory Board.

The Executive board met on September 18, 2013, and after having received authorization from the Supervisory board, it granted 50,000 BSA (BSA 2013-1), which were granted to a Company consultant.

As of February 10, 2017, all BSA 2013-1 were exercised. It remains 83,860 outstanding BSA 2013, which represent a total of 83,860 common shares.

CHAPTER 4 - INFORMATION ABOUT CAPITAL AND SHAREHOLDING

4.1 SHARE CAPITAL

On March 27, 2014, the Extraordinary General Meeting authorized the issuing of 150,000 share warrants, opening the right to subscribe to 150,000 new shares. The Executive board met on July 16, 2014, and after having received authorization from the Supervisory board, it granted 150,000 BSA (BSA 2014), which were shared between Company consultants.

As of February 10, 2017, it remains 75,000 BSA 2014 outstanding, which represent a total of 75,000 common shares.

On April 27, 2015, the Extraordinary General Meeting authorized the issuing of 150,000 warrants, giving the right to subscribe to 150,000 new shares. The Executive board met on April 27, 2015, and after having received authorization from the Supervisory board, it granted 80,000 BSA (BSA 2015-1) to independent members of the Supervisory board and to members of the Scientific Advisory Board. The Executive board minuted the

subscription of 70,000 BSA 2015-1 on September 25, 2015.

The Executive board met on July 1, 2015, and after having received authorization from the Supervisory board, it granted 25,000 BSA (BSA 2015-2) to a new independent member of the Supervisory board. The Executive board minuted the subscription of 14,200 BSA 2015-2 on December 7, 2015.

As of February 10, 2017, it remains 70,000 BSA 2015-1 and 14,200 BSA 2015-2 outstanding, which represent a total of 84,200 common shares.

As of February 10, 2017, there were 347,500 BSA outstanding, which made it possible to subscribe to a total of 347,500 new shares of a par value of 0.05 euros, representing about 0.64% of the Company's capital on the basis of the number of existing shares as of February 10, 2017.

The table below shows the warrants outstanding as of February 10, 2017:

Date issued	Warrants authorized	Warrants issued	Beneficiaries	Warrants exercised	Warrants outstanding	Nb of shares to be issued with a par value of €0.05	Subscription price per share in €	Expiry date
Jan. 19, 2009 (BSA 2008)	240,000	35,000	Philippe Pouletty	35,000	0	0	€1.47	Feb.28, 2019
Jul.29, 2011 (BSA 2011-1 BSA 2011-2)	350,000	225,000	Independent members of the Supervisory board, consultants and members of the Scientific Advisory Board	120,560	104,440	104,440	€1.77	Jul.29, 2021

Date issued	Warrants authorized	Warrants issued	Beneficiaries	Warrants exercised	Warrants outstanding	Nb of shares to be issued with a par value of €0.05	Subscription price per share in €	Expiry date
Jul.17, 2013 (BSA 2013)	300,000	237,500	Independent members of the Supervisory board, consultants and members of the Scientific Advisory Board	153,640	83,860	83,860	€2.36	Jul.17, 2023
Sept.18, 2013 (BSA 2013-1)	–	50,000	Consultant	50,000	0	0	€2.35	Sept.18, 2023
Jul.16, 2014 (BSA 2014)	150,000	150,000	Consultants	75,000	75,000	75,000	€8.65	Jul.16, 2024
Apr. 27, 2015 (BSA 2015-1)	150,000	70,000	Independent members of the Supervisory board and members of the Scientific Advisory Board	0	70,000	70,000	€9.59	Apr. 26, 2025
Jul. 1, 2015 (BSA 2015-2)	–	14,200	New member of the Supervisory board	0	14,200	14,200	€14.05	Jun. 30, 2025
Total :	1,190,000	781,700	N/A	434,200	347,500	347,500	N/A	N/A

4.1.4.2. Distribution of redeemable share subscription and/or acquisition warrants (*Bons de Souscription/d'Acquisition d'Actions Remboursables*, « BSAAR »)

The Executive board of the Company, acting under the delegation of the General Meeting of shareholders held on June 23, 2009, decided on June 18, 2010 to propose 100,000 BSAAR to certain employees and company officers. On July 15, 2010, the Executive board minuted the subscription of all 100,000 BSAAR 2010 proposed to

Beneficiaries by the Executive board on June 18, 2010. All BSAAR 2010 were exercised before expiry of the validity period of June 18, 2015.

The Executive board of the Company, acting under the delegation of the General Meeting of shareholders held on

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4.1 SHARE CAPITAL

June 29, 2011, decided on September 9, 2011, to propose 1,000,000 BSAAR 2011 to certain employees and company officers. On January 11, 2012, the Executive board minuted the subscription of 650,000 BSAAR 2011 among the 1,000,000 BSAAR proposed to the Beneficiaries by the Executive board on September 9, 2011. As of February 10, 2017, it remains 255,000 outstanding BSAAR 2011, which may give rise to the issue of 255,000 new shares at a subscription price of 2.04 euros per share.

The Executive board of the Company, acting under the delegation of the General Meeting of shareholders held on June 28, 2012 decided on May 27, 2013, to propose 200,000 BSAAR 2012 to certain employees and company officers. On July 3, 2013, the Executive board minuted the subscription of 146,050 BSAAR 2012 among the 200,000 BSAAR 2012 proposed to the Beneficiaries by the Executive board on May 27, 2013, which may give rise to the issue of 146,050 new common shares. As of February 10, 2017, it remains 64,200 BSAAR 2012, which may give rise to the issue of 64,200 new shares at a subscription price of 2.04 euros per share.

The Executive board of the Company, acting under the delegation of the General Meeting of shareholders held on April 27, 2015 decided on July 1, 2015, to propose 1,499,207 BSAAR 2015 to employees and company officers at a price of 1.15 euros per BSAAR subscribed. On December 7, 2015, the Executive board minuted the subscription of 1,050,382 BSAAR 2015 among the 1,499,207 BSAAR 2015 proposed to the Beneficiaries, which may give rise to the issue of 1,050,382 new common shares at a subscription price of 7.20 euros per share.

As of February 10, 2017, it remains 1,045,722 BSAAR, which may give rise to the issue of 1,045,722 new shares at a subscription price of 7.20 euros per share.

As of February 10, 2017, it remains a total of 1,364,922 BSAAR, which may give rise to the subscription of 1,364,922 new shares of a nominal value of 0.05 euro, representing around 2.53% of the share capital of the Company on the basis of the number of shares issued as of February 10, 2017.

The table below shows the outstanding BSAAR at January 31, 2016:

Date issued	Warrants issued	Beneficiaries	Price of warrant	Warrants exercised	Warrants outstanding	Nb of shares to be issued (1)	Subscription price per share in €	Expiration Date
Jun.18, 2010 (BSAAR 2010)	100,000	Employees	€0.08	100,000	0	0	€2.34	Jun.18, 2015
Sep.9, 2011 (BSAAR 2011)	650,000	Employees and company officers	€0.05	395,000	255,000	255,000	€2.04	Sep.9, 2021
May.27, 2013 (BSAAR 2012)	146,050	Employees	€0.11	81,850	64,200	64,200	€2.04	May.27, 2023
July 1, 2015 (BSAAR 2015)	1,050,382	Employees and company officers	€1.15	1,940	1,940	1,045,722	€7.20	Jun. 30, 2025

(1) With a nominal value of €0.05

4.1.4.3. Free preferred shares convertible into ordinary shares (AGAP)

The General Meeting of shareholders held on June 2, 2016, has decided to create a new category of shares, the preferred shares, convertible into ordinary shares under a

long-term incentive plan, to the benefit of the Executive Committee salaries members and/or corporate officers and to the employees of the Company (the "Preferred shares").

To this purpose, the Extraordinary General Meeting of shareholders held on June 2, 2016, authorized the issuance of 5,000 Preferred Shares (AGAP Management) to the benefit of Executive Committee salaried members and/or corporate officers of the Company as well as 2,500 Preferred Shares to the benefit of the Employees of the Company (AGAP Employees).

The Executive board of October 21, 2016, attributed 2,000 AGAP Management of the Executive Committee salaried members and to corporate officers of the Company and 2,486 AGAP Employees to the employees of the Company.

The Executive board of December 30, 2016, attributed 3,000 AGAP Management to the new Chairman of the Company.

The AGAP attributed in 2016 will be definitively acquired by their beneficiaries at the end of a one-year period.

At the registry date of this Reference document, there is no outstanding Preferred Shares, since the Preferred Shares have not yet been definitively acquired by their beneficiaries.

The table below shows the AGAP attributed as of February 10, 2017:

Issuance date	AGAP attributed	Beneficiaries	Number of shares to be issued ⁽¹⁾ (in case of maximum conversion of the AGAP)
10/21/2016	2,486	Employees	497,200
10/21/2016	2,000	Executive Committee members and corporate officers	400,000
12/30/2016	3,000	Executive Committee members and corporate officers	600,000

(1) With a nominal Value of €0.05.

4.1.4.4. Free Shares

The General Meeting of shareholders held on June 2, 2016, authorized the Executive board to attribute free shares to the new members of the Executive Committee and/or to the corporate officers of the Company newly hired or appointed and to the employees of the Company the (AGA). To this purpose, the Extraordinary General Meeting held on June 2, 2016 authorized the issuance of 350,000 AGA Management to the benefit of the new Executive Committee members and/or the new corporate officers and of 250,000 AGA Employees to the benefits of the employees of the Company.

The Executive board of October 21, 2016, attributed 50,000 AGA Management and 99,932 AGA Employees to the employees of the Company.

The Executive board of December 30, 2016 attributed 250,000 AGA Management to a new corporate officer and 149,943 AGA Employees to the employees of the Company.

The AGA Management attributed in 2016 to the members of the Executive Committee and to the corporate officers will be definitively acquired by the beneficiaries at the end of a three-year acquisition period.

The AGA Employees attributed in 2016 to the Employees will be definitively acquired by the beneficiaries at the end of a one-year acquisition period.

At the registry date of this Reference document, there is no outstanding AGA, since the AGA have not yet been definitively acquired.

The table below shows the Free Shares attributed as of February 10, 2017:

Issuance date	AGAP attributed	Beneficiaries	Number of shares to be issued ⁽¹⁾ (in case of maximum conversion of the AGAP)
10/21/16	50,000	Executive Committee members and corporate officers	50,000
10/21/16	99,932	Employees	99,932
12/30/16	149,943	Employees	149,943
12/30/16	250,000	Chairman	250,000

(1) With a nominal Value of €0.05.

4.1.5. Fully diluted capital

At February 10, 2017, the number of shares that could be issued from outstanding warrants (347,500 giving the right to subscribe to 347,500 shares), and outstanding repayable warrants (1,364,922 giving the right to subscribe to 1,364,922 shares), from the AGAP Management and Employees (7,486 AGAP Management and Employees giving the right, in case of maximum conversion, to a

maximum of 1,497,200 shares) and from the AGA Management and Employees (549,875 AGA Management and employees giving right to 549,875 shares), totaled 3,759,497 representing approximately 6.51% of the Company's share capital based on the existing number of shares on a fully diluted basis (i.e. 57,770,251).

The following table shows all company warrants issued, repayable warrants, AGA and AGAP outstanding as at February 10, 2017:

	WARRANTS					REPAYABLE WARRANTS			AGAP		FREE SHARES			
Date of the General Meeting	06/29/11	06/28/13	03/27/14	04/27/15	04/27/15	06/29/11	06/28/12	04/27/15	06/02/16	06/02/16	06/02/16	06/02/16	06/02/16	06/02/16
Date of the Executive board deciding on the allocation of instruments	07/29/11	07/17/13	07/16/14	04/27/15	07/01/15	09/09/11	05/27/13	07/01/15	10/21/16	12/30/16	10/21/16	10/21/16	12/30/16	12/30/16
Number of options/warrants/shares authorized	225,000	300,000	150,000	150,000	150,000	1,000,000	200,000	1,500,000	7,500	7,500	250,000	350,000	350,000	250,000
Number of options assigned/warrants issued/shares distributed by Executive board	225,000	237,500	150,000	70 000	14 200	650,000	146,050	1,050,382	4,486	3,000	99,932	50,000	250,000	149,943
Starting date for exercising options/warrants or acquisition definitive of the free shares	07/29/11	07/17/13	07/16/14	04/27/15	07/01/15	09/09/11	05/27/13	07/01/15	10/21/17	12/30/17	10/21/17	10/21/19	12/30/19	12/30/17
Ending date for exercising options	07/29/21	07/17/23	07/16/24	04/26/25	06/30/25	09/09/21	05/27/23	06/30/25	04/21/26	06/30/26	-	-	-	-
Subscription price per share	€1.77	€2.36	€8.65	€9.59	€14.05	€2.04	€2.04	€7.20	-	-	-	-	-	-
Number of executive directors concerned ⁽¹⁾	4	2	2	4	1	2	0	2	3	1	-	-	1	-
Number of shares that could be subscribed by exercising the distributed warrants, AGAP or AGA issued (par value €0.05)	225,000	237,500	150,000	70,000	14,200	650,000	146,050	1,050,382	897,200	600,000	99,932	50,000	250,000	149,943

Number of shares subscribed at February 10 th , 2017	120,560	153,640	75,000	-	-	395,000	81,850	1,940	-	-	-	-	-	-
Number of lapsed or cancelled options or warrants	-	-	-	-	-	-	-	2,720	-	-	-	-	-	-
Remaining shares that could be subscribed	104,440	83,860	75,000	70,000	14,200	255,000	64,200	1,045,722	897,200	600,000	99,932	50,000	250,000	149,943

(1) Members of the Executive board or Supervisory board

4.1.6. Share capital authorized but unissued

The following table summarizes the authority delegated to the Executive board by the Extraordinary General Meeting of the shareholders on June 2, 2016:

4.1.6.1. Share capital authorizations not used during the 2016 fiscal year

Delegations of authority granted to the Executive board by the General Meeting 2016	Maximum par value of the capital increase in euros	Duration of delegation	Use during the 2016 fiscal year	Methods for determining the issue price
Issuance of ordinary Company shares and/or securities giving access to the Company's share capital, with shareholders' preferential subscription rights in accordance with Articles L. 225-129 to L. 225-129-6, L. 228-91 et seq. of the French Commercial Code (except for preferred shares and securities giving access to the preferred share capital)	672,958 ⁽²⁾	26 months ⁽¹⁾	-	-
Issuance of ordinary Company shares and/or securities giving access to the Company's share capital, without shareholders' preferential subscription rights (through an offer to the public) in accordance with Articles L. 225-129 to L. 225-129-6, L. 225-135, L. 225-136, L. 228-91 et seq. of the French Commercial Code (except for preferred shares and securities giving access to the preferred share capital).	672,958 ⁽²⁾	26 months ⁽¹⁾	-	The issuance price is at least equal to the volume-weighted average of the closing prices of the share during the last three stock market trading days preceding the date upon which the issuance price is set, optionally minus a maximum discount of 5%-
Issuance of ordinary Company shares and/or securities giving access to the Company's share capital, without shareholders' preferential subscription rights, as part of an offering covered by item II of Article L.411-2 of the French Monetary and Financial Code.	538,367 ⁽²⁾	26months ⁽¹⁾	-	The issuance price is at least equal to the volume-weighted average of the closing prices of the share during the last three stock market trading days preceding the date upon which the issuance price is set, optionally

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Delegations of authority granted to the Executive board by the General Meeting 2016	Maximum par value of the capital increase in euros	Duration of delegation	Use during the 2016 fiscal year	Methods for determining the issue price
				minus a maximum discount of 5%.
Issuance of ordinary Company shares and securities giving access to the Company's share capital, as remuneration for contributions in kind comprising equity securities or securities giving access to the share capital in accordance with Articles L. 225-129 to L. 225-129-6, L. 225-147 and L. 228-91 et seq. of the French Commercial Code (except for preferred shares and securities giving access to preferred share).	10% of the Company share capital ⁽²⁾	26 months ⁽¹⁾		
Issuance of ordinary shares and securities giving access to the Company's share capital, in the event of a public exchange offer initiated by the Company in accordance with Articles L. 225-129 to L. 225-129-6, L. 225-148 and L. 228-91 et seq. of the French Commercial Code (except for preferred shares and securities giving access to preferred share).	672,958 ⁽²⁾	26 months ⁽¹⁾	–	
Issuance of autonomous equity warrants reserved for any individual or legal entity that is a member of the Supervisory board or a consultant of the Company without shareholders' preferential subscription rights in accordance with Articles L. 225-129 to L. 225-129-6 and L. 225-138 and L. 228-91 et seq. of the French Commercial Code (except for preferred shares and securities giving access to preferred share).	7,500	18 months ⁽³⁾	–	The share subscription price will be at least equal to the average of the closing prices of the share during the last ten stock market trading days preceding the time of allocation of the equity warrants, optionally minus a maximum discount of 10%, being specified that the grant price will be 10% of the exercise price so determined and that the amount paid at subscription will be deducted from the price due under the exercise.

Delegations of authority granted to the Executive board by the General Meeting 2016	Maximum par value of the capital increase in euros	Duration of delegation	Use during the 2016 fiscal year	Methods for determining the issue price
Issuance of ordinary shares and/or securities giving access to the Company's share capital for the benefit of the members of a company savings plan.	10,000	26 months ⁽¹⁾	–	The subscription price for the new shares will be equal to 80% of the average for the first prices quoted for the Company share traded during the twenty stock market sessions preceding the day of the decision setting the opening date for the subscription when the duration of unavailability specified in the savings plan, in accordance with articles L. 3332-25 of the French labor Code, is less than ten years, and 70% of this average when said period of unavailability is greater or equal to ten years.

(1) Dating from the General Meeting held on June 2, 2016 i.e. until August 2, 2018

(2) This amount is to be counted within the overall cap of 672,958 euros stipulated by the 19th resolution of the General Meeting held on June 2, 2016. This overall cap does not take account of adjustments liable to be made in accordance with applicable legislative and regulatory provisions or contractual terms stipulating other cases of adjustment to maintain the rights of the holders of securities or other rights giving access to the share capital

(3) Dating from the General Meeting held on June 2, 2016, i.e. until December 2, 2017

4.1.6.2. Share capital authorizations used during the 2016 fiscal year

Delegations of authority granted to the Executive board by the General Meeting 2016	Maximum par value of the capital increase in euros	Duration of delegation	Use during the 2016 fiscal year in euros	Methods for determining the issue price
Issuance of free shares either existing or to be issued to the benefit of Executive Committee members with an employment contract and/or corporate officers of the Company or its subsidiaries in application of the provisions of articles L. 225-197-1 of the French Commercial Code.	17,500	38 months ⁽⁴⁾	15,000 ⁽⁵⁾	–

Delegations of authority granted to the Executive board by the General Meeting 2016	Maximum par value of the capital increase in euros	Duration of delegation	Use during the 2016 fiscal year in euros	Methods for determining the issue price
Issuance of free shares either existing or to be issued for the benefit of salaried personnel of the Company or its subsidiaries in application of the provisions of articles L.225-197-1 and following of the French Commercial Code.	12,500	38 months ⁽⁴⁾	12,493.75 ⁽⁵⁾	–
Issuance of free preferred shares convertible into ordinary shares of the Company to the benefits of salaried corporate officers, salaried members of the Executive Committee and/or corporate officers of the Company or its subsidiaries in application of the provisions of articles L. 225-197-1 on the French Commercial Code	50,000	38 months ⁽⁴⁾	50,000 ⁽⁵⁾	–
Issuance of free preferred shares convertible into ordinary shares of the Company to the benefits of employees of the Company or its subsidiaries in application of the provisions of articles L. 225-197-1 on the French Commercial Code	25,000	38 months ⁽⁴⁾	24,860 ⁽⁶⁾	–

(4) Dating from the General Meeting held on June 2, 2016, i.e. until August 2, 2019

(5) Use by the Executive board of October 21, 2016 and December 30, 2016, assuming that the AGAP Management have been fully converted into the maximum number of ordinary shares (1 AGAP Manager = 200 ordinary shares)

(6) Use by the Executive board on October 21, 2016, assuming that the AGAP Employees have been fully converted into the

4.1.7. Obligations to buy and sell

None.

4.1.8. Changes in capital as of the date of this Reference document

The table below shows changes in the Company's share capital since the past three fiscal years:

Final date of the transaction	Transaction	Shareholders	Number of shares issued	Par value of shares issued	Unitary value of the shares issued	Nominal amount of the capital increase	Total share premium	Successive amounts of capital	Successive cumulative number of shares composing the share capital
02/10/14	Capital increase – exercise of stock-options and warrants	Employees and executive managers	51,250	€0.05	Various	€2,562.5	€156,167.50	2,289,357.10	45,787,142
03/07/14	Capital increase – exercise of stock-options and warrants	Employees and executive managers	315,950	€0.05	Various	€15,797.50	804,645.50	2,305,154.60	46,103,092
03/26/14	Capital increase – exercise of warrants	Employees and executive managers	12,200	€0.05	Various	€610.00	€23,266.60	2,305,764.60	46,115,292
03/27/14	Capital increase reserved to Novo Nordisk A/S		600,000	€0.05	€8.33 ^{1/3}	€30,000	€4,970,000	2,335,764.60	46,715,292
06/26/14	Capital increase – Private placement	–	6,250,000	€0.05	€8	312,500	49,687,500	2,648,264.60	52,965,292
12/18/14	Capital increase – exercise of warrants	Employees	5,100	€0.05	Various	255.00	10,599.00	2,648,519.60	52,970,392
02/04/15	Capital increase – exercise of stock-options and warrants	Employees and executive managers	61,500	€0.05	Various	3,075.00	124,095.00	2,651,594.60	53,031,892
03/04/15	Capital increase – exercise of stock-options and subscription and contribution to company savings plan	Employees	53,372	€0.05	Various	2,668.6	95,677.6	2,654,263.20	53,085,264
04/14/15	Capital increase – exercise of stock-options and warrants	Employees	88,500	€0.05	Various	4,425.00	282,345	2,658,688.20	53,173,764
07/01/15	Capital increase – exercise of stock-options and warrants	Employees and executive managers	350,586	€0.05	Various	17,529.30	684,939.92	2,676,217.50	53,524,350
07/08/15	Capital increase – exercise of stock-options and warrants	Employees and executive managers	76,250	€0.05	Various	3,812.50	238,837.50	2,680,030	53,600,600
12/09/15	Capital increase – exercise of stock-options and warrants	Employees and executive managers	233,414	€0.05	Various	11,670.70	713,814.08	2,691,700.70	53,834,014
01/06/16	Capital increase – exercise of stock-options and warrants	Employees	2,700	€0.05	Various	135.00	5,373	2,691,835.70	53,836,714
05/30/16	Capital increase – exercise of warrants	Employees and executive managers	58,940	€0.05	Various	2,947	132,173	2,694,782.70	53,895,654
11/03/16	Capital increase – exercise of warrants	Employees	25,650	€0.05	Various	1,282.50	51,043.50	2,696,065.20	53,921,304
01/24/17	Capital increase – exercise of warrants	Employees and executive managers	38,950	€0.05	Various	1,947.50	325,195.50	2,698,012.70	53,960,254
02/10/17	Capital increase – exercise of warrants	Employees and executive managers	50,500	€0.05	Various	2,525	116,495	2,700,537.50	54,010,754

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4.1.9. Pledges

4.1.9.1. Pledges of Company shares

None.

4.1.9.2. Pledges of Company assets

The Company leases its headquarters and main laboratories in Marseille through a lease-finance agreement

arranged by SOGEBAIL (see Section 3.2.1.2 of this Reference document).

4.2. MAIN SHAREHOLDERS

4.2.1. Shareholders with more than 5% of the share capital or voting rights

The table below shows the distribution of the Company's shares and voting rights as of March 14, 2017, to the knowledge of the Company:

Shareholders	Shares		Voting rights	
	Number	%	Number	%
Company Officers ⁽¹⁾ including :	6,819,340	12.63%	6,819,340	12.63%
– Members of the Executive board	113,537	0.21%	113,537	0.21%
– Members of the Supervisory board	6,705,803	12.42%	6,705,803	12.42%
– including Novo Nordisk A/S	5,564,708	10.30%	5,564,708	10.31%
Employees without Company officers ⁽²⁾	498,276	0.92%	498,276	0.92%
Bpifrance Participations	4,396,682	8.14%	4,396,682	8.14%
Treasury shares	18,575	0.03%	0	0.00%
Other shareholders	42,277,881	78.28%	42,277,881	78.28%
Total	54,010,754	100.00%	53,992,179	99.96%

(1) Not acting in concert

(2) Employees recorded in nominative accounts

As far as the Company is aware, no other shareholder holds more than 5% of its capital or voting rights. No shareholder has declared to the stock-exchange authorities that they are acting in concert with another.

The following main transactions were declared with respect to Innate Pharma shares in 2016 and until the date of deposit of this Reference document:

Passing of threshold of Perceptive Advisors LLC:

In a letter received on February 28, 2017 the company Perceptive Advisors LLC, acting for the account of funds that it manages, declared that on February 27, 2017 it passed below the threshold of 5% of the Company's share capital and voting rights and holding for the account of said funds 2,615,134 shares of INNATE PHARMA, representing the same number of voting rights, coming to 4.84% of the Company's share capital and voting rights.

Such passing of thresholds results from a sale of INNATE PHARMA shares on the market.

Passing of threshold by GAM International Management Limited:

In a letter received on December 2, 2016 the company GAM International Management Limited, acting for the account of clients and funds that it manages, declared that on November 30, 2016 it passed below the threshold of 5% of the Company's share capital and voting rights and holding for the account of said clients 2,644,890 shares of INNATE PHARMA, representing the same number of voting rights, coming to 4.91% of the Company's share capital and voting rights.

Such passing of thresholds results from a sale of INNATE PHARMA shares on the market.

Passing of threshold by Perceptive Advisors LLC:

In a letter received on September 22, 2016 the company Perceptive Advisors LLC, acting for the account of clients and funds that it manages, declared having passed a threshold and then rectified such declaration by latter dated September, 30 2016 indicating that on September 19, 2016 it passed above the threshold of 5% of the Company's share capital and voting rights and holding for the account of said clients 2,735,842 shares of INNATE PHARMA, representing the same number of voting rights, coming to 5.08% of the Company's share capital and voting rights.

Such passing of thresholds results from a purchase of INNATE PHARMA shares on the market.

Passing of threshold by Taube Hodson Stonex Partners:

In a letter received on September 5, 2016, the company Taube Hodson Stonex Partners LLP, acting for the account of clients and funds that it manages, declared that on August 31, 2016, it passed below the threshold of 5% of the Company's share capital and voting rights and no longer hold any shares of the Company.

Such passing of thresholds results from the purchase of Taube Hodson Stonex Partners LLP by GAM, on August 31, 2016. GAM International Management Limited was appointed as « *investment adviser* » of all the funds in replacement of Taube Hodson Stonex Partners LLP.

Passing of threshold by GAM International Management Limited:

In a letter received on September 2, 2016 the company GAM International Management Limited, acting for the

account of clients and funds that it manages, declared that on November 30, 2016 it passed above the threshold of 5% of the Company's share capital and voting rights and holding for the account of said clients 2,734,216 shares of INNATE PHARMA, representing the same number of voting rights, coming to 5.07% of the Company's share capital and voting rights.

Such passing of thresholds results from the purchase of Taube Hodson Stonex Partners LLP by GAM, on August 31, 2016. GAM International Management Limited was appointed as « *investment adviser* » of all the funds in replacement of Taube Hodson Stonex Partners LLP. GAM International Management Limited is a « *discretionary investment manager* » for some funds and distinct clients.

Passing of threshold by Taube Hodson Stonex Partners:

In a letter received on January 21, 2016 the company Taube Hodson Stonex Partners LLP, acting for the account of clients and funds that it manages, declared that on January 21, 2016 it passed above the threshold of 5% of the Company's share capital and voting rights and holding for the account of said clients 2,710,623 shares of INNATE PHARMA, representing the same number of voting rights, coming to 5.03% of the Company's share capital and voting rights.

Such passing of thresholds results from a purchase of INNATE PHARMA shares on the market.

The table below shows the distribution of the Company's shares and voting rights on January 31st, 2016, to the knowledge of the Company:

Shareholders	Shares		Voting rights	
	Number	%	Number	%
Company Officers ⁽¹⁾ including :	6,682,340	12.41%	6,682,340	12.42%
– Members of Executive board	1,198,321	2.22%	1,198,321	2.23%
– Members of Supervisory board	5,484,019	10.19%	5,484,019	10.19%
– including Novo Nordisk A/S	5,422,708	10.07%	5,422,708	10.08%
Employees excluding Company Officers ²	459,596	0.85%	459,596	0.85%
Bpifrance Participations	4,396,682	8.17%	4,396,682	8.17%
Taube Hodson Stonex Partners LLP (THS)	2,710,623	5.03%	2,710,623	5.03%
Treasury shares ³	18,639	0.03%	0	0.00%
Other Shareholders	39,568,834	73.50%	39,568,834	73.50%
Total	53,836,714	100.00%	53,818,075	100.00%

(1) Not acting in concert

(2) Employees holding their shares in registered form

(3) Through a liquidity contract

The table below shows the distribution of the Company's shares and voting rights as of February 27, 2015, to the knowledge of the Company:

Shareholders	Shares		Voting rights	
	Number	%	Number	%
Company officers ¹	6,523,504	12.29%	6,523,504	12.29%
<i>Including members of the :</i>				
– Executive board	1,029,160	1.94%	1,029,160	1.94%
– Supervisory board	5,494,344	10.35%	5,494,344	10.36%
– including Novo Nordisk A/S	5,422,708	10.22%	5,422,708	10.22%
Employees excluding company officers ²	365,555	0.69%	365,555	0.69%
Bpifrance Participations	4,829,312	9.10%	4,829,312	9.10%
Wellington Management Company, LLP	4,191,491	7.90%	4,191,491	7.90%
Fidelity Investments	3,843,896	7.24%	3,843,896	7.24%
OrbiMed	3,115,091	5.87%	3,115,091	5.87%
Company's own shares ³	26,659	0.05%	0	0.00%
Other shareholders	30,189,756	56.87%	30,189,756	56.90%
Total	53,085,264	100.00%	53,058,605	100.00%

(1) Not acting in concert

(2) Employees holding their shares in registered form

(3) Through a liquidity contract

4.2.2. Lock-up commitments of main shareholders and executive directors

None.

4.2.3. Existence of different voting rights

None.

4.2.4. Control of the Company by the main shareholders

To the best of the Company's knowledge:

- The structure of the Company's share capital as of January 31, 2017 is described above (see paragraph 4.2.1 Shareholders with more than 5% of the share capital or with voting rights);
- The Company has no shareholder who has the power of exercising sole control over it. Its main shareholder is Novo Nordisk A/S which has 10.30% of the share capital;
- The Company has no knowledge of any shareholder agreements or any concerted action between its shareholders;
- No shareholder has the ability to affect decisions by Company shareholders solely based on the voting rights he holds;
- There is no agreement likely to result in a change of control of the Company; and,

- No shareholder has the power to appoint or dismiss the majority of the members of the Executive board, Supervisory board or general management bodies;
- There are no legal restrictions and, to the Company's knowledge, no contractual restrictions with respect to exercising voting rights and transferring the Company's shares;
- There are no Company securities with special control rights;
- The Company has not set up any employee shareholder system with control mechanisms that are activated when the control rights are not exercised by the employees;
- The rules for appointing and replacing members of the Supervisory board and the Executive board, as well as the rules for changing the Company's articles of incorporation, are ordinary law rules recalled in the Company's articles of incorporation;
- The Executive board has the powers of ordinary law when it comes to issuing and buying back shares. A description of the delegation of powers granted by the Executive board's general assembly currently in force and their utilization can be found in paragraph 4.1.6. Furthermore, the authorization given to the Executive board by the general assembly to trade the Company's shares is described in paragraph 4.1.6;
- There is no agreement signed by the Company that is modified or that is terminated in the event there is a change of control in the Company;
- Excluding the applicable legal and regulatory provisions and the measures described in section VI.1 of the management report, no Executive board member or employee of the Company has an agreement that foresees compensation in the case of resignation or dismissal without any just cause or if their employment ends due to a takeover. The mandate entered into between Mondher Mahjoubi and the Company (Chairman since December 30, 2016), provides that in consideration for a non-competition and non-solicitation obligation, Mr. Mondher Mahjoubi shall benefit, as from the end of his function, from an indemnity corresponding to two years of fixed and variable compensation, which will be paid monthly.

4.3. ARTICLES OF INCORPORATION AND BY-LAWS

By-laws of the Company are available on the corporate website.

4.3.1. Business purpose (Article 4 of the By-laws)

The Company's business purpose, directly or indirectly, in France or other countries is to:

- perform, for itself or on behalf of third parties, any and all operations involving research, development, studies, perfecting of production processes and marketing products of pharmaceutical interest;
- register or grant any patents or licenses relating directly or indirectly to the business; and
- perform any operation, whether economic, legal, financial, civil or commercial, which may be directly or indirectly related to the business purpose or any similar, associated or complementary purpose.

4.3.2. Executive board, Supervisory board and general management bodies (Articles 14 to 24 of the By-laws)

4.3.2.1. Executive board (Articles 14 to 16 of the By-laws)

The Executive board is responsible for managing the Company and is composed of a minimum of two members and a maximum of five members who perform their duties under the supervision of the Supervisory board.

Members of the Executive board

The members of the Executive board are appointed or have their mandates renewed by the Supervisory board. The members of the Executive board must be individuals. They

are not required to be shareholders. They may be French citizens or citizens of other countries.

The maximum age for being a member of the Executive board and the limitations on having such a mandate concurrently with a mandate in another company are subject to the applicable legal and regulatory provisions.

The term of office for the members of the Executive board is three years and may be renewed. If there is a vacancy, the Supervisory board must fill the vacancy within two

months. The replacement is appointed for the time remaining until the Executive board is up for renewal.

Chairman of the Executive board

The Executive board elects a Chairman from among its members to serve for the duration of his mandate as a member of the Executive board. The Chairman of the Executive board represents the Company in its relations with third parties.

The Supervisory board may assign this power of representation to one or more other members of the Executive board; such persons then have the title of Chief Operating Officer.

4.3.2.2. Supervisory board (Articles 17 to 21 of the By-laws)

Members of the Supervisory board

The Executive board is supervised by a Supervisory board made up of a minimum of three members and a maximum of eighteen. The members of the Supervisory board are appointed for a renewable term of two years at the General Meeting of shareholders, which may revoke their mandates at any time. The appointees are selected from among the shareholders and may be individuals or companies. Each

Chairman of the Supervisory board

The Supervisory board appoints a Chairman and a Vice-Chairman, in charge of convening the Supervisory board and leading the debates, from its members who are individuals.

In a report to the General Meeting of shareholders attached to the Executive board's Management Report, the Chairman

Meetings and powers of the Supervisory board

The Supervisory board meets as often as the interests of the Company require but at least once per quarter. Meetings are called by the Chairman or Vice-Chairman, or by a member of the Executive board or one-third of the members of the Supervisory board, under the circumstances and according to the conditions set forth in the By-laws.

Committees

The Supervisory board may decide to establish committees responsible for reviewing matters which the Supervisory

Meetings and powers of the Executive board

The Executive board meets as often as the interests require, but at least once per quarter. Meetings are called by the Chairman or a member of the Executive board appointed for this purpose.

The Executive board has a broad power to act under all circumstances on behalf of the Company. It exercises this power within the limits of the Company's business purpose and subject to any powers expressly given to the Supervisory board and Shareholders' Meetings by law and according to the Company's By-laws, and abiding by any restrictions on powers decided by the Supervisory board.

member must own at least one of the Company's shares for the entire term of the mandate.

The age limit for being a member of the Supervisory board and the limitations on holding such appointment mandate concurrently with appointment mandate in another company are subject to the applicable legal and regulatory provisions.

of the Supervisory board reports on the conditions for preparing and organizing the work of the Supervisory board as well as the internal control procedures set up by the Company (See 2.4.3 of this Reference document).

The Supervisory board exercises permanent control over the Company's management by the Executive board. It alone has the authority to give permission for certain significant transactions.

board or its Chairman wish to submit to them for examination and advice.

4.3.2.3. Shareholders' Observers (Article 23 of the By-laws)

At the General Meeting of shareholders, one or more shareholders' observers may be appointed, at the discretion of the shareholders for a renewable term of one

year. Shareholders' observers may be individuals or companies and are not required to be shareholders.

The observers attend all Supervisory board meetings, with the right to speak but not to vote.

4.3.3. Rights and obligations attached to shares (Article article 7 and 12 of the By-laws)

Each Company share gives the right to a share of the profits and assets in proportion to the amount of capital it represents. It also gives the right to vote and be represented in the General Meeting of shareholders under the conditions set forth by the law and the By-laws.

The Company has not issued any shares giving holders privileged rights compared to those attached to other shares.

In compliance with Act No. 2014-384 of 29 March 2014 on recapturing the real economy and amending the provisions governing double voting rights as stipulated in Article L. 225-123 of the French Commercial Code, shareholders

will be asked to vote on the modification of Article 12 of the Company's articles of incorporation on April 27, 2015. This is to prevent giving double voting rights to i) the Company's free shares for which a registered subscription has been required for the past two years under the name of the same shareholder, and ii) to the Company's registered shares granted freely within the scope of a capital increase by capitalization of reserves, profits or issuing premiums to a shareholder.

Any change to the capital or the rights attached to the shares is subject to legal provisions, as the Company's by-laws do not set forth any particular requirements.

4.3.4. General Meeting of shareholders (Articles 26 to 34 of the By-laws)

General Meeting of shareholders is called by the Executive board, or failing that, by the Supervisory board. They can also be called by the auditor(s) or an officer appointed by a court upon request, by any interested party or by the Works Council in an emergency, by one or more shareholders holding at least five percent of the shares or by an association of Company shareholders.

The meeting is published in the Bulletin of Obligatory Legal Notices (Bulletin des Annonces Légales Obligatoires or BALO) at least 35 days prior to the date of a General Meeting of shareholders. In addition to the information concerning the Company, the notice indicates in particular the agenda of the General Meeting of shareholders and the draft resolutions that will be presented.

In the 21 days preceding the meeting, the Company will publish the information and documents relating to the meeting on its web site.

In accordance with article R.225-73-1 of the French Code of Commerce, the General Meeting of shareholders must be announced at least fifteen days beforehand, by a notice placed in a journal that publishes legal announcements in the department where the headquarters are located, and in the BALO. Holders of registered shares who have owned them for at least one month as of the date on which the latest notice is published receive individual notices. When a

General Meeting of shareholders is unable to take action because the requisite quorum is not present, a second meeting is called at least six days in advance using the same procedure as the first one.

The General Meeting of shareholders may only take action on items on the agenda. However, it may dismiss and replace one or more members of the Supervisory board at any time. One or more shareholders representing at least the percentage of share capital fixed by law, and acting according to the legally required conditions and deadlines, are allowed to request that draft resolutions be added to the agenda of the General Meeting of shareholders.

Any shareholder has the right to attend General Meeting of shareholders in person or to appoint a proxy holder, in accordance with the legal and statutory requirements, and to take part in deliberations by presenting proof of identity and ownership of shares, subject to:

- for holders of registered shares, an entry in the shareholder registry at least two business days before the General Meeting of shareholders; and
- for holders of bearer shares, filing, under the conditions provided by law, of a certificate of participation issued by an authorized intermediary two days before the date of the General Meeting of shareholders.

4.3.5. Shareholder identification (Article 9 of the By-laws)

Shares may be registered or bearer shares, at the option of the shareholder, subject to the applicable legal requirements.

To identify the holders of bearer shares, the Company is authorized to ask in accordance with current legal and regulatory requirements, the central depository that

maintains the records of the issue of these shares, in exchange for a fee, for the holders' name or business name, year of birth or year of incorporation, address and nationality, number of securities held giving access to the capital and any restrictions to which the securities are subject.

4.3.6. Voting rights (Article 32 of the By-laws)

The voting rights attached to shares are in proportion to the amount of capital they represent and each share gives the right to one vote.

4.3.6.1. Double voting rights

None.

4.3.6.2. Limitation on voting rights

None.

4.3.7. Modification of the by-laws (article 36 of the by-laws)

Modification of the Company by-laws is the prerogative of a special general meeting of shareholders of the Company.

4.3.8. Crossing the threshold set in the By-laws (Article 11 of the By-laws)

Without prejudice to the legal or regulatory stipulations, any natural person or legal entity who goes above or below, directly or indirectly, acting alone or together with others, a percentage of the share capital or voting rights equal to or higher than 1% or a multiple of this percentage, must

inform the Company of the total number of shares, voting rights and securities giving access to capital or voting rights that it or he owns immediately or within the term set forth in the By-laws within five trading days of the date on which such ownership threshold is crossed.

4.4. INFORMATION ABOUT THE COMPANY

4.4.1. Company name

Company Name: Innate Pharma.

4.4.2. Business and company registry

Innate Pharma is registered with the Marseille Business and Company Registry as number SIREN 424 365 336 RCS Marseille.

The Company's NAF Code is 7211 Z. This is the code for Research and Development in Biotechnologies.

4.4.3. Company incorporation and term

The Company was incorporated on September 15, 1999, as a "*société par action simplifiée*" and then transformed into a "*société anonyme*" on June 13, 2005 and registered on

September 23, 1999. The Company will expire on September 23, 2098.

4.4.4. Head offices

117 Avenue de Luminy – BP 30191
F-13276 Marseille Cedex 09
France
Tel : +33 (0)4 30 30 30 30

4.4.5. Legal form and applicable law

A *société anonyme* organized with an Executive board and a Supervisory board subject to the provisions of Book II of

the French "Code de Commerce" and all other applicable regulations.

4.4.6. Fiscal year

The fiscal year starts on January 1 and ends on December 31 of each year.

4.5. INFORMATION ON HOLDINGS

As of December 31, 2016, Innate Pharma SA owned 100% of the shares of Innate Pharma, Inc., a US based company incepted in 2009 and whose purpose is to represent the

Company in its business and corporate development activities in the USA. Innate Pharma, Inc. is dormant since January 1, 2011 and is fully consolidated.

4.6. RELATED-PARTY TRANSACTIONS

Transactions with related parties are presented below and in the special report of the Auditors on regulated agreements and commitments presented in section 4.6.8 of this Reference document.

4.6.1. Agreements concluded with Hervé Brailly as Chairman of the Executive board

Compensation:

Mr. Hervé Brailly received a monthly salary of 21,667 euros in the six-month period starting from January to June 2016 and of 25,000 euros for the six-month period starting from July 2016 to December 2016 under his employment contract as well as a collective bonus of 21,667 euros for the 2015 year. Mr. Hervé Brailly also received in 2016 an individual bonus of 82,333 euros and an exceptional bonus of 60,000 euros for the 2015 year.

Defined contribution pension plan:

Mr. Hervé Brailly benefited from an "Article 83" pension contract with AG2R La Mondiale, at a contribution rate of 2% of his gross compensation, of which 1.20% borne by the Company. The amount paid by Innate Pharma for the 2016 fiscal year amounted to 3,635 euros.

Specific unemployment benefits for executive directors (GSC):

The purpose of this contract is to guarantee the payment of compensation in case of unemployment (up to the limit of 70% of the last compensation as declared to the tax authorities) for company executives and officers who are not eligible to the French ASSEDIC unemployment benefits. This contract was set up with effect from April 1, 2006 under the authorization of the Supervisory board given on September 23, 2005. The amount paid by Innate Pharma for the 2016 fiscal year amounted to 7,514 euros.

Company car:

Mr. Hervé Brailly benefited from the lease of a company car, as agreed by the compensation committee on January 19, 2007, at a cost of 1,860 euros in 2016.

4.6.2. Agreements concluded with Mr. Hervé Brailly as Chairman of the Supervisory board

On December 14, 2016 with effect as from December 30, 2016, the Supervisory board decided to grant a special mission to Mr. Hervé Brailly in addition to its functions as Chairman of the Supervisory board under article L. 225-84 of the French Code of Commerce. Such special mission will end on December 31, 2017. Such special mission mainly consists in ensuring the transition to the new executive team of Innate Pharma and in providing strategic advices.

Under such special mission, Mr. Hervé Brailly will receive in 2017 a fixed annual gross remuneration amounting to 100,000 euros.

No payment was made under such remuneration during the fiscal year ending on December 31, 2016.

4.6.3. Agreements concluded with Mr. Mondher Mahjoubi as Chairman of the Executive board

On December 14, 2016 with effect as from December 30, 2016, following its appointment as Chairman of the Executive board, Mr. Mondher Mahjoubi entered into a mandate agreement with the Company, which provides notably for the following remuneration elements (the "Mandate"):

- a lump sum equivalent to two years of fixed and variable compensation in consideration of its non-competition and non-solicitation clauses, to be paid

monthly for 24 months as from the date on which he will no longer be chairman of the Executive board;

- an unemployment insurance contract (GSC) to secure the payment of an unemployment benefit. Such unemployment insurance has been put in place following the authorization granted by the Supervisory board on December 14, 2016.

No payment was made under such Mandate during the fiscal year ending on December 31, 2016.

4.6.4. Agreements concluded with Nicolai Wagtmann as member of the Executive board

Compensation:

Mr. Nicolai Wagtmann received a monthly salary of 13,494 euros over a six-month period starting from January to June 2016 and of 15,000 euros over a six-month period starting from July to December 2016 under his employment contract as well as a collective bonus of 13,333 euros for the year 2015. Mr. Nicolai Wagtmann also received in 2016 an individual bonus of 30,667 euros and an exceptional bonus of 30,000 euros for the 2015 year.

Nicolai Wagtmann also benefited from an in-kind advantage for school allowance amounting 16,158 euros.

Defined contribution pension plan:

Mr. Nicolai Wagtmann benefited from an "Article 83" pension contract with AG2R La Mondiale, at a contribution rate of 2% of his gross compensation, of which 1.20% borne by the Company.

The amount paid by Innate Pharma for the 2016 fiscal year amounted to 2,121 euros.

Company car:

Mr. Nicolai Wagtmann benefited from the lease of a company car, at a cost of 2,720 euros in 2016.

4.6.5. Agreement concluded with Mrs. Catherine Moukheibir as member of the Executive board until 29 December 2016

A consultancy agreement dated April 18, 2011 has been entered into Innate Pharma and Mrs. Catherine Moukheibir for providing services of Senior Advisor Finance starting from March 1, 2011.

This contract was subject to amendment No. 1 dated April 30, 2011 and was renewed twice for a period of 2 years March 4, 2013 and March 6, 2015.

As such, Innate Pharma paid the sum of 264,004 euros in return for services performed between January 1, 2016 and December 29, 2016.

Following the resignation of Mrs. Catherine Moukheibir from the Executive board, the consulting agreement dated March 6, 2015 was amended on December 14, 2016 with effect on December 30, 2016 for a six-month period until June 30, 2017.

Under this amendment, the method of intervention and the missions of Catherine Moukheibir were modified.

4.6.6. Agreements concluded with Yannis Morel as member of the Executive board

Compensation:

Mr. Yannis Morel received a monthly salary of 12,500 euros over a six-month period starting from January to June 2016 and of 15,000 euros over a six-month period starting from July to December 2016 under his employment contract as well as a collective bonus of 12,500 euros for the year 2015. Mr. Yannis Morel also received in 2016 an individual

bonus of 23,500 euros and an exceptional bonus of 50,000 euros for the 2015 year.

Defined contribution pension plan:

Mr. Yannis Morel benefited from an "Article 83" pension contract with AG2R La Mondiale, at a contribution rate of 2% of his gross compensation, of which 1.20% borne by the Company.

The amount paid by Innate Pharma for the 2016 fiscal year amounted to 2,032 euros.

Company car:

Mr. Yannis Morel benefited from the lease of a company car, at a cost of 1,950 euros in 2016.

4.6.7. Agreements with Novo Nordisk A/S a shareholder

Collaboration agreement:

Novo Nordisk A/S and Innate Pharma signed on March 28, 2006 a collaboration and exclusive license agreement for the development and commercialization of IPH2101.

Amendment N°1 was signed on October 6, 2008 with the main purpose to give Innate Pharma exclusive rights for development and commercialization of the drug candidate IPH2101.

Amendment No. 2 was concluded on October 6, 2008; under the terms of this amendment, Innate Pharma gave up milestone payments for rights and royalties on sales of IPH2301, another drug candidate given in license to Novo Nordisk A/S.

Amendment No. 3 of June 26, 2009 relates to adjustments in the management of patents.

Amendment No. 4 was signed on December 16, 2010, modifying the scope of their respective development, without financial incidence.

Amendment No. 5 was signed on January 5, 2011 in order to update the list of patents.

Amendment No. 6 was signed on July 5, 2011 to align certain terms of the contract with the BMS agreement signed by Innate Pharma on July 6, 2011.

Amendment No. 7 was signed on February 5, 2014 under which Novo Nordisk A/S sold to Innate Pharma the rights on Anti-NKG2A for €7.0 million, broken down into 2.0 million euros paid in cash and 600,000 shares Innate Pharma. Under Amendment No. 7, Innate Pharma agreed to reimburse Novo Nordisk A/S for the annual maintenance costs of an underlying license from Novo Nordisk A/S to a third party.

Amendment No. 8 was signed on November 3, 2016 with retroactive effect on September 16th, 2016, under which

Innate Pharma and Novo Nordisk A/S agreed to adjust the terms of payment to align our reimbursement obligations with Novo Nordisk A/S to the costs owed by Novo Nordisk A/S to that third party.

License agreement:

Novo Nordisk Health Care AG, a fully owned subsidiary of Novo Nordisk A/S, and Innate entered into a License Agreement on December 9, 2013 by which Novo Nordisk Health Care AG granted to Innate Pharma a co-exclusive license to patents relating to protein engineering.

On March 24, 2016, Innate Pharma and Novo Nordisk A/S agreed on the amounts owed by Innate Pharma to Novo Nordisk A/S as a result of the co-development agreement entered into with AstraZeneca in April, 2015 (see section 1.6.2.1). Under such agreement, Innate Pharma paid to Novo Nordisk A/S an amount of 6.5 million euros. Moreover, if AstraZeneca pays the amount of USD 100 million provided under the contract entered into between Innate Pharma and AstraZeneca in April 2015 (see section 1.6.2.1), Innate Pharma shall pay an additional amount of USD 15 million to Novo Nordisk A/S. On the date of this Reference document, regarding the uncertainty of the results, any future additional payment to Novo Nordisk A/S based on an additional payment of AstraZeneca is uncertain. However, if AstraZeneca doesn't make such additional payment or in the case where the contract of co-development and commercialization agreement with AstraZeneca would be terminated for any reason, Innate Pharma shall pay to Novo Nordisk A/S a portion of the balance of the research and development initial budget and not yet spent or committed. Nevertheless, on the date of this Reference document, regarding the uncertainty on the development plans, the Company does not contemplate having to make such payment to Novo/Nordisk A/S.



4.6.8. Statutory Auditors' special report on regulated agreements and commitments - Shareholders' Meeting held to approve the financial statements for the year ended 31 December 2016

This is a free translation into English of the statutory auditors' special report on regulated agreements and commitments issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements and commitments reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report to you on regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have identified during the course of our audit, as well as the reasons justifying that such agreements and commitments are in the Company's interest, without expressing an opinion on their usefulness and appropriateness or identifying such other agreements and commitments, if any. It is your responsibility, pursuant to Article R. 225-58 of the French Commercial Code, to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Furthermore, it is our responsibility, as applicable, to provide you with the information stipulated in Article R. 225-58 of the French Commercial Code (Code de Commerce) concerning the performance over the past fiscal year of the agreements and commitments previously approved by the Shareholders' Meeting.

We carried out the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie Nationale des Commissaires aux Comptes) relating to this engagement. These procedures consisted in verifying the consistency of the information provided to us with the relevant source documents.

AGREEMENTS AND COMMITMENTS SUBMITTED TO THE SHAREHOLDERS' MEETING FOR APPROVAL

Agreements and commitments authorised during the past fiscal year

Pursuant to Article L. 225-88 of the French Commercial Code, we have been advised of the following agreements and commitments which were previously approved by your Supervisory board.

Agreements concluded with Hervé Brailly, Chairman of the Supervisory board:

Nature and purpose: on 14 December 2016 but effective as from 30 December 2016, the Supervisory board entrusted Mr. Hervé Brailly with a special assignment under Article L. 225-84 of the French Commercial Code, in addition to his duties as Supervisory board Chairman, which will expire on 31 December 2017.

Reasons: this special assignment mainly consists in securing the transition with the new Innate Pharma management team and providing strategic advice.

Terms and conditions: under this assignment, Mr. Hervé Brailly will collect an annual gross fixed compensation of €100,000 in 2017. No amounts were paid in respect of this compensation in fiscal 2016.

Agreement concluded with Mr. Mondher Mahjoubi, Chairman of the Executive board

Nature and purpose:

On 14 December 2016 but effective as from 30 December 2016, and following his appointment as Executive board Chairman, Mr. Mondher Mahjoubi concluded a mandate agreement with your company.

Reasons:

This mandate agreement forms part of the Executive board's reorganisation.

Terms and conditions:

The terms of compensation included in this mandate agreement are as follows:

A lump-sum allowance equal to two years of fixed and variable compensation, in consideration for a non-compete and non-solicitation obligation, paid in monthly instalments over a period of 24 months as from the date on which he will no longer assume his duties as Executive board Chairman;

An unemployment insurance agreement (GSC) to guarantee the payment of compensation in the event of unemployment. This agreement was set up as from 30 December 2016 following the authorisation of the Supervisory board on 14 December 2016.

No amounts were paid under this Mandate in 2016.

Agreements with Novo Nordisk A/S, shareholder: amendment to the exclusive licensing agreement

Nature and purpose:

To recap, amendment no. 7 to the cooperation and exclusive licensing agreement of 28 March 2006 (binding Novo Nordisk A/S and Innate Pharma for the development and commercialisation of IPH 2101) was signed on 5 February 2014. Under the amendment, Novo Nordisk A/S transferred to Innate Pharma the development and commercialisation rights to the candidate NKG2A anti-body and Innate Pharma undertook to reimburse Novo Nordisk A/S for the annual maintenance costs of an underlying license payable by Novo Nordisk A/S to a third party.

Amendment no. 8 to the cooperation and exclusive licensing agreement of 28 March 2006 (binding Novo Nordisk A/S and Innate Pharma for the development and commercialisation of IPH 2101) was signed on 3 November 2016, with retroactive effect to 16 September 2016. Under the amendment, Novo Nordisk A/S and Innate Pharma agreed to adjust the payment terms and conditions and align Innate Pharma's reimbursement obligations to Novo Nordisk A/S with the costs payable by Novo Nordisk A/S to the third party.

Reasons:

Amend the annual reimbursement terms by indexing this amount to the Retail Price index, so as to align the amount payable with regard to the reimbursement paid by your Company to Novo Nordisk A/S and the amount payable by Novo Nordisk A/S to the relevant third party.

Terms and conditions:

Under amendment no.7, your company paid Novo Nordisk A/S the sum of USD 98,888.92 in 2016 regarding the reimbursement of the annual maintenance costs for the license. No amounts were paid in 2016 under amendment no. 8.

Agreements with Novo Nordisk A/S, shareholder: memorandum of agreement relating to the contract concluded with MedImmune, a subsidiary of AstraZeneca

Nature and purpose:

On 24 March 2016, a memorandum of agreement was entered into between Innate Pharma and Novo Nordisk A/S concerning the amounts payable to Novo Nordisk A/S under the contract concluded with MedImmune, a subsidiary of AstraZeneca in April 2015.

Reasons:

Conclude an agreement between Innate Pharma and Novo Nordisk A/S concerning the amounts payable to Novo Nordisk A/S with respect to the transaction with AstraZeneca.

Terms and conditions:

Innate Pharma paid Novo Nordisk A/S the sum of €6.5 million. If AstraZeneca pays the sum of USD 100 million as stipulated in the agreement concluded between Innate Pharma and AstraZeneca in April 2015, Innate Pharma will then have to pay an additional USD 15 million to Novo Nordisk A/S. On the date of this report, considering the uncertain results, any additional future payment to Novo Nordisk A/S based on an additional payment by AstraZeneca is unlikely. However, if AstraZeneca does not make this additional payment or should the co-development and commercialisation agreement with AstraZeneca be terminated for whatever reason, Innate Pharma would then pay Novo Nordisk A/S a portion of the remaining R&D budget initially forecast and not yet spent or incurred. Nevertheless, on the date of this report, given the uncertainty surrounding the development plans, the Company is not planning to make such a payment to Novo Nordisk A/S.

AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE SHAREHOLDERS' MEETING

Agreements and commitments approved in previous years with continuing effect during the past fiscal year.

In accordance with Article R. 225-57 of the French Commercial Code, we have been advised that the following agreements and commitments approved in previous years by the Shareholders' Meeting have had continuing effect during the past fiscal year.

Agreements concluded with Hervé Brailly, Chairman of the Executive board:

Compensation:

Mr. Hervé Brailly received a fixed monthly compensation of €21,667 over six months from January to June 2016 and €25,000 over six months from July to December 2016 pursuant to his employment contract and a collective bonus of €21,667 for fiscal 2016. Furthermore, in 2016 Mr. Hervé Brailly received an individual bonus of €82,333 and an exceptional bonus of €60,000 for fiscal 2015.

Article 83 pension:

Mr. Hervé Brailly also has an "Article 83" pension plan with AG2R La Mondiale at a rate of 2% of gross compensation, of which 1.20% payable by Innate Pharma. The amount paid by Innate Pharma in respect of fiscal 2016 was €3,635.

Convention Garantie Sociale des Chefs et Dirigeants d'Entreprise – Social security agreement for company executive officers:

The purpose of this agreement is to guarantee the payment of compensation in the event of unemployment (up to 70% of the most recent professional income declared to the French tax authorities) to company executive officers who are not entitled to receive French unemployment benefits. This agreement was set up as from 1 April 2006 following the authorisation of the Supervisory board on 23 September 2005. The amount paid by Innate Pharma in fiscal 2016 was €7,514.

Company vehicle:

Under the terms set forth by the Compensation Committee on 19 January 2007, Mr. Hervé Brailly has use of a company car under a long-term lease that generated an expense of €1,860 in respect of fiscal 2016.

Agreements with Mr. Nicolai Wagtmann, member of the Executive board

Compensation:

Mr. Nicolai Wagtmann received a fixed monthly compensation of €13,494 over six months from January to June 2016 and €15,000 over six months from July to December 2016 pursuant to his employment contract and a collective bonus of €13,333 for fiscal 2016. Furthermore, in 2016 Mr. Nicolai Wagtmann received an individual bonus of €30,667 and an exceptional bonus of €30,000 for fiscal 2015. In addition, in 2016 Mr. Nicolai Wagtmann received tuition fee reimbursements for €16,158.

Article 83:

Mr. Nicolai Wagtmann also has an "Article 83" pension plan with AG2R La Mondiale at a rate of 2% of gross compensation, of which 1.20% payable by Innate Pharma. The amount paid by Innate Pharma in respect of fiscal 2016 was €2,121.

Company vehicle:

Mr. Nicolai Wagtmann has use of a company car under a long-term lease that generated an expense of €2,720 in respect of fiscal 2016.

Agreements with Mr. Yannis Morel, member of the Executive board

Compensation:

Mr. Yannis Morel received a fixed monthly compensation of €12,500 over six months from January to June 2016 and €15,000 over six months from July to December 2016 pursuant to his employment contract and a collective bonus of €12,500 for fiscal 2016. Furthermore, in 2016 Mr. Yannis Morel received an individual bonus of €23,500 and an exceptional bonus of €50,000 for fiscal 2015.

Article 83:

Mr. Yannis Morel also has an "Article 83" pension plan with AG2R La Mondiale at a rate of 2% of gross compensation, of which 1.20% is payable by Innate Pharma. The amount paid by Innate Pharma in respect of fiscal 2016 was €2,032.

Company vehicle:

Mr. Yannis Morel has use of a company car under a long-term lease that generated an expense of €1,950 in respect of fiscal 2016.

Agreement with Mrs. Catherine Moukheibir, member of the Executive board

A consultancy agreement was entered into on 18 April 2011 between Innate Pharma and Mrs. Catherine Moukheibir, who has worked on assignments as "Senior Advisor, Finance" since 1 March 2011. This agreement was amended on 30 April 2011, and renewed twice for 2 years on 4 March 2013 and 6 March 2015.

Under this agreement, Innate Pharma paid €264,004 for services performed between 1 January 2016 and 29 December 2016.

Following the resignation of Catherine Moukheibir from the Executive board, the consultant contract of 6 March 2015 was modified by amendment no. 1 dated 14 December 2016, effective as of 30 December 2016 for a period of six months until 30 June 2017.

Under this amendment, the modus operandi and duties of Mrs. Catherine Moukheibir were modified.

Agreements with Novo Nordisk A/S, shareholder

Cooperation agreement:

On 28 March 2006, Novo Nordisk A/S and Innate Pharma signed a cooperation agreement including an exclusive license for development and commercialisation of IPH 2101.

On 6 October 2008, amendment no. 1 was signed by the parties in order to grant Innate Pharma exclusive development and commercialisation rights to the IPH 2101 drug candidate.

On 6 October 2008, amendment no. 2 was signed; under this amendment, Innate Pharma waived rights to milestone payments and royalties for IPH 2301, another drug candidate licensed to Novo Nordisk A/S.

On 26 June 2009, amendment no. 3 was signed to adjust the management of patents.

On 16 December 2010, Novo Nordisk A/S and Innate Pharma signed amendment no. 4 to their cooperation agreement, modifying the scope of their respective developments, with no financial impact.

On 5 January 2011, amendment no. 5 was signed by the parties to update the list of patents.

On 5 July 2011, amendment no. 6 was signed to align certain contractual terms with the agreement entered into between Bristol-Myers Squibb and Innate Pharma on 6 July 2011.

On 5 February 2014, amendment no. 7 was signed under which Novo Nordisk A/S transferred to Innate Pharma the development and commercialisation rights to the candidate NKG2A anti-body for €7.0 million, comprising €2.0 million in cash and 600,000 Innate Pharma shares.

Licensing agreement:

On 9 December 2013, Novo Nordisk Health Care AG, the wholly-owned subsidiary of Novo Nordisk A/S, and Innate Pharma signed a licensing agreement under which Novo Nordisk Health Care AG granted Innate Pharma a co-exclusive license for protein engineering patents.

Marseille, 29 March 2017
The Statutory Auditors

Audit Conseil Expertise SAS
Member of PKF International

Nicolas LEHNERTZ

Deloitte & Associés

Hugues DESGRANGES



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5.1. PERSON RESPONSIBLE

5.1.1. Name and position of the person responsible for this Reference document

Mr. Mondher Mahjoubi

Chairman of the Executive board

5.1.2. Declaration by the person responsible for this Reference document

"I hereby declare, after taking all reasonable precautions, that the information contained in this Reference document is true and accurate to the best of my knowledge and contains no material omissions.

I hereby declare, to the best of my knowledge, that the financial statements have been prepared in accordance with generally accepted accounting principles and provide a true and fair view of the assets, financial position and results of the Company and all of the entities within the scope of consolidation, and that the information pertaining to the management report listed in section 6.1 reflects the changes in the Company's turnover, results and financial position and of all of the entities included within the consolidation scope as well as a description of the principle risks and uncertainties that they are faced with.

I have received a completion of work letter from the statutory auditors in which they state that they have completed an audit of information on the financial position and accounts given in this Reference document and read the Reference document in its entirety."

Chairman of the Executive board

Mr. Mondher Mahjoubi

5.2. PERSON RESPONSIBLE FOR THE AUDITING OF ACCOUNTS

5.2.1. Statutory Auditors

Audit Conseil Expertise SAS — Member of PKF International

Member of the Compagnie Regionale des Commissaires aux comptes d'Aix-en-Provence

17, boulevard Augustin Cieussa

13007 Marseille

Appointed at the General Meeting of shareholders held on June 29, 2000. During the General Meeting of shareholders held on June 28, 2012, Audit Conseil Expertise, SA was re-appointed for a period of six financial years until the General Meeting of shareholders in 2018, called to approve the financial statements for the financial year ending December 31, 2017.

Deloitte et Associés SA

Member of the Compagnie Regionale des Commissaires aux comptes de Versailles

185 avenue Charles de Gaulle

92524 Neuilly-sur-Seine

Appointed by the General Meeting of shareholders on 27 March 2014 to replace PricewaterhouseCoopers Audit, whose term of office had expired, for a term of six fiscal years, expiring in 2020 after the General Meeting of shareholders called to approve the financial statements for the fiscal year ending December 31, 2019.

5.2.2. Alternate statutory auditors

FIDEA Contrôle SARL

Member of the Compagnie Regionale des Commissaires aux comptes of Paris

101 rue Mirosmenil

75008 PARIS

Appointed at the General Meeting of shareholders held on June 28, 2012, in order to replace Mr. Norbert Muselier, for a period of six fiscal years, expiring after the General Meeting of shareholders in 2018 called to approve the financial statements for the fiscal year ended December 31, 2017.

B.E.A.S. SARL

Member of the compagnie régionale des Commissaires aux comptes of Versailles

195 avenue Charles de Gaulle

92200 Neuilly-sur-Seine

The Ordinary Meeting of shareholders on 27 March 2014 has therefore been called upon to appoint B.E.A.S. SARL, 195 avenue Charles de Gaulle, 92200 Neuilly-sur-Seine to replace Mr Etienne Boris, whose term of office has expired, as joint statutory alternate auditor for a term of six fiscal years expiring in 2020 after the Ordinary Meeting of shareholders called to approve the financial statements for the fiscal year ending on 31 December 2019.

5.3. THIRD PARTY INFORMATION AND STATEMENT BY EXPERTS AND DECLARATIONS OF INTEREST

None.

5.4. DOCUMENTS ACCESSIBLES TO THE PUBLIC

It is possible to consult or ask for a copy of the Company's corporate documents (articles of incorporation, general assembly minutes and other documents) at its headquarters. This is also the case for any reports, letters, assessments and statements drawn up by an expert upon the Company's request, as well as all background financial information on the Company. Copies of this reference document are available free of charge at the Company's headquarters, 117 avenue de Luminy 13009 Marseille. This reference document can also be downloaded from the Company's website (www.innate-pharma.com) and on the AMF website (www.amf-france.org).

All background financial information can be found in the section called "Investors" on the Company's website (www.innate-pharma.com).

You can contact the Company via the Investors department:

117 avenue de Luminy

13009 Marseille

Tel : (+33) 4 30303030

e-mail : investisseurs@innate-pharma.fr

APPENDIX

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6.1. CROSS-REFERENCE TABLE

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6.2. GLOSSARY

AFSSAPS/ANSM	Agence Française de Sécurité Sanitaire des Produits de Santé. This is the body responsible in France for the monitoring of the clinical trials of our drug candidates and for their marketing authorization. This agency has become l'Agence Nationale de Sécurité du Médicament (ANSM)
Autoimmunity	Disturbance of the immune system function that recognizes elements which are normally present in the organism as being foreign (autoreactivity), triggering the destruction of normal cells or the production of autoreactive antibodies, thereby causing chronic inflammation. Autoimmunity lies at the origin of many diseases. In autoimmune pathologies, the target may be a specific organ (<i>e.g.</i> , autoimmune diabetes) or the immune system can exert activity against a wide variety of targets (<i>e.g.</i> , lupus).
Autoreactivity	Ability of the immune system to recognize elements of the self. Autoreactivity is the phenomenon involved in autoimmune pathologies (see autoimmune).
Benefit / risk ratio	For a drug candidate, the evaluation of the expected therapeutic benefits compared with possible side-effects and the probability of their occurrence is the basis for the decision to conduct clinical trials in humans, and constitutes the main outcome measure for regulatory agencies. This evaluation of probabilities lies at the root of medical judgment. Side-effects considered unacceptable for a benign pathology may thus be acceptable in a more critical context.
Biological marker	Measurable biological parameter whose quantitative variations are linked to a drug candidate's mechanism of action, used to evaluate its biological activity in patients. For example, the number of circulating •• cells is a biological marker of the activity of •• agonists.
Cell therapy	Treatment in which the therapeutic product administered to the patient consists of a cell preparation obtained from the patient's own cells in the laboratory.
Chemotherapy	Treatment of a cancer using chemical agents that are toxic to malignant cells (cytotoxic) or inhibit cell growth (cytostatic) so as to reduce the tumor.
Clinical development	Studies of a drug candidate conducted on humans under the control of the health authorities, with the ultimate goal of obtaining a marketing authorization. Such studies usually take place in three phases. In Phase I, the product is administered to healthy volunteers in order to evaluate the tolerance and to measure certain pharmacokinetic parameters. In Phase II, the product is administered to small groups of patients with particular pathologies to determine the effective dose and shed light on any biological effects. Therapeutic efficacy is determined in Phase III on large groups of patients, sometimes in comparison with a reference treatment.
Consolidation treatment	Treatment to prevent relapses. The control of residual disease is the objective of consolidation therapies. For many cancers, the patients' survival depends on the efficacy of the consolidation treatment. Immunotherapies are primarily positioned as consolidation treatment.
Conventional T lymphocyte	A conventional T lymphocyte specifically recognizes the complex formed by an antigen bound to an MHC molecule, through a dedicated receptor, the T lymphocyte antigen receptor (alpha beta TCR). Some T lymphocytes have the ability to destroy target cells (cytotoxic T lymphocytes), whereas others play a role in regulating the immune system. Conventional lymphocytes are the support behind

	immunological memory: successive exposure to a same antigen triggers immune responses with increasing intensity. This immune response, called an “adaptive immune response”, is the basis of vaccination.
Effector cells	Immune system cells that are able to kill a recognized target cell. More generally, the immune system may be analyzed as the coupling of recognition abilities involving dedicated receptors (such as antibodies or T cell antigen receptors) and effector mechanisms resulting in the elimination of the recognized element. The main effector mechanisms are cell lysis, involving killer cells (cytotoxic cells) and antibody-dependent mechanisms. NK cells are typically effector cells.
EMA (European Agency for the Evaluation of Medicinal Products)	European regulatory agency responsible for evaluating applications for marketing authorization under a centralized procedure. The EMA coordinates with national agencies in application of the principle of subsidiarity. The pharmaceutical industry is in direct contact with the EMA for the development of orphan drugs.
FDA (Food and Drug Administration)	This U.S. agency monitors clinical trials and issues marketing authorizations.
First-in-class	A drug class is a set of drugs with the same mechanism of action, generally targeting the same receptor. In this context, a “first-in-class” drug is a drug using a new mechanism of action or targeting a new receptor, as opposed to a “best-in-class” drug, which is the drug with the best benefit/risk ratio in an existing class.
First-line treatment	Treatment applied upon diagnosis of tumor.
GCP	Good Clinical Practices (Bonnes Pratiques Cliniques). Set of French standards applying to clinical trials in humans, aimed at ensuring the safety of patients included in the trials as well as the quality of the information gathered during such trials.
GLP	Good Laboratory Practices (Bonnes Pratiques de Laboratoire). Set of French standards applying to trials carried out in a laboratory during the development of a drug candidate. These standards notably apply to trials implemented for controlling drugs and verifying whether the specifications defined are met (quality control), as well as to preclinical trials carried out to evaluate product safety. The international GLP system and the recommendations from the International Conference on Harmonization (ICH) common to the United States, Europe and Japan are also referred to.
Immune response	In the presence of an antigen, specialized immune system cells with a receptor specific to this antigen on their surface are activated and proliferate, and some acquire the ability to eliminate the antigen. All of these molecule and cell events constitute the immune response. The response process is precisely regulated and involves many cell types.
Immune system	All the biological mechanisms allowing an organism to recognize and tolerate what belongs to itself (“the self”) and to reject what is foreign to it (the “non-self”): foreign substances or infectious agents to which it is exposed, but also its own components that have been altered (such as tumor cells).
Informed consent	According to the legislative provisions applicable in France, any patient involved in a clinical trial should be informed of the objective, methodology and duration of the research, and also of the expected benefits and predictable constraints and risks associated with the administration of products undergoing the clinical trials. The information supplied is summarized in a written document that is given to the patient prior to any experimental treatment. Patients sign an informed consent

document stating their willingness to take part in the trial after having received this information.

Innate immunity	Innate immune responses are not affected by prior exposure to the antigen: innate immunity is characterized by a lack of memory. Unconventional lymphocytes are part of innate immunity, as opposed to conventional lymphocytes which are the support behind immunological memory.
Intermediate marker ("Surrogate marker")	A measurable biological parameter whose quantitative variations are considered to have predictive value in relation to the expected therapeutic effect. In oncology, the measurement of tumor mass is frequently used as an intermediate marker of therapeutic efficacy.
ISO 9001	International standard reference system applicable to quality management within an organization, stressing constant improvement of the processes constituting the activity of the organization. The ISO 9001 standard notably applies to organizations with research and development activities. Compliance with this standard reference system is certified by an independent agency.
Lymphocytes	Immune system cells with a receptor for the antigen. Lymphocytes are present in blood and the lymphoid organs (spleen, lymph nodes) and can infiltrate tumors in the event of an effective anti-tumor response. B lymphocytes produce soluble proteins binding to the antigen called an antibody (humoral immunity). T lymphocytes are able to destroy cell targets directly (cell immunity). Unconventional lymphocytes constitute a compartment of cell immunity defined by a special antigen recognition method.
MHC (Major Histocompatibility Complex)	Group of molecules involved in antigen recognition by conventional T lymphocytes. MHC molecules are present at the surface of nearly all the cells of the organism. These molecules have large variations from one individual to another, and partly define the "immunological identity" of each individual by controlling the repertoire of T antigens recognized by each one. Unconventional lymphocytes are not subject to this control and can recognize MHC-deficient cells (see "missing self"). In advanced stages of the disease, tumors often lose the expression of MHC molecules, thereby escaping elimination by conventional T lymphocytes, although remaining sensitive to unconventional lymphocytes.
Missing self	Unconventional lymphocytes express inhibitor receptors for MHC molecules that are able to block the antigen activation effect. Thus, responses harmful to the organism that would be directed against "self" cells are usually restricted, in the absence of strong stimulation. When the MHC is not expressed ("missing self"), unconventional lymphocytes are activated. Normal MHC expression can be counteracted by the powerful activator signals provided by antigen recognition. This mechanism is very important for controlling the activity of NK cells, which are highly capable of destroying their targets. The "missing self" was discovered by Klas Karre and Alessandro and Lorenzo Moretta, who received the Yvette Mayent – Institut Curie prize in June 2001 for their work. Most conventional lymphocytes are not subject to this type of control by inhibitor receptors.
Mutagenic	Exposure to a mutagenic (or genotoxic) product is likely to result in alterations of the genetic material (mutations) which may lead to cancers (carcinogenesis) or congenital malformations (teratogenicity).

NCE (“New Chemical Entity”)	New synthetic organic molecule developed for pharmaceutical use.
NK cells	NK (“Natural Killer”) cells are special unconventional lymphocytes found in large amounts in blood (up to 10% of the circulating lymphocytes). NKs have a remarkable ability to kill a wide variety of tumor targets very effectively. Tumor targets are recognized through the antibodies bound to the surface of malignant cells or through specialized receptors, NCRs (Natural Cytotoxicity Receptors), recently discovered by Alessandro Moretta <i>et al.</i> As A. Moretta, K. Karre <i>et al.</i> have also shown, NKs are subject to special regulation (see “missing self”) inhibiting responses directed against the “self’s” molecules.
Occurrence	Number of new cases diagnosed over one year for a given pathology.
Orphan drug	Status granted by the EMEA or the FDA to a drug developed for a rare disease, whose occurrence or prevalence is below certain thresholds defined by the regulatory authorities. This status enables a drug candidate to benefit from advantages such as temporary commercial exclusivity, exemptions from registration fees or technical/regulatory advice from the agencies.
Pharmacokinetics	Study of what happens to a molecule in the organism, including its absorption, metabolization and elimination. Pharmacokinetic studies in animals, then in humans, are used to develop quantitative models describing these various steps according to the time elapsed and physiological parameters to determine the method of administration and the dosage to be used at a clinical level to obtain the desired therapeutic effect from the drug candidate.
Pharmacology	Scientific discipline central to the discovery and development of drugs that investigates active ingredients’ mechanism of action on the organism. During the development of a drug candidate, non-clinical pharmacology studies relate to the description of the mechanism of action at cellular and molecular levels, and clinical pharmacology studies aim at demonstrating the relationships between the mechanism of action and the expected therapeutic effect or the possible toxic effects on patients.
Potentiate	To give something more power, more efficacy (a drug, notably).
Preclinical development	Studies carried out on a drug candidate to evaluate its toxicity and efficacy before its first administration to humans.
Prevalence	Number of patients with a given pathology.
Proof of concept	In Company jargon, proof of concept is the first indication of the clinical efficacy of a drug candidate obtained during a clinical trial initiated by the Company.
Randomized study	Clinical study in which patients are divided into several groups receiving different treatments according to a statistical procedure that is intended to ensure that there is no bias in the recruitment of the different groups. The effects of several dosage levels of a drug candidate can thus be tested and treatment with the drug candidate being studied can be compared to a reference treatment. Efficacy data, which serve as a reference for the registration of a new product, are usually produced in random studies.
Receptor	Molecule expressed on the surface of a cell allowing it to communicate with its environment. Each receptor is able to establish a specific contact with another

membrane or soluble molecule (ligand), and then to deliver a signal inside the cell that will be followed by biological effects. For example, binding of an antigen to a T-cell antigen receptor results in the division and proliferation of the T lymphocyte under certain conditions.

Residual disease

Malignant cells found in patients in remission after the primary tumor has been eliminated (by surgery, radiotherapy or chemotherapy). Residual disease is at the origin of disease propagation (metastases) and the development of new tumor foci (secondary tumors).

Second-line treatment

Treatment applied if the first-line treatment fails or in case of relapse.

Unconventional lymphocytes

Unconventional lymphocytes constitute a specific cell compartment of the immune system. Antigen recognition by unconventional lymphocytes does not involve MHC, and thus works in the same way for each individual, making pharmacological manipulation of these cells feasible.

Unlike conventional lymphocytes, which recognize a single structure, unconventional lymphocytes recognize a wide range of structurally related target antigens. In blood, unconventional lymphocytes (NK, $\gamma\delta$ and NKT cells) account for 5 to 10% of circulating lymphocytes and a significant fraction of these cells can be simultaneously involved in the response to a given antigen, whereas the frequency of conventional T lymphocytes recognizing a given antigen rarely exceeds 0.01%. From a functional point of view, unconventional lymphocytes can be immediately mobilized for an immune response, with an ability to eliminate target tumors that is similar to or even greater than that of cytotoxic T lymphocytes. In addition, these cells initiate and coordinate conventional immune responses by producing many soluble mediators, thus being involved in vaccination, autoimmune pathologies and allergies. The Company is developing innovative therapeutic products based on the manipulation of unconventional lymphocytes.

Validation

In Company jargon, indirect validation is validation provided prior to the clinical development of a drug candidate by clinical studies demonstrating the efficacy of its mechanism of action in an indication or group of indications. This may notably include retrospective clinical biology studies or a clinical trial of cell therapy. Preclinical efficacy studies, notably in animal models, may also provide elements of direct preclinical validation for a drug candidate.

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